



**KEMPER**

Kemper Corporation  
2019 Annual Report

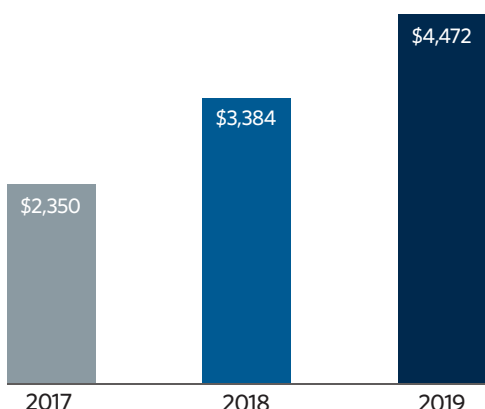
# Kemper at a Glance

Kemper Corporation (NYSE: KMPR) is one of the nation's leading specialized insurers. With nearly \$13 billion in assets, Kemper is improving the world of insurance by providing affordable and easy-to-use personalized solutions to individuals, families and businesses through its Auto, Personal Insurance, Life and Health brands. Kemper serves over 6.4 million policies, is represented by more than 30,000 agents and brokers, and has over 8,900 associates dedicated to meeting the ever-changing needs of its customers.

## Financial Highlights

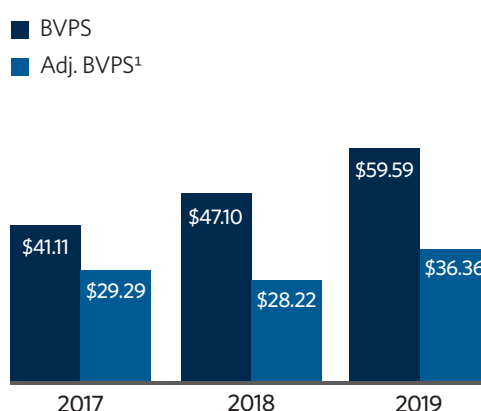
### Earned Premiums

Dollars in Millions



### Book Value Per Share

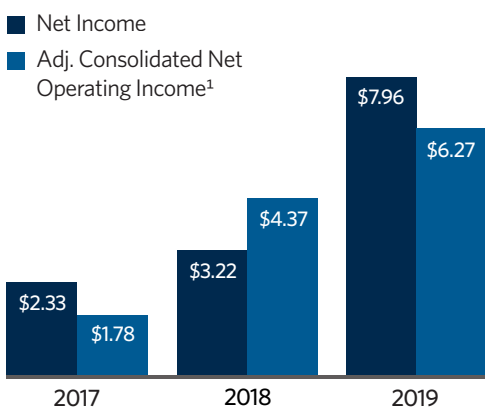
Dollars Per Share



<sup>1</sup> Book value per share excluding net unrealized gains on fixed maturities and goodwill

### Earnings Per Diluted Share

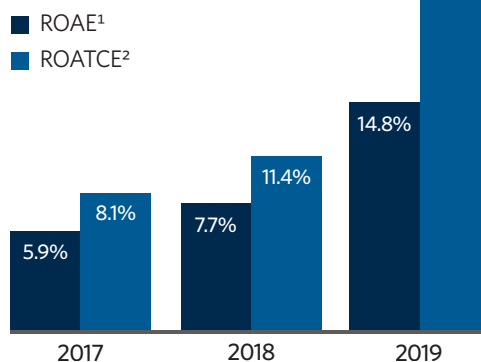
Dollars Per Share



<sup>1</sup> This is a non-GAAP financial measure that is defined and reconciled after Exhibit 32.2 of this document.

### Return on Average Shareholders' Equity

Percentage



<sup>1</sup> Rolling 12 months return on average shareholders' equity (ROAE) using 5-point average

<sup>2</sup> Rolling 12 months return on average shareholders' equity excluding net unrealized gains on fixed maturities and goodwill (tangible common equity) using 5-point average



**Joseph P. Lacher, Jr.**  
President and Chief Executive Officer  
Kemper Corporation

## To Our Shareholders,

At Kemper, our strategic intent is focused on proudly serving growing niche and underserved markets by providing appropriate and affordable insurance and financial solutions. We do this through a portfolio of specialty businesses, disciplined financial management, and technology and process solutions that enable efficient customization and speed to execution.

I am pleased with the progress we have made on moving our business forward. In 2019, we capitalized on the infrastructure we developed and enhancements we made over the past few years that enabled industry-leading top-line growth at attractive margins.

### 2019 Results

We had another year of strong operating performance. In 2019, Kemper delivered adjusted operating earnings of \$418 million, or \$6.27 per diluted share, compared to \$4.37 per diluted share in 2018. Net income was \$531 million, or \$7.96 per diluted share, compared to \$3.22 per diluted share in 2018. These results drove a 27% increase in book value per share, or 29% increase in book value per share excluding net unrealized gains on fixed maturities and goodwill, and a return on average equity excluding net unrealized gains on fixed maturities and goodwill of 25%.

These results are exceptional and industry leading. While they are likely not sustainable over the long-term, they demonstrate the power of our business model and are something we aspire to achieve.

During the year, we also took a number of actions that further strengthened the balance sheet. A few noteworthy items include a successful equity raise, the retirement of our 2054 hybrid instrument, and a \$55 million contribution to our pension fund that brought the liability within a fully funded range. During 2019, we generated \$534 million in cash flow from operating activities. At year-end, our debt-to-capital ratio was 16.4% and we had \$867 million of available committed contingent liquidity. In short, Kemper has a robust balance sheet and substantial financial flexibility to support continued growth and shareholder value creation.

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**Kemper has a robust balance sheet and substantial financial flexibility to support continued growth and shareholder value creation.**

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## Business Performance

Overall, our specialty businesses had a strong year. This was highlighted by significant Specialty Auto market share gains and modest Life and Health premium growth.

The 2019 performance of our Specialty Auto business was outstanding, resulting in industry-leading organic growth and profitability. For the year, earned premiums increased 12% to \$3.1 billion adjusted for the acquisition of Infinity. Our competitive advantages within the specialty auto market have become a foundation for success. Our tailored focus on specialty customers, an expanding cost advantage, and our increasing product sophistication is solidifying Kemper as a premier specialty auto insurance franchise.

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### Our specialty businesses had a strong year highlighted by significant Specialty Auto market share gains.

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Last year we reported on the close of our acquisition of Infinity Property and Casualty Corporation, a leading provider of specialty auto insurance focused on serving the Hispanic market segment. We are happy to report that we have exceeded all initial and revised financial targets we set for the transaction.

Written premium, investment income and operating synergies—as well as key financial targets including operating earnings accretion, tangible book value earnback, and our debt-to-total-capitalization ratio—were achieved beyond our goals, with continued upside expected. Additionally, the success of the Infinity acquisition was cited as a key driver in a number of recent ratings agency upgrades and revised outlooks.

The stability of our Life and Health segment is core to our success. The business generates a consistent and diverse income and cash stream for the organization. The reliable stream of production from our dedicated agency force will generate earned premiums and income for years to come. With this in mind, we are making investments to modernize the capabilities of Kemper Life, giving agents improved tools to drive sales. The result of these investments is modest earned premium growth for the year, after a long history of declining premiums. Our supplemental Health business increased earned premiums by roughly 8% in 2019.

We continue to work toward improving results in our Preferred Insurance segment. We had some modest, short-term setbacks in 2019, largely driven by the rollout of the new Prime product. We're confident that the increased rating sophistication capabilities our platform enables will yield improvements to our future operating performance.





## Our Team

The performance and results we have achieved were made possible by the commitment and talents of our entire team. We're building a culture at Kemper where every employee thinks and acts like an owner and understands the important role they play in fulfilling the promises we make to our customers. We strive to be world-class operators, where decisions and actions are guided by intellectual curiosity, and we leverage analytic superiority as a key to build sustainable competitive advantages and advance growth. Not only do we demonstrate these behaviors with a strong spirit of individual responsibility and successful teamwork, but also a powerful sense of commitment to ensure we're meeting the needs of our stakeholders.

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**We're building a culture at Kemper where every employee thinks and acts like an owner and understands the important role they play in fulfilling the promises we make to our customers.**

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## Corporate Citizenship

Good corporate citizenship is inherent to what insurance is about. We're focused on specialty and underserved markets that need affordable financial solutions. We pick people up on their bad days and make things better for them. We have deep ties in the community—both through our customers and investment strategy—including our investment fund allocations in municipal bonds that support state and local projects and services including schools and housing. Our business model works only if we stay true to the promises we make to our customers, while in tandem ensuring we're providing a rewarding experience for our employees, and creating meaningful value for our shareholders.

Optimizing our core competencies to address opportunities and goals in aspects related to environmental, social and governance (ESG) principles have long been—and will continue to be—imperative to our business strategy. Key areas of focus include ethics and governance, serving our customers, employee well-being, diversity and inclusion, responsible investing, philanthropy and community relations, and environmental responsibility. You can find more information on ESG in this report and we will continue to share progress on these initiatives.





## Looking Forward

We remain proudly committed to serving growing niche and underserved markets by providing appropriate and affordable insurance and financial solutions that create long-term value for all of our stakeholders. Our strong results, competitive differentiators, and disciplined capital management give Kemper distinct opportunities to meet the continued needs and lifestyle choices of our customers while producing strong financial results for our shareholders, and being valuable members of the community.

In Specialty Auto, we have significant competitive advantages and our growth prospects remain strong. We're concentrated in geographies and customer segments that are growing faster than the overall market, and are leveraging these differentiators to expand into new geographies. The combination of these dynamics creates multiple tailwinds and uniquely positions us for profitable growth in Specialty Auto for the foreseeable future.

We expect our Life and Health businesses to remain a stable earnings source that generates a consistent cash stream to the platform. We're optimistic about our ability to further grow this business profitably.

And finally, as I write this in March 2020, the world is facing a unique and unprecedented threat from COVID-19. While we are confident this crisis is one that can be overcome through collaboration and the focused dedication of needed resources, the short- and long-term impact to our employees, customers and businesses is very difficult to forecast. As we look to what lies ahead in 2020, we know there will be challenging situations and questions.

The Kemper we are today would not be possible without the dedication, leadership, expertise and commitment of our employees, customers, agents and the support of our Board of Directors. Everyone has put in a tremendous amount of work to realize the potential of the organization, and I look forward to leading the company into the next chapter of success.



Joseph P. Lacher, Jr.  
President and CEO





## Kemper and ESG

The Kemper family of companies is one of the nation's leading insurers, with nearly \$13 billion in assets and 6.4 million customers nationwide. We proudly serve growing niche and underserved markets by providing affordable insurance and financial solutions. Our business—insurance—is at its core about sustainability. For customers, we have a responsibility to keep the promises we make to help them rebuild and continue their lives after a loss, today and in the future. We take great pride in our commitment to the central principles underlying our ESG initiatives because they're grounded in the business that we're in.

The other piece of sustainability relates directly to our business. Building our core businesses around growing customer segments that are often overlooked by the competition, and our ability to best serve their changing needs, makes our business prospects highly sustainable. Sustainability will continue to be increasingly important for our customers, shareholders, employees and communities. As we grow, engaging with our key stakeholders, partners, and the environments we impact improves and strengthens who we are as a company and how we do business.

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**Building our core businesses around growing customer segments that are often overlooked by the competition, and our ability to best serve their changing needs, makes our business prospects highly sustainable.**

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## Environmental

### Sustainability

Kemper's Sustainability Team reports to the CEO and is composed of senior leaders representing key functional areas within the company. This team sets the overall sustainability strategy by reviewing short- and long-term objectives and opportunities related to operational efficiency, enterprise risk, and sustainability initiatives.

### Energy Use, Environmental Action and Targets

Kemper's operations include initiatives across our offices to reduce waste, energy, water use, and greenhouse gas emissions whenever possible. We encourage recycling and reduced use of paper in all locations and offer our customers an increasing number of paperless solutions. The company fleet of approximately 500 vehicles consists of newer models with improved fuel economy and reduced CO<sup>2</sup> emissions. Kemper leases or owns more than 127,000 square feet of LEED-certified (Leadership in Energy and Environmental Design) office space with a goal of aligning our new locations with LEED certifications, and efficient and alternative energy sources.







## Social

### Products and Services

Kemper is focused on meeting the needs of a diverse customer base by providing products and services that are affordable and easy-to-use. Our specialty auto and life businesses offer coverage to modest-income customers who may not otherwise be able to afford more costly insurance. The company supports our Hispanic customers' needs with dedicated bilingual sales and service support representatives, sales and marketing materials, and applications. Kemper continually monitors our products and services to be responsive to changing conditions, state-specific risks, and climate-change impacts.

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**Our specialty auto and life businesses offer coverage to modest-income customers who may not otherwise be able to afford more costly insurance.**

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### Responsible Investing

As an insurer, the primary purpose of Kemper's investment portfolio is to fund future claim payments. As such, we take a risk-adjusted approach to investing that ensures our capital is adequate to support varying economic climates. We understand the value and potential impact to investment return of environmental, social and governance factors, and they are considered when relevant in researching, analyzing and making investment decisions.

In addition, Kemper's investments enable civic, societal and environmental improvements. Many of our investments are in instruments like municipal bonds that help fund communities. We have historically supported limited exposure to coal and the fossil fuel sector while pursuing opportunities with low carbon, U.S. small- and medium-sized businesses, opportunity zone investing, and solar equity investing, among others.

### Society and Corporate Responsibility

Kemper's philanthropic initiatives are focused on supporting causes, organizations and initiatives that make a meaningful difference in the lives of our customers, our employees, and the communities where we live and work. Kemper's support is provided through donations of resources and time primarily in the areas of education, health and community development.

## Talent Management, Inclusion and Diversity

To recruit and retain talented people, we have appropriate policies and procedures in place to ensure we can achieve—and our employees can thrive in—a positive work environment, free from explicit or implicit biases and harassment, where employment decisions are based on merit.

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## Kemper's operations include initiatives across our offices to reduce waste, energy, water use, and greenhouse gas emissions whenever possible.

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Kemper's total rewards programs are designed to attract, motivate and retain high-performing talent. Among the benefits offered to our associates are medical, dental, vision and prescription drug coverage; flexible spending and health savings accounts; an employee stock purchase plan and 401(k); life insurance; paid time off; short- and long-term disability; and a robust Employee Assistance Program.

## Governance

Kemper's Board of Directors has been comprised of a majority of independent directors since 2003. Our board has a wide and valuable range of business, industry, and functional experience and capabilities. In addition, of our nine non-management directors, three are women and two are ethnically diverse. Additionally, consistent with our "act like an owner" culture, our officers and directors are subject to significant stock ownership requirements.

The Audit Committee of our Board of Directors oversees the Company's independent auditors, financial statement integrity, compliance with legal and regulatory requirements, internal control adequacy, internal audit function, and corporate responsibility hotline. Kemper's Enterprise Risk Committee ("ERC") is comprised of senior management and provides oversight of enterprise and business unit risk management activities, and establishes risk appetites and tolerances. The ERC also reviews enterprise principles, guidelines and limits for Kemper's significant risks, monitors emerging risks, and oversees the strategies and actions management takes to control these risks.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-18298

**Kemper Corporation**

(Exact name of registrant as specified in its charter)

**DE**  
(State or other jurisdiction of  
incorporation or organization)

**95-4255452**  
(I.R.S. Employer  
Identification No.)

**200 E. Randolph Street  
Suite 3300  
Chicago IL 60601**  
(Address of principal executive offices) (Zip Code)

**(312) 661-4600**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.10 par value per share	KMPR	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

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.

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

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$5.7 billion based on the closing sale price as reported on the New York Stock Exchange. Solely for purposes of this calculation, all executive officers and directors of the registrant are considered affiliates.

Registrant had 66,668,172 shares of common stock outstanding as of January 31, 2020.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III.



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## Caution Regarding Forward-Looking Statements

This 2019 Annual Report on Form 10-K (the “2019 Annual Report”), including, but not limited to, the accompanying consolidated financial statements of Kemper Corporation (“Kemper” or the “Registrant”) and its subsidiaries (individually and collectively referred to herein as the “Company”) and the notes thereto appearing in Item 8 herein (the “Consolidated Financial Statements”), the Management’s Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 herein (the “MD&A”) and the other Exhibits and Financial Statement Schedules filed as a part hereof or incorporated by reference herein, 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” and other 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 2019 Annual Report. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance, and 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 the factors discussed below under Item 1A., “Risk Factors,” in this 2019 Annual Report, the reader should consider the following list of general factors that, among others, could cause the Company’s actual results and financial condition to differ materially from estimated results and financial condition.

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

- Evolving policies, practices and interpretations by regulators and courts that increase operating costs and potential liabilities, particularly any that involve retroactive application of new requirements, including, but not limited to, state initiatives related to unclaimed property laws or claims handling practices with respect to life insurance policies and the proactive use of death verification databases;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Governmental actions, including, but not limited to, implementation of new laws and regulations, and court decisions interpreting existing and future 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;
- Increased costs and initiatives required to address new legal and regulatory requirements and developments related to cybersecurity, privacy and data governance;

#### 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 frequency 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 frequency 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 home and automobile property damage, 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, pronouncements 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;
- 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 of Kemper and/or its insurance company subsidiaries by rating agencies with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;
- The level of success and costs incurred in realizing or maintaining economies of scale, integrating acquired businesses, divesting of businesses, and implementing significant business initiatives and the timing of the occurrence or completion of such events, including, but not limited to, those related to expense and claims savings, consolidations, reorganizations and technology;
- Absolute and relative performance of the Company's products and services, including, but not limited to, the level of success achieved in designing and introducing new insurance products and services;
- The ability of the Company to maintain the availability and required performance 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, use and enhancements of telematics, refinements of existing products and development of new products by current or future competitors;
- Expected benefits and synergies from mergers, acquisitions and/or divestitures that may not be realized to the extent anticipated, within expected time frames or at all, due to a number of factors including, but not limited to, the loss of key agents/brokers, customers or employees, increased costs, fees, expenses and related charges and delays caused by unanticipated developments or factors outside of the Company's control;
- The successful formulation and execution of the Company's plans with regard to corporate strategy and significant operational changes;



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

- Changes in general economic conditions, including those related to, without limitation, performance of financial markets, interest rates, inflation, unemployment rates, significant global events, 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 state 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, legal proceedings or market forces;
- Increased costs and risks related to cybersecurity that could materially affect the Company's operations, including, but not limited to, data breaches, cyber-incidents, virus or malware attacks or other system hazards or infiltrations affecting system integrity, availability and performance, and actions taken to minimize and remediate the risks thereof; and

Other risks and uncertainties described from time to time in Kemper's filings with the U.S. Securities and Exchange Commission ("SEC").

Kemper cannot provide any assurances that the results and outcomes 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 2019 Annual Report. Kemper advises the reader, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

## PART I

### Item 1. Business.

Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and businesses. Kemper's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto are accessible free of charge through Kemper's website, kemper.com, and as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC, which also maintains an Internet site at sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

#### *(a) GENERAL DEVELOPMENT OF BUSINESS*

Registrant is a holding company incorporated under the laws of the State of Delaware in 1990, with equity securities traded on the New York Stock Exchange (the "NYSE"). On August 25, 2011, Registrant adopted its current name, Kemper Corporation, and changed its NYSE ticker symbol to KMPR. Prior to the name change, the Registrant was known as Unitrin, Inc. and traded under the NYSE ticker symbol UTR.

The Kemper family of companies is one of the nation's leading specialized insurers. With nearly \$13.0 billion in assets, Kemper is improving the world of insurance by providing affordable and easy-to-use personalized solutions to individuals, families and businesses through its Auto, Personal Insurance, Life and Health brands. Kemper serves over 6.4 million policies, is represented by more than 30,000 agents and brokers, and has approximately 8,900 associates dedicated to meeting the ever-changing needs of its customers.

#### *(c) DESCRIPTION OF BUSINESS*

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 three operating segments: Specialty Property & Casualty Insurance, Preferred Property & Casualty Insurance and Life & Health Insurance. The Company conducts its operations solely in the United States.

Kemper's subsidiaries employ approximately 8,900 associates supporting their operations, of which approximately 3,300 are employed in the Specialty Property & Casualty Insurance Segment, approximately 1,300 are employed in the Preferred Property & Casualty Insurance segment, approximately 3,400 are employed in the Life & Health Insurance segment and the remainder are employed in various corporate and other staff and shared functions.

### **Property and Casualty Insurance Business**

#### **General**

The Company's property & casualty insurance business operations are conducted primarily through the Specialty Property & Casualty Insurance and Preferred Property & Casualty Insurance segments. The Specialty Property & Casualty Insurance and Preferred Property & Casualty Insurance segments distribute their products primarily through independent agents and brokers who are paid commissions for their services. In addition, the Life and Health Insurance segment's career agents also sell contents coverage for personal property to its customers. Collectively, these segments provide preferred automobile, specialty automobile, homeowners, renters, fire, umbrella, general liability as an endorsement to commercial automobile and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses.

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation arising out of events covered by the policy.

## Specialty Property & Casualty Insurance

The Specialty Property & Casualty Insurance segment, based in Chicago, Illinois, conducts business in 35 states under the Kemper Auto brand. As shown in the following table, three states provided 92% of the segment's premium revenues in 2019.

State	Percentage of Total Premiums
California .....	<b>67%</b>
Florida .....	<b>14%</b>
Texas .....	<b>11%</b>

The Specialty Property & Casualty Insurance segment provides personal and commercial automobile insurance to consumers who have had difficulty obtaining standard or preferred risk insurance, usually because of their driving records, claims experience or premium payment history. The segment also meets the insurance needs of other specialty markets such as urban and Hispanic consumers. The segment's insurance products accounted for 69%, 60% and 43% of the Company's consolidated insurance premiums in 2019, 2018 and 2017, respectively. The segment's insurance products are marketed through approximately 21,000 independent agents and brokers.

## Preferred Property & Casualty Insurance

The Preferred Property & Casualty Insurance segment, based in Chicago, Illinois, conducts business in 45 states and the District of Columbia. As shown in the following table, five states provided 66% of the segment's premium revenues in 2019.

State	Percentage of Total Premiums
California .....	<b>21%</b>
New York .....	<b>17%</b>
Texas .....	<b>15%</b>
North Carolina .....	<b>9%</b>
Pennsylvania .....	<b>4%</b>

The Preferred Property & Casualty Insurance segment primarily sells preferred automobile insurance, homeowners insurance and other personal insurance. The segment's insurance products accounted for 17%, 22% and 31% of the Company's consolidated insurance premiums in 2019, 2018 and 2017, respectively. The segment's insurance products are marketed by approximately 4,800 independent insurance agents and brokers to individuals who have demonstrated favorable risk characteristics and loss history.

## Property and Casualty Loss and Loss Adjustment Expense Reserves

The Company's reserves for losses and LAE for property and casualty insurance ("Property and Casualty Insurance Reserves") are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid.

Property and Casualty Insurance Reserves by business segment at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	2019	2018
Business Segments:		
Specialty Property & Casualty Insurance.....	<b>\$ 1,551.0</b>	\$ 1,387.0
Preferred Property & Casualty Insurance.....	<b>388.5</b>	452.9
Life & Health Insurance .....	<b>3.3</b>	4.4
Total Business Segments.....	<b>1,942.8</b>	1,844.3
Unallocated Reserves .....	<b>27.0</b>	30.6
Total Property & Casualty Insurance Reserves.....	<b>\$ 1,969.8</b>	\$ 1,874.9



In estimating the Company's Property and Casualty Insurance Reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company's Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 62 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while minimizing variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully paid. Changes in the Company's estimates of these losses and LAE, also referred to as "development," will occur over time and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income.

See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for information about incurred and paid claims development for the 2015-2018 accident years as of December 31, 2019, net of reinsurance and indemnification, as well as cumulative claim frequency and the total of incurred but not reported ("IBNR") liabilities, including expected development on reported claims included within the net incurred losses and allocated LAE amounts as of December 31, 2019. See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for a tabular reconciliation of the three most recent annual periods setting forth the Company's Property and Casualty Insurance Reserves as of the beginning of each year, incurred losses and LAE for insured events of the current year, changes in incurred losses and LAE for insured events of prior years, payments of losses and LAE for insured events of the current year, payments of losses and LAE for insured events of prior years and the Company's Property and Casualty Insurance Reserves at the end of the year and additional information regarding the nature of adjustments to incurred losses and LAE for insured events of prior years.

### **Catastrophe Losses**

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and are expected to be, a material factor in the results of operations and financial position of Kemper's property and casualty insurance companies. Further, because the level of insured losses that could occur in any one year cannot be accurately predicted, these losses contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The occurrence and severity of catastrophic events cannot be accurately predicted in any year. However, some geographic locations are more susceptible to these events than others. The Company has endeavored to manage its direct insurance exposures in certain regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and reinsurance. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. ("ISO") to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions throughout this 2019 Annual Report utilize ISO's definition of catastrophes.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. See Item 1A., "Risk Factors," under the caption "Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition" for a discussion of catastrophe risk. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for a discussion of the factors that influence the process of estimating and establishing reserves for catastrophes.

### **Reinsurance**

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or

limitations to coverages and deductibles for certain perils in such regions and reinsurance. To limit its exposures to catastrophic events, the Company maintains a catastrophe reinsurance program for the property and casualty insurance companies. Coverage for the catastrophe reinsurance program is provided in various layers through multiple excess of loss reinsurance contracts and an aggregate excess property catastrophe reinsurance contract. The Company’s insurance subsidiaries also purchase reinsurance from the Florida Hurricane Catastrophe Fund (the “FHCF”) for hurricane losses in Florida at retentions lower than those described below for the Company’s catastrophe reinsurance program.

The 2020 catastrophe reinsurance program covering the property and casualty insurance companies is provided by (i) three multi-year excess of loss reinsurance contracts, (ii) an annual excess of loss reinsurance contract (the “2020 Annual Excess of Loss Contract”) and (iii) an annual aggregate excess property catastrophe reinsurance contract (the “2020 Aggregate Property Catastrophe Reinsurance Contract”).

Multi-year Excess of Loss Reinsurance Contracts

The first multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2018 through December 31, 2020 (the “2018 Reinsurance Contract”). The 2018 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of \$200 million in excess of \$50 million. Under the 2018 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2018 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of \$200 million in excess of \$50 million in 2020.

The second multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2019 through December 31, 2021 (the “2019 Reinsurance Contract”). The 2019 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of \$200 million in excess of \$50 million, which is consistent with the coverage provided under the 2018 Reinsurance Contract. Under the 2019 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2019 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of \$200 million in excess of \$50 million in 2020.

The third multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2020 through December 31, 2022 (the “2020 Reinsurance Contract”). The 2020 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of \$200 million in excess of \$50 million, which is consistent with the coverage provided under the 2018 Reinsurance Contract and 2019 Reinsurance Contract. Under the 2020 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2020 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of \$200 million in excess of \$50 million in 2020.

Annual Excess of Loss Reinsurance Contract

The 2020 Annual Excess of Loss Contract provides coverage for the annual period of January 1, 2020 through December 31, 2020. The 2020 Annual Excess of Loss Contract provides coverage for losses on individual catastrophes of \$25 million in excess of \$250 million.

Summary of Excess of Loss Reinsurance Contracts

Coverage on individual catastrophes provided under the three multi-year excess of loss reinsurance contracts for 2020 (January 1, 2020 to December 31, 2020) and the 2020 Annual Excess of Loss Contract is provided in various layers as summarized below.

<i><b>DOLLARS IN MILLIONS</b></i>	<b>Catastrophe Losses and LAE</b>		<b>Combined Percentage of Coverage</b>
	<b>In Excess of</b>	<b>Up to</b>	
Retained.....	\$ —	\$ 50.0	—%
1st Layer of Coverage .....	50.0	150.0	95.0
2nd Layer of Coverage .....	150.0	250.0	95.0
3rd Layer of Coverage.....	250.0	275.0	95.0

The estimated annual premium in 2020 for the three multi-year excess of loss reinsurance contracts and the 2020 Annual Excess of Loss Contract presented in the preceding table is \$11.9 million. In the event that the Company’s incurred catastrophe losses

and LAE covered by its catastrophe reinsurance program exceed the retention for a particular layer, the program allows for one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of the limit available under such layer. The reinstatement premium for the first layer of coverage is a percentage of the full original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit. The reinstatement premium for the second layer of coverage is a percentage of half the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit. The reinstatement premium for the third layer of coverage is a percentage of half the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit.

Aggregate Property Catastrophe Reinsurance Contract

The 2020 Aggregate Property Catastrophe Reinsurance Contract is effective for the period of January 1, 2020 through December 31, 2020 and provides coverage for accumulated catastrophe losses of \$50 million in excess of \$60 million on property losses arising out of one or more of the following perils from storms or storm systems that are not named storms: (1) windstorm; (2) hail; (3) tornado and (4) fire; including ensuing collapse and water damage.

Coverage provided under the 2020 Aggregate Property Catastrophe Reinsurance Contract (January 1, 2020 to December 31, 2020) is summarized below.

<u>DOLLARS IN MILLIONS</u>	Aggregate Catastrophe Losses and LAE	
	In Excess of	Up to
Retained.....	\$ —	\$ 60.0
Coverage.....	60.0	110.0

The estimated annual premium for the 2020 Aggregate Property Catastrophe Reinsurance Contract is \$13.3 million. To maintain the same level and percentage of coverage in subsequent years as provided by the catastrophe reinsurance program in 2020, the Company's property and casualty insurance companies will need to purchase additional reinsurance in the future for the portion of coverage expiring at the end of 2020, 2021 and 2022.

Other

In addition to the catastrophe loss exposures caused by natural events described above, Kemper's property and casualty insurance companies are exposed to losses from catastrophic events that are not the result of acts of nature, such as acts of terrorism, the nature, occurrence and severity of which in any period cannot be accurately predicted. The companies have reinsurance coverage to address certain exposures to potential future terrorist attacks. The reinsurance coverage for certified events, as designated by the federal government, is from the Terrorist Risk Insurance Act and the coverage for non-certified events is available in the catastrophe reinsurance program for the property and casualty insurance companies. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the reinsurance coverage for non-certified events.

Under the various reinsurance arrangements, Kemper's property and casualty insurance companies are indemnified by reinsurers for certain losses incurred under insurance policies issued by the reinsurers. As indemnity reinsurance does not discharge an insurer from its direct obligations to policyholders on risks insured, Kemper's property and casualty insurance companies remain directly liable. However, provided that the reinsurers meet their obligations, the net liability for Kemper's property and casualty insurance companies is limited to the amount of risk that they retain. Kemper's property and casualty insurance companies purchase their reinsurance only from reinsurers rated "A-" or better by A. M. Best Co., Inc. ("A.M. Best"), at the time of purchase. A.M. Best is an organization that specializes in rating insurance and reinsurance companies.

For further discussion of the reinsurance programs, see Note 20, "Catastrophe Reinsurance," and Note 21, "Other Reinsurance," to the Consolidated Financial Statements.

**Pricing**

Pricing levels for property and casualty insurance products are influenced by many factors, including the frequency and severity of claims, state regulation and legislation, competition, general business and economic conditions, including market rates of interest, inflation, expense levels, and judicial decisions. In addition, many state regulators require consideration of investment income when approving or setting rates, which could reduce underwriting margins. Further, some states have regulations that limit the after-tax return on underwriting profit allowed for an insurer and may impact the price charged for premiums or result in premium refunds. The Company derives a significant portion of its earned premiums in two such states, California and

Florida. See MD&A under the caption “Specialty Property & Casualty Insurance” and “Preferred Property & Casualty Insurance.”

### Competition

Based on the most recent annual data published by A.M. Best, as of the end of 2018, there were 1,131 property and casualty insurance groups in the United States. Kemper’s property and casualty group, adjusted for the inclusion of Infinity Property and Casualty Corporation (“Infinity”) for the entire year was among the top 6% of property and casualty insurance groups in the United States as measured by net written premiums, policyholders’ surplus and net admitted assets in 2018. Among all personal lines automobile insurance writers, Kemper’s property and casualty group was the 13th largest writer as measured by net written premiums in 2018.

Rankings by net admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank
Net Admitted Assets .....	50	95%
Net Written Premiums .....	30	97
Capital and Surplus.....	74	94

In 2018, the U.S. property and casualty insurance industry’s estimated net premiums written were \$622 billion, of which nearly 80% were accounted for by the top 50 groups of property and casualty insurance companies. Kemper’s property and casualty insurance companies, adjusted to include Infinity for the entire year, wrote less than 1% of the industry’s 2018 premium volume.

The property and casualty insurance industry is highly competitive, particularly with respect to personal automobile insurance. Kemper’s property and casualty insurance companies compete on the basis of, among other measures, (i) using suitable pricing segmentation, (ii) maintaining underwriting discipline, (iii) settling claims timely and efficiently, (iv) offering products in selected markets or geographies, (v) utilizing technological innovations for the marketing and sale of insurance, (vi) controlling expenses, (vii) maintaining adequate ratings from A.M. Best and other ratings agencies and (viii) providing quality services to independent agents and policyholders. See Item 1A., “Risk Factors,” under the caption “The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors.”

### Life and Health Insurance Business

The Company’s Life & Health Insurance segment consists of Kemper’s wholly-owned subsidiaries, United Insurance Company of America (“United Insurance”), The Reliable Life Insurance Company (“Reliable”), Union National Life Insurance Company (“Union National Life”), Mutual Savings Life Insurance Company (“Mutual Savings Life”), United Casualty Insurance Company of America (“United Casualty”), Union National Fire Insurance Company (“Union National Fire”), Mutual Savings Fire Insurance Company (“Mutual Savings Fire”) and Reserve National Insurance Company (“Reserve National”). As discussed below, United Insurance, Reliable, Union National Life, Mutual Savings Life, United Casualty, Union National Fire and Mutual Savings Fire (the “Kemper Home Service Companies”) distribute their products through a network of employee, or “career” agents. Reserve National distributes its products through a network of independent agents and brokers. These career agents, independent agents and brokers are paid commissions for their services. Earned premiums from life insurance accounted for 9%, 11% and 16% of the Company’s consolidated insurance premiums earned in 2019, 2018 and 2017, respectively.

As shown in the following table, five states provided 48% of the premium revenues in this segment in 2019.

State	Percentage of Total Premiums
Texas .....	19%
Louisiana.....	11
Alabama .....	7
Mississippi .....	6
Georgia.....	5



## **Kemper Home Service Companies**

The Kemper Home Service Companies, based in St. Louis, Missouri, focus on providing individual life and supplemental accident and health insurance products to customers of modest incomes who desire basic protection for themselves and their families. Their leading product is ordinary life insurance, including permanent and term insurance. Face amounts of these policies are lower than those of policies typically sold to higher income customers by other companies in the life insurance industry. Approximately 72% of the Life & Health Insurance segment's premium revenues are generated by the Kemper Home Service Companies.

The Kemper Home Service Companies employ nearly 2,000 career agents to distribute insurance products in 25 states and the District of Columbia. These career agents are full-time employees who call on customers in their homes to sell insurance products, provide services related to policies in force and collect premiums, typically monthly. Premiums average approximately \$24 per policy per month with an average face value of \$5,600. Permanent and term policies are offered primarily on a non-participating, guaranteed-cost basis. These career agents also distribute and/or service certain property insurance products for the Kemper Home Service Companies.

## **Reserve National**

Reserve National, based in Oklahoma City, Oklahoma, is licensed in 49 states and the District of Columbia. The Company specializes in the sale of supplemental accident & health and life insurance products such as: Medicare Supplement, fixed hospital indemnity, home health care, specified disease, and accident-only plans.

Reserve National distributes products through two channels - Kemper Traditional and Kemper Benefits. The Traditional channel has historically served individuals in rural areas who often do not have access to a broad array of accident and health insurance products, though has more recently broadened to include suburban and urban areas. Insurance products can be tailored to meet individual and family needs and are distributed through approximately 600 independent agents. Kemper Benefits sells voluntary worksite products in the employer market place through Employee Benefit brokers and enrollers. In total, Reserve National currently has approximately 3,500 independent agents appointed.

## **Reinsurance**

Consistent with insurance industry practice, the Company's life and health insurance subsidiaries utilize reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks. As the face amounts of the Company's issued policies are relatively small, the ceded risks and corresponding premiums are also relatively small, particularly when compared to other companies in the industry. The segment is also exposed to losses from catastrophes arising from insurance policies distributed by career agents of the Kemper Home Service Companies. Over the last several years, the Kemper Home Service Companies have been intentionally reducing their exposure to catastrophic events through the run-off of their dwelling insurance business. The Kemper Home Services Companies are parties to the FHCF, the Property & Casualty catastrophe excess of loss reinsurance contracts, and the aggregate property catastrophe reinsurance contract.

## **Lapse Ratio**

The lapse ratio is a measure of a life insurer's loss of in-force policies. For a given year, this ratio is commonly computed as the total face amount of individual life insurance policies lapsed, surrendered, expired and decreased during such year, less policies increased and revived during such year, divided by the total face amount of policies at the beginning of the year plus the face amount of policies issued and reinsurance assumed in the prior year. The Life & Health Insurance segment's lapse ratio for individual life insurance was 6% in 2019, 2018 and 2017.

The customer base served by the Kemper Home Service Companies and competing life insurance companies tends to have a higher incidence of lapse than other demographic segments of the population. Thus, to maintain or increase the level of its business, the Kemper Home Service Companies must write a higher volume of new policies than competitors serving other demographic segments of the population.

## **Pricing**

Premiums for life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on the experience of Kemper's life and health insurance subsidiaries, as well as the industry in general, depending on the

factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums for policies sold by the Kemper Home Service Companies are set at levels designed to cover the relatively high cost of “in-home” servicing of such policies. As a result, Kemper Home Service Companies’ premiums have a higher expense load than the life insurance industry average.

Premiums for Medicare supplement and other accident and health policies must take into account the rising costs of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, necessitating frequent rate increases, most of which are subject to approval by state regulators.

## Competition

Based on the most recent data published by A.M. Best, as of the end of 2018, there were 369 life and health insurance company groups in the United States. The Company’s Life & Health Insurance segment ranked in the top 25% of life and health insurance company groups, as measured by net admitted assets, net premiums written and capital and surplus. Rankings by net admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank
Net Admitted Assets .....	92	75%
Net Written Premiums .....	92	75
Capital and Surplus.....	93	75

Kemper’s life and health insurance subsidiaries generally compete by using appropriate pricing, offering products to selected markets or geographies, controlling expenses, maintaining adequate ratings from A.M. Best and providing competitive services to agents and policyholders.

## Investments

The quality, nature and amount of the various types of investments that can be made by insurance companies are regulated by state laws. Depending on the state, these laws permit investments in qualified assets, including, but not limited to, municipal, state and federal government obligations, corporate bonds, real estate, preferred and common stocks, investment partnerships, limited liability investment companies and limited partnerships. In addition, the quality, nature, amount and concentration of the various types of investments held by Kemper’s insurance subsidiaries affect the amount of asset risk calculated by regulators and rating agencies in determining required capital. See “Regulation” immediately following this subsection and Item 1A., “Risk Factors,” under the caption “The Company’s investment portfolio is exposed to a variety of risks that may negatively impact net investment income, the change in fair value of equity and convertible securities and cause realized and unrealized losses.”

The Company employs a total return investment strategy, with an emphasis on yield, while maintaining liquidity to meet both its short- and medium-term insurance obligations. See the discussions of the Company’s investments under the headings “Investment Results,” “Investment Quality and Concentrations,” “Investments in Limited Liability Companies and Limited Partnerships,” “Liquidity and Capital Resources” and “Critical Accounting Estimates,” in the MD&A, “Quantitative and Qualitative Disclosures about Market Risk,” in Item 7A and Note 4, “Investments,” Note 14, “Income from Investments,” and Note 22, “Fair Value Measurements,” to the Consolidated Financial Statements.

## Regulation

### Overview of State Regulation

Kemper’s insurance subsidiaries are subject to extensive regulation, primarily, but not exclusively, at the state level. Such regulation pertains to a variety of matters, including, but not limited to, policy forms, rate setting, licensing to transact business, market conduct, trade practices, underwriting standards, claims handling practices, transactions with affiliates, payment of dividends, nature and amount of investments, solvency, reserve adequacy, statutory accounting methods, risk management and corporate governance. In addition, insurance regulatory authorities perform periodic examinations of an insurer’s financial condition, market conduct activities and other affairs. Some of these matters are discussed in more detail below.

## **Approval of Policy Rates and Forms**

The majority of Kemper's insurance operations are in states requiring prior approval by regulators before proposed policy or coverage forms and rates for property, casualty, or health insurance policies may be implemented and used. The Company's ability to take actions to address market developments or increased costs can be adversely impacted by lengthy delays in the approval process or the failure to receive the required approval of state regulators.

## **Restrictions on Withdrawal, Cancellation and Nonrenewal**

Many states have laws restricting an insurer's ability to withdraw from particular markets. Laws that limit an insurer's ability to cancel or non-renew a block of policies by line of business, or that subject its withdrawal to prior approval requirements, may restrict the ability of our insurance subsidiaries to exit unprofitable markets.

## **Financial Reports and Standards**

Insurance companies are required to report their financial condition and results of operations in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners ("NAIC"). State insurance regulators also prescribe the form and content of statutory financial statements, set minimum reserve and loss ratio requirements and establish standards for the types and amounts of investments. In addition, state laws and regulations require minimum capital and surplus levels and incorporate risk-based capital ("RBC") standards developed by the NAIC. These RBC standards are intended to enable regulators to assess the level of risk inherent in an insurance company's business based on asset risk, credit risk, underwriting risk and other business risks relevant to its operations. A company's requirements are calculated based on an RBC formula and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2019, the total amount of capital held by each of Kemper's insurance subsidiaries exceeded the minimum levels required under applicable RBC requirements.

## **Guaranty Funds and Risk Pools**

Kemper's insurance subsidiaries are required to pay assessments up to prescribed levels to fund policyholder losses or liabilities of insolvent insurance companies under the guaranty fund laws of most states in which they transact business. Kemper's insurance subsidiaries are also required to participate in various involuntary pools or assigned risk pools, principally involving windstorms and high risk drivers. In most states, the involuntary pool participation of Kemper's insurance subsidiaries is determined in proportion to their voluntary writings of related lines of business in such states.

## **Privacy and Cybersecurity Regulation**

The Company is subject to numerous federal and state laws and state insurance regulations that impose significant requirements and standards for protecting personally identifiable information of insurance company policyholders and other individuals.

### *Gramm-Leach-Bliley Act and HIPAA*

The federal Gramm-Leach-Bliley Act requires financial institutions, including insurers, to protect the privacy of non-public information, to restrict use of such information and disclosure to non-affiliated third parties, and to provide notices to customers regarding use of their non-public personal information and an opportunity to "opt out" of certain disclosures. State departments of insurance and certain federal agencies adopted implementing regulations as required by federal law.

The federal Health Insurance Portability and Accountability Act of 1996, as amended in 2009 by the HITECH Act, ("HIPAA"), and implementing regulations, impose extensive obligations regarding the privacy and security of protected health information. Covered entities subject to HIPAA, which include issuers of health insurance coverage and health benefit plan sponsors, must implement policies and procedures governing the use, storage and disclosure of such information and related employee training, breach notification procedures and other requirements.

### *State Laws and Regulations*

In recent years, state insurance regulators have focused increasing attention on cybersecurity. In 2017, the New York Department of Financial Services adopted a sweeping cybersecurity regulation that requires insurance companies to maintain a cybersecurity program, incident response plan and information technology system safeguards that protect customer information and some states have subsequently enacted statutes imposing similar requirements on insurance companies based on a model data security law adopted by the NAIC. In addition, state insurance regulators focus significant attention on data security during financial exams, and the NAIC has strengthened and enhanced the cybersecurity guidance included in its handbook for state

insurance examiners. Additional state laws outside of the insurance industry impose notification requirements in the event of cybersecurity breaches affecting their residents. On the privacy front, the California Consumer Privacy Act, which took effect in 2020, requires companies to provide privacy notices and respond to any request made to the company by a California resident regarding his or her personal information used or maintained by the company outside the scope of the GLBA and HIPAA privacy laws. The Company anticipates a continuing focus on new regulatory and legislative proposals at the state and federal levels that further regulate practices regarding privacy and security of personal information.

### **Holding Company Regulation, Including Enterprise Risk Management and Governance**

The Company is regulated as an insurance holding company system and is subject to the insurance holding company acts of the states in which its insurance subsidiaries are domiciled and, in some case, additional states in which the insurance subsidiary is deemed commercially domiciled. These laws and related regulations contain certain reporting requirements as well as restrictions on transactions between an insurer and its affiliates. They also generally require insurance companies within an insurance holding company system to register with the insurance department of each state where they are domiciled and to file certain reports with those insurance departments describing capital structure, ownership, financial condition, certain intercompany transactions, an enterprise risk report and general business operations. In addition, various notice and reporting requirements generally apply to transactions between insurance companies and their affiliates within the insurance holding company system, depending on the size and nature of the transactions. Some insurance holding company laws and regulations require prior regulatory approval or, in certain circumstances, prior notice of certain material intercompany transfers of assets as well as certain transactions between insurance companies, their parent holding companies and affiliates.

#### *Dividends*

As a holding company with no significant business operations of its own, Kemper relies on dividends from its insurance subsidiaries to meet its obligations. Certain dividends and distributions by an insurance subsidiary are subject to prior approval by the insurance regulators of the state in which it is domiciled or commercially domiciled. See Item 1A., “Risk Factors,” under the caption, “The ability of Kemper to service its debt, to pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries.”

#### *Change in Control Requirements*

State insurance laws also impose requirements that must be met prior to a change of control of an insurance company or insurance holding company based on the insurer’s state of domicile and, in some cases, additional states in which the insurance subsidiary is deemed commercially domiciled. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and approval of the change of control by such regulators. The Company has insurance subsidiaries domiciled or deemed commercially domiciled in Alabama, California, Florida, Georgia, Illinois, Indiana, Louisiana, Missouri, New York, Ohio, Oregon, Texas and Wisconsin. In these states, except Alabama, “control” generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Kemper’s shares that would result in the purchaser owning Kemper’s voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of the Company’s insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of insurance regulators in each state in which the Company’s insurance subsidiaries are domiciled or deemed commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulators. Similarly, consistent with the Model Holding Company Act, several of the states in which the Company’s insurance subsidiaries are domiciled have enacted legislation that requires either the divesting and/or acquiring company to notify regulators of, and in some cases to receive regulatory approval for, a change in control.

Many state statutes also require pre-acquisition notification to state insurance regulators of a change of control of an insurance company licensed in the state if specific market concentration thresholds would be triggered by the acquisition. Such statutes authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition. These regulatory requirements may deter, delay or prevent transactions effecting control of Kemper or its insurance subsidiaries, or the ownership of Kemper’s voting securities, including transactions that could be advantageous to Kemper’s shareholders.

Many states have made, or are in the process of making, modifications to their holding company laws. These modifications impose new reporting requirements and substantially expand the oversight and examination powers of state insurance regulators to assess enterprise risks within the entire holding company system that may arise from both insurance and non-insurance



subsidiaries. They also impose new reporting requirements on affiliated transactions and divestiture of a controlling interest in an insurance subsidiary.

### **Other Federal Government Regulation**

#### *Dodd-Frank Wall Street Reform and Consumer Protection Act and Other Financial Reform Efforts*

As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was enacted in 2010. The Dodd-Frank Act also created the Federal Insurance Office (“FIO”) within the U.S. Department of the Treasury (“Treasury”). The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council (“FSOC”), represents the U.S. on international insurance matters, and studies the current regulatory system. The Dodd-Frank Act includes a number of financial reforms and regulations that may affect our business and financial reporting. However, there remains uncertainty regarding the future of the Dodd-Frank Act and how it may impact our business.

Additional regulations or new requirements may emerge from activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, NAIC and the International Association of Insurance Supervisors (“IAIS”), that are evaluating solvency and capital standards for insurance company groups. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies.

#### *Affordable Care Act*

In 2010, the Patient Protection and Affordable Care Act, or ACA, as well as the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Care Acts”) became law, causing significant changes to the U.S. health care system. Since then, significant regulations have been enacted by the U.S. Department of Health and Human Services, or HHS, the Department of Labor and the Department of Treasury. The legislation and regulations are far-reaching and are intended to expand access to health insurance coverage over time by mandating that most individuals obtain and certain employers offer to their employees health insurance coverage that meets prescribed minimum benefit requirements, as well as establishing minimum loss ratios, rating restrictions, mandates for coverage of defined essential health benefits, restrictions or prohibitions on pre-existing condition exclusions and annual and lifetime policy limits. As a result of the complexity of the law, its impact on health care in the United States, the continuing modification and interpretation of the Health Care Acts made by statute, rule and/or executive order, and the ongoing efforts to repeal or replace the ACA, the Company continues to analyze and refine its estimates of the ultimate impact of the Health Care Acts on its business, cash flows, financial condition and results of operations.

## **Item 1A. Risk Factors.**

Kemper is exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The following discussion details the significant risk factors that are specific to the Company. In addition to those described below, the Company's business, financial condition and results of operations could be materially affected by other factors not presently known by, or considered material to, the Company. Readers are advised to consider all of these factors along with the other information included in this 2019 Annual Report, including the factors set forth under the caption "Caution Regarding Forward-Looking Statements" beginning on page 1, and to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

### **Risks Relating to Legal and Regulatory Environment**

***Kemper's insurance subsidiaries are subject to significant regulation, and the evolving legal and regulatory landscape in which they operate could result in increased operating costs, reduced profitability and limited growth.***

Kemper's insurance subsidiaries operate under an extensive insurance regulatory system. Current laws and regulations affect a wide variety of matters, including policy forms, premium rates, licensing, market conduct, trade practices, claims handling practices, reserve and loss ratio requirements, investment standards, statutory capital and surplus requirements, restrictions on the payment of dividends, approvals of transactions involving a change in control of one or more insurance companies, restrictions on transactions among affiliates and consumer privacy and data security. They also require the filing of annual and quarterly financial reports and holding company reports. Pre-approval requirements often restrict or delay actions by the companies to implement premium rate changes for property, casualty and health insurance policies, or to introduce new, or make changes to existing, policy forms and many other actions. Insurance regulators conduct periodic examinations of Kemper's insurance subsidiaries and can suspend or delay their operations or licenses, require corrective actions, and impose penalties or other remedies available for compliance failures. For a more detailed discussion of the regulations applicable to Kemper's subsidiaries and related emerging developments, see "Regulation" in Item 1, beginning on page 11.

These laws and regulations, and their interpretation by the various regulators and courts, are subject to continual revision and expansion. The legal and regulatory landscape within which Kemper's insurance subsidiaries conduct their businesses is often unpredictable. As industry practices and regulatory, judicial, political, social and other conditions change, issues may emerge, whether intended or not. These changes and emerging issues could adversely affect Kemper's insurance subsidiaries in a variety of ways, including, for example, by expanding coverages beyond the underwriting intent, increasing the number or size of claims, accelerating the payment of claims or otherwise adding to operational costs or adversely affecting the Company's competitive advantages. Practices in the industry or within the Company that were once considered approved, compliant and reasonable may suddenly be deemed unacceptable by virtue of a court or regulatory ruling or changes in regulatory enforcement policies and practices. It is not possible for the Company to predict such shifts in legal or regulatory enforcement or to accurately estimate the impact they may have on the Company and its operations.

One area where the legal and regulatory landscape has experienced significant change is in connection with the mandated use of death verification databases by life insurance companies in their policy administration and claims handling practices. Over the last decade, many states have adopted new laws requiring insurers to proactively use such databases, including the Social Security Administration's Death Master File (the "DMF"), to varying degrees in order to ascertain if an insured may be deceased. More than half of the states have adopted such laws, and Kemper cannot predict whether additional states will enact similar legislation or, if enacted, what form such legislation may take. These laws require the insurer to initiate the claims process even though the insureds' beneficiaries have not submitted a claim, including proof of death, as required by regulator-approved policy forms and the insurer was otherwise unaware of the insured's death. In a related development, many states have expanded the application of their unclaimed property laws, particularly as they relate to life insurance proceeds, and many states have engaged audit firms to examine the practices of life insurance companies with respect to the reporting and remittance of such proceeds under unclaimed property laws. The push to alter practices that were previously considered lawful and appropriate relative to both claims handling and remittance of life insurance policy proceeds under unclaimed property laws has led to the Company's involvement in compliance audits, market conduct examinations and litigation. In 2016, the Company initiated a voluntary, comprehensive process to compare life insurance records against the DMF and other databases to determine if any of its insured may be deceased. See Note 2, "Summary of Accounting Policies and Accounting Changes," and Note 23, "Contingencies," to the Consolidated Financial Statements for further details.

The financial services industry, including insurance companies and their holding company systems, remains under regulatory scrutiny. While it is not possible to predict how new laws or regulations or new interpretations of existing laws and regulations may impact the operations of Kemper's insurance subsidiaries, several developments have the potential to significantly impact such operations. This includes increased legislative and regulatory focus on cybersecurity and adoption of extensive

modifications to state holding company laws that substantially expand the oversight and examination powers of insurance regulators beyond licensed insurance companies to their non-insurance affiliates and their organizations as a whole, particularly with respect to enterprise risk. In addition, the Health Care Acts have resulted in regulations affecting health insurers such as Reserve National, and potential changes to the state insurance regulatory system may result from the Dodd-Frank Act. See the discussion of these matters under “Regulation” in Item 1, beginning on page 11.

These new developments and significant changes in, or new interpretations of, existing laws and regulations could make it more expensive for Kemper’s insurance subsidiaries to conduct and grow their businesses which could materially impact the Company’s operating results.

***Kemper has a significant concentration of personal automobile insurance business in California and Florida, and negative developments in the regulatory, legal or economic conditions in these states may adversely affect our profitability.***

California and Florida represented 69% of our total personal automobile insurance gross written premiums in 2019. Consequently, the dynamic nature of regulatory, legal, competitive and economic conditions in these states affects our revenues and profitability. Further, both California and Florida have regulations that limit the after-tax return on underwriting profit allowed for an insurer. Changes in any of these conditions could negatively impact the Company's results of operations.

***Legal and regulatory proceedings are unpredictable and could produce one or more unexpected verdicts against the Company that could materially and adversely affect the Company’s financial results for any given period.***

Kemper and its subsidiaries are from time to time involved in lawsuits, regulatory inquiries and other legal proceedings arising out of the ordinary course of their businesses. Some of these proceedings may involve matters particular to Kemper or one or more of its subsidiaries, while others may pertain to business practices in the industry in which Kemper and its subsidiaries operate. Some lawsuits may seek class action status that, if granted, could expose the Company to potentially significant liability by virtue of the size of the putative classes. These matters often raise difficult factual and legal issues and are subject to uncertainties and complexities. The outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. A further complication is that even where the possibility of an adverse outcome is remote under traditional legal analysis, juries sometimes substitute their subjective views in place of facts and established legal principles. Given the unpredictability of the legal and regulatory landscape in which the Company operates, there can be no assurance that one or more of these matters will not produce a result that could materially and adversely affect the Company’s financial results for any given period.

For information about the Company’s pending legal proceedings, see Note 23, “Contingencies,” to the Consolidated Financial Statements.

### **Risks Relating to Catastrophes and Estimating Property and Casualty Insurance Losses and Loss Adjustment Expenses**

***Estimating losses and LAE for determining property and casualty insurance reserves, or determining premium rates, is inherently uncertain, and the Company’s results of operations may be materially impacted if the Company’s insurance reserves or premium rates are insufficient.***

The Company establishes loss and LAE reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the property and casualty insurance policies that it has issued. Loss and LAE reserves are established for claims that have been reported to the Company as of the end of the accounting period, as well as for estimated claims that have occurred but have not yet been reported to the Company. The estimates of loss and LAE reserves are based on the Company’s assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors. These estimates can be inaccurate or may change over time due to many variables, including changes driven by the evolving legal and regulatory landscape and economic conditions in which the Company operates and the rising costs of insurance claims from increased litigation, higher jury awards, the impact of process change and staffing levels and other effects of societal trends referred to as social inflation.

The process of estimating property and casualty insurance reserves is complex and imprecise. The reserves established by the Company are inherently uncertain estimates and could prove to be inadequate to cover its ultimate losses and expenses. The estimate of the ultimate cost of claims for insured events that have occurred must take into consideration many factors that are dependent on the outcome of future events associated with the reporting, investigation and settlement of claims. The impacts on the Company’s estimates of property and casualty insurance reserves from these factors are difficult to assess accurately. A change in any one or more of the factors is likely to result in a projected ultimate loss that is different than the previous projected ultimate loss and may have a material impact on the Company’s estimate of the projected ultimate loss. Increases in

the estimates of ultimate losses and LAE will decrease earnings, while decreases in such estimates will increase earnings, as reported by the Company in the results of its operations for the periods in which the changes to the estimates are made by the Company. See MD&A, “Critical Accounting Estimates,” under the caption “Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses” beginning on page 62 for a discussion of the Company’s reserving process and the factors considered by the Company’s actuaries in estimating the Company’s Property and Casualty Insurance Reserves.

The Company’s actuaries also consider trends in the severity and frequency of claims and other factors when determining the premium rates to charge for its property and casualty insurance products. An unanticipated change in any one or more of these factors or trends, as well as a change in competitive conditions, may also result in inadequate premium rates charged for insurance policies issued by Kemper’s property and casualty insurance subsidiaries in the future. Such pricing inadequacies could have a material impact on the Company’s operating results. If the Company’s pricing actuaries overestimate the severity or frequency of claims and other factors in determining the rates to charge for insurance products, the rates for the Company’s products could be uncompetitive and result in loss of revenue and market share.

***Catastrophe losses could materially and adversely affect the Company’s results of operations, liquidity and/or financial condition.***

Kemper’s property and casualty insurance subsidiaries are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophes can be caused by various events, including, but not limited to, hurricanes, tornadoes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and wildfires and may include man-made events, such as terrorist attacks and hazardous material spills. The incidence, frequency and severity of catastrophes are inherently unpredictable and may be impacted by the uncertain effects of climate change. The extent of the Company’s losses from a catastrophe is a function of both the total amount of insured exposure in the geographic area affected by the event and the severity of the event. The Company could experience more than one severe catastrophic event in any given period.

Kemper’s life and health insurance subsidiaries are particularly exposed to risks of catastrophic mortality, such as pandemic or other events that result in large numbers of deaths. In addition, the occurrence of such an event in a concentrated geographic area could have a severe disruptive effect on the Company’s workforce and business operations. The likelihood and severity of such events cannot be predicted and are difficult to estimate.

The property and casualty insurance subsidiaries use catastrophe modeling tools developed by third parties to project their potential exposure to property damage resulting from catastrophic events under various scenarios. Such models are based on various assumptions and judgments which may turn out to be wrong. The actual impact of one or more catastrophic events could adversely and materially differ from these projections.

***Changes in the availability and cost of catastrophe reinsurance and in the ability of reinsurers to meet their obligations could result in Kemper’s insurance subsidiaries retaining more risk and could adversely and materially affect the Company’s results of operations, financial condition and/or liquidity.***

Kemper’s property and casualty insurance subsidiaries seek to reduce their exposure to catastrophe losses through the purchase of catastrophe reinsurance. Catastrophe reinsurance does not relieve such subsidiaries of their direct liability to their policyholders. As long as the reinsurers meet their obligations, the net liability for such subsidiaries is limited to the amount of risk that they retain. While such subsidiaries’ principal reinsurers are each rated “A-” or better by A.M. Best at the time reinsurance is purchased, the Company cannot be certain that reinsurers will pay the amounts due from them either now, in the future, or on a timely basis. A reinsurer’s insolvency or inability to make payments under the terms of its reinsurance agreement could materially and adversely affect the Company’s financial position, results of operations and liquidity.

In addition, market conditions beyond the Company’s control determine the availability and cost of the reinsurance protection that Kemper’s property and casualty insurance subsidiaries may purchase. A decrease in the amount of reinsurance coverage that such subsidiaries purchase generally should increase their risk of a more severe loss. If the amount of available reinsurance is reduced, such subsidiaries incur additional expenses to obtain reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability of such subsidiaries to write future insurance policies or result in their retaining more risk with respect to such policies.



***The extent to which Kemper's insurance subsidiaries can manage their catastrophe exposure through underwriting strategies may be limited by law or regulatory action and could adversely and materially affect the Company's results of operations, financial condition and/or liquidity.***

Kemper's property and casualty insurance subsidiaries also manage their exposure to catastrophe losses through underwriting strategies such as reducing exposures in, or withdrawing from, catastrophe-prone areas, establishing appropriate guidelines for insurable structures, and setting appropriate rates, deductibles, exclusions and policy limits. The extent to which such subsidiaries can manage their exposure through such strategies may be limited by law or regulatory action. For example, laws and regulations may limit the rate or timing at which insurers may non-renew insurance policies in catastrophe-prone areas or require insurers to participate in wind pools and joint underwriting associations. Generally, an insurer's participation in such pools and associations are based on the insurer's market share determined on a state-wide basis. Accordingly, even though Kemper's property and casualty insurance subsidiaries may not incur a direct insured loss as a result of managing direct catastrophe exposures, they may incur indirect losses from required participation in pools and associations. In addition, laws and regulations requiring prior approval of policy forms and premium rates may limit the ability of Kemper's property and casualty insurance subsidiaries to increase rates or deductibles on a timely basis, which may result in additional losses or lower returns than otherwise would have occurred in an unregulated market.

### **Risks Relating to Competition**

***A downgrade in the ratings of Kemper or its insurance subsidiaries below A- could materially and adversely affect the Company.***

Third-party rating agencies assess the financial strength and rate the claims-paying ability of insurance companies based on criteria established by the rating agencies. Third-party ratings are important competitive factors in the insurance industry. Financial strength ratings are used to assess the financial strength and quality of insurers. Ratings agencies may downgrade the ratings of Kemper and/or its insurance subsidiaries or require Kemper to retain more capital in its insurance businesses to maintain existing ratings following developments that they deem negative. This can include factors directly related to the Company, such as an increase in the catastrophic risk retained by Kemper's insurance subsidiaries, or developments in industry or general economic conditions. A downgrade by A.M. Best in the ratings of Kemper's insurance subsidiaries below A-, particularly those operating in the preferred and standard market or offering homeowners insurance, could result in a substantial loss of business if independent agents and brokers or policyholders of such subsidiaries move to other companies with higher claims-paying and financial strength ratings. Any substantial loss of business could materially and adversely affect the financial condition and results of operations of such subsidiaries. A downgrade in Kemper's credit rating by Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's") or Fitch Ratings ("Fitch") may reduce Kemper's ability to cost-effectively access the capital markets or may increase the cost to refinance existing debt.

***The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors.***

The Company's insurance businesses face significant competition, and their ability to compete is affected by a variety of issues relative to others in the industry, such as management effectiveness, product pricing, service quality, ease of doing business, innovation, financial strength and name recognition. Competitive success is based on many factors, including, but not limited to, the following:

- Competitiveness of prices charged for insurance policies;
- Sophistication of pricing segmentation;
- Design and introduction of insurance products to meet emerging consumer trends;
- Selection and retention of agents and other business partners;
- Compensation paid to agents;
- Underwriting discipline;
- Selectiveness of sales markets;
- Effectiveness of marketing materials and name recognition;
- Product and technological innovation;
- Effectiveness of online servicing platforms
- Ability to settle claims timely and efficiently;
- Ability to detect and prevent fraudulent insurance claims;
- Effectiveness of deployment and use of information technology across all aspects of operations;
- Ability to control operating expenses;
- Financial strength ratings; and
- Quality of services provided to, and ease of doing business with, independent agents and brokers or policyholders.

The inability to compete effectively in any of the Company's insurance businesses could materially reduce the Company's customer base and revenues and could materially and adversely affect the future results and financial condition of the Company.

See "Competition" in Item 1 of Part I beginning on page 9 and page 11 for more information on the competitive rankings in the property and casualty insurance markets and the life and health insurance markets, respectively, in the United States.

### **Risks Relating to Technology Initiatives, Security of Personal Data and Availability of Critical Systems**

***Technology initiatives could present significant economic and competitive challenges to the Company. Failure to complete and implement such initiatives in a timely manner could result in the loss of business and incurrence of internal use software development costs that may not be recoverable.***

Data and analytics play an increasingly important role in the insurance industry. The Company may periodically initiate multi-year technology projects to enhance operations or replace aging systems. While technology developments can facilitate the use and enhance the value of data and analytics, streamline business processes and ultimately reduce the cost of operations, technology initiatives can present significant economic and organizational challenges to the Company and potential short-term cost and implementation risks. In addition, projections of expenses and implementation schedules could change materially and costs could escalate over time, while the ultimate utility of a technology initiative could deteriorate over time.

Due to the highly-regulated nature of the financial services industry, the Company also faces rising costs and competing time constraints in adapting technology to meet compliance requirements of new and proposed regulations. The costs to develop and implement systems to replace the Company's existing systems and to comply with new regulatory requirements as needed over time are expected to be material. Due to the complexities involved, there can be no assurances that new system development and implementation projects will be successful, that the costs for such projects will not exceed estimates and that the incurred costs will be recoverable. Furthermore, failure to implement replacement systems in a timely manner could result in loss of business from the Company's delay or inability to design and introduce new insurance products that meet emerging consumer needs and competitive trends.

***Failure to maintain the security of personal data may result in lost business, reputational harm, legal costs and regulatory penalties.***

Kemper's insurance subsidiaries obtain, process and store vast amounts of personal data that can present significant risks to the Company and its customers, employees and other affected individuals. An increasing array of laws and regulations govern the use, transfer and storage of such data, including, for example, social security numbers, credit card data and protected health information. Despite the Company's use of a sophisticated array of security measures and the maintenance of policies and procedures designed to enhance security, the Company's data systems, and those of its third party administrators and other business partners working on behalf of the Company, may be vulnerable to security breaches due to the increasing sophistication of cyber attacks, viruses, malware and other infiltration, hackers and other external hazards, as well as equipment and system failures and inadvertent errors, negligence or intentional misconduct of employees and/or contractors. The Company also relies on the ability of its business partners to maintain secure systems and processes that comply with legal requirements and protect personal data.

These increased risks may result in data loss, business interruption, ransom demands and litigation, and together with expanding regulatory requirements related to personal data privacy and security, expose the Company to potential damages, regulatory fines and other liabilities, reputational risk and significant increases in compliance and litigation costs. There is no guarantee that the cyber risk insurance policies Kemper maintains will be sufficient to cover all of the costs of one or more data breach incidents that could occur.

The Company relies increasingly on electronic payments from policyholders, including, but not limited to, payment by credit and debit cards. Failure to maintain compliance with laws and industry regulations governing such transactions could result in additional costs and damages. For example, in the event of non-compliance with the Payment Card Industry Data Security Standard, an information security framework for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and point-of-sale cards, such organizations could prevent Kemper's insurance subsidiaries from collecting premium payments from customers by way of such cards and impose significant fines on Kemper's insurance subsidiaries.

***Failure to maintain the availability of critical systems may result in lost business, reputational harm, legal costs and regulatory penalties.***

The Company's business operations rely on the continuous availability of its own computer systems, systems and software hosted by vendors, and computer systems used by third party administrators and contractors working on behalf of the Company. In addition to disruptions caused by cyber attacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The failure of the Company, or its third party administrators or other business partners, to maintain business continuity in the wake of such events may prevent the timely performance of critical processes across its operations, including, for example, insurance policy administration, claims processing, billing, payment processing, treasury and investment operations and payroll. These failures could result in significant loss of business, increased costs, fines and litigation.

### **Risks Relating to Investments**

***The Company's investment portfolio is exposed to a variety of risks that may negatively impact net investment income, the change in fair value of equity and convertible securities and cause realized and unrealized losses.***

The Company maintains a diversified investment portfolio that is exposed to significant financial and capital market risks, including interest rate (risk-free and spread), equity price, and liquidity, as well as risks from changes in tax laws and regulations and other risks from changes in general economic conditions.

The interest rate environment has a significant impact on the Company's financial results and position. In recent years, rates have been at or near historic lows. A protracted low interest rate environment would continue to place pressure on net investment income, particularly related to fixed income securities, short-term investments and limited liability investment companies and limited partnerships accounted for under the equity method of accounting ("Equity Method Limited Liability Investments") that invest in distressed and mezzanine debt of other companies. A decline in interest rates would generally increase the carrying value of the Company's fixed income securities and its Equity Method Limited Liability Investments that exhibit debt-like characteristics, but it may adversely affect the Company's investment income as it invests cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities the Company holds as investments more quickly than the Company initially expected. Such prepayment or redemption action may cause the Company to reinvest the redeemed proceeds in lower yielding investments. An increase in interest rates would generally reduce the carrying value of a substantial portion of the Company's investment portfolio, particularly fixed income securities and Equity Method Limited Liability Investments.

Kemper's Life and Health business writes long duration insurance contracts which are priced in consideration of the interest rate environment. If the Company is not able to purchase investments that match that duration of the liabilities and there is a decline in interest rates, the Company could experience a significant deterioration in results.

The Company invests a portion of its investment portfolio in equity securities, which generally have more volatile returns than fixed income securities and may experience sustained periods of depressed values. There are multiple factors that could negatively impact the performance of the Company's equity portfolio, including general economic conditions, industry or sector deterioration and issuer-specific concerns. A decline in equity values may result in a decrease in dividend income and significant losses recognized by the Company in the period such changes in fair values occur.

Interest rates and equity returns also have a significant impact on the Company's pension and other postretirement employee benefit plans. In addition to the impact on carrying values and yields of the underlying assets of the funded plans, interest rates also impact the discounting of the projected and accumulated benefit obligations of the plans. A decrease in interest rates may have a negative impact on the funded status of the plans. The nature and cash flow needs of the Company and the insurance industry in general present certain liquidity risks that may impact the return of the investment portfolio. If the Company were to 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 to claimants, which could result in realized losses. Additionally, increases in illiquidity in the financial markets may increase uncertainty in the valuations of the Company's investments. This increases the risk that the fair values reported in the Company's consolidated financial statements may differ from the actual price that may be obtained in an orderly sales transaction.

The Company has also benefited from certain tax laws related to its investment portfolio, including dividends received deductions and tax-exempt investment income. Changes in tax laws may have a detrimental effect on the after-tax return of the Company's investment portfolio. A reduction in income tax rates could also reduce the demand for tax-preferred securities and result in a decline in the value of the Company's investment portfolio of such securities.

The Company's entire investment portfolio is subject to broad risks inherent in the financial markets, including, but not limited to, inflation, regulatory changes, inactive capital markets, governmental and social stability, economic outlooks, unemployment and recession. Changes to these risks and how the market perceives them may impact the financial performance of the Company's investments.

Kemper and its insurance subsidiaries are subject to various capital adequacy measurements that are significantly impacted by various characteristics of their invested assets, including, but not limited to, asset type, class, duration and credit rating. The Company's insurance subsidiaries are also subject to various limitations on the amounts at which they can invest in individual assets or certain asset classes in the aggregate. Asset risk is one factor used by insurance regulators and rating agencies to determine required capital for Kemper's insurance subsidiaries. Accordingly, a deterioration in the quality of the investments held by Kemper's insurance subsidiaries or an increase in the investment risk inherent in their investment portfolios could increase capital requirements. See the risk factor below under the title "The ability of Kemper to service its debt, pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries." These factors may inhibit the Company from shifting its investment mix to produce higher returns. The Company is also subject to concentration of investment risk to the extent that the portfolio is heavily invested, at any particular time, in specific asset types, classes, industries, sectors or collateral types, among other defining features. Developments and the market's perception thereof in any of these concentrations may exacerbate the negative effects on the Company's investment portfolio compared to other companies.

***The determination of the fair values of the Company's investments and whether a decline in the fair value of an investment is other-than-temporary are based on management's judgment and may prove to be materially different than the actual economic outcome.***

The Company holds a significant amount of assets without readily available, active, quoted market prices or for which fair value cannot be measured from actively quoted prices. These assets are generally deemed to require a higher degree of judgment in measuring fair value. The assumptions used by management to measure fair values could turn out to be different than the actual amounts that may be realized in an orderly transaction with a willing market participant could be either lower or higher than the Company's estimates of fair value.

The Company reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. This evaluation is based on subjective factors, assumptions and estimates and may be materially different than the actual economic outcome, which may result in the Company recognizing additional losses in the future as new information emerges or recognizing losses currently that may never materialize in the future in an orderly transaction with a willing market participant.

#### **Risks Relating to Servicing Debt, Paying Dividends and/or Repurchasing Stock**

***The ability of Kemper to service its debt, pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries.***

As a holding company, Kemper depends on the dividend income that it receives from its subsidiaries as the primary source of funds to meet its payment obligations. Kemper's insurance subsidiaries are subject to significant regulatory restrictions under state insurance laws and regulations that limit their ability to declare and pay dividends. These laws and regulations impose minimum solvency and liquidity requirements on dividends between affiliated companies and require prior notice to, and may require approval from, state insurance regulators before dividends can be paid. In addition, third-party rating agencies monitor statutory capital and surplus levels for capital adequacy. Even though a dividend may be payable without regulatory approval, an insurance subsidiary may forgo paying a dividend to Kemper and retain the capital to maintain or improve the ratings of Kemper's insurance subsidiaries, or to offset increases in required capital from increases in premium volume or investment risk. The inability of one or more of Kemper's insurance subsidiaries to pay sufficient dividends to Kemper may materially affect Kemper's ability to pay its debt obligations on time, to pay dividends to its shareholders or make repurchases of its stock.



## **General Risks Relating to Mergers, Acquisitions and/or Divestitures**

*The expected benefits and synergies from mergers, acquisitions and/or divestitures may not be realized to the extent anticipated or within the anticipated time frames.*

The Company routinely evaluates opportunities for transactions such as mergers, acquisitions and/or divestitures that would enhance its business and align with the Company's strategic plans. Kemper's ability to achieve the anticipated financial benefits from transactions may not be realized due to any number of factors, including, but not limited to, integration difficulties or failures, the loss of key agents/brokers, customers or employees, unexpected or underestimated liabilities, increased costs, fees, expenses and charges related to transactions, or may be delayed by factors outside of the Company's control. Furthermore, such adverse events could result in a decrease in the estimated fair value of goodwill or other intangible assets established as a result of such transactions, triggering an impairment. These and other factors could have a negative impact on Kemper's financial condition, profitability and results from operations.

### **Risks Relating to the Infinity Merger**

*Kemper could incur additional integration costs in connection with the Infinity Merger.*

Kemper expects to incur additional costs associated with the continued integration of the operations of Kemper and Infinity. A substantial majority of these costs will be non-recurring expenses resulting from the transaction, including (i) facilities and systems consolidation and integration costs and (ii) employment related costs. Kemper may incur additional unanticipated costs to integrate the businesses. As a result of such integration and consolidation activities, the Company may abandon, or shorten the useful lives, of assets that are currently in use, which may result in us impairing an asset or accelerating depreciation and/or amortization of such assets. Although Kemper expects that the elimination of redundant costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset such incremental, non-recurring costs over time, this net benefit may not be achieved in the near term, or at all.

*To realize all of the anticipated results contemplated by the Infinity Merger, the combined company must complete the successful integration of the Kemper and Infinity business operations, and failure to do so could prevent the Company from achieving the full benefits it had expected in connection with the Infinity Merger.*

The success of the integration, and of the combined company following the Infinity Merger, has been substantially dependent on the skills, experience and efforts of management and other key personnel for each of Kemper and Infinity. Although the dependency on specific individuals has decreased since the date of the acquisition as the businesses have been integrated, the Company will need to continue to devote significant management attention and resources to the integration of the operations of the businesses. There is no assurance that key managers will remain with the Company, and it is possible that unforeseen expenses or delays may occur in connection with particular integration efforts. The anticipated benefits, including synergies, cost savings and growth opportunities, may not be achieved within the expected time frames, or at all. As a result, Kemper cannot assure shareholders that the Company will realize the full benefits anticipated from the Infinity Merger.

### **Item 1B. Unresolved Staff Comments.**

The Company has no unresolved staff comments issued more than 180 days before December 31, 2019, the date of this Annual Report on Form 10-K.

### **Item 2. Properties.**

#### **Owned Properties**

Kemper's subsidiaries together own and occupy eleven buildings located in seven states consisting of approximately 400,000 square feet in the aggregate. Kemper's subsidiaries hold, solely for investment purposes, additional properties that are not occupied by Kemper or its subsidiaries.

#### **Leased Facilities**

The Company leases four floors, or approximately 92,000 square feet, in an 83-story office building in Chicago, Illinois, for its corporate headquarters. The lease expires on December 31, 2033. Kemper's property and casualty insurance subsidiaries lease facilities with an aggregate square footage of approximately 550,000 at 27 locations in nine states. The latest expiration date of the existing leases is in May 2026. Kemper's life and health insurance subsidiaries lease facilities with aggregate square footage of approximately 465,000 at 125 locations in 28 states. The latest expiration date of the existing leases is in January 2025.

Kemper’s corporate data processing operation leases a facility with aggregate square footage of approximately 30,000 square feet at one location in one state. The expiration date of the existing lease is in June 2021.

The properties described above are in good condition. The properties utilized in the Company’s operations consist of facilities suitable for general office space, call centers and data processing operations.

**Item 3. Legal Proceedings.**

**Proceedings**

Information concerning pending legal proceedings is incorporated herein by reference to Note 23, “Contingencies,” to the Consolidated Financial Statements.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Market Information**

Kemper’s common stock is traded on the NYSE under the symbol of “KMPR.”

**Holders**

As of January 31, 2020, the number of record holders of Kemper’s common stock was 3,160.

**Dividends**

Quarterly information pertaining to payment of dividends on Kemper’s common stock is presented below.

	Three Months Ended				Year Ended
	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Dec 31, 2019
<u>DOLLARS PER SHARE</u>					
Cash Dividends Paid to Shareholders (per share) .....	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.28	\$ 1.03

	Three Months Ended				Year Ended
	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Dec 31, 2018
<u>DOLLARS PER SHARE</u>					
Cash Dividends Paid to Shareholders (per share) .....	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.96

Kemper’s insurance subsidiaries are subject to various state insurance laws that may restrict the ability of these insurance subsidiaries to pay dividends without prior regulatory approval. See MD&A, “Liquidity and Capital Resources” and Note 10, “Shareholders’ Equity,” to the Consolidated Financial Statements for information on Kemper’s ability and intent to pay dividends.

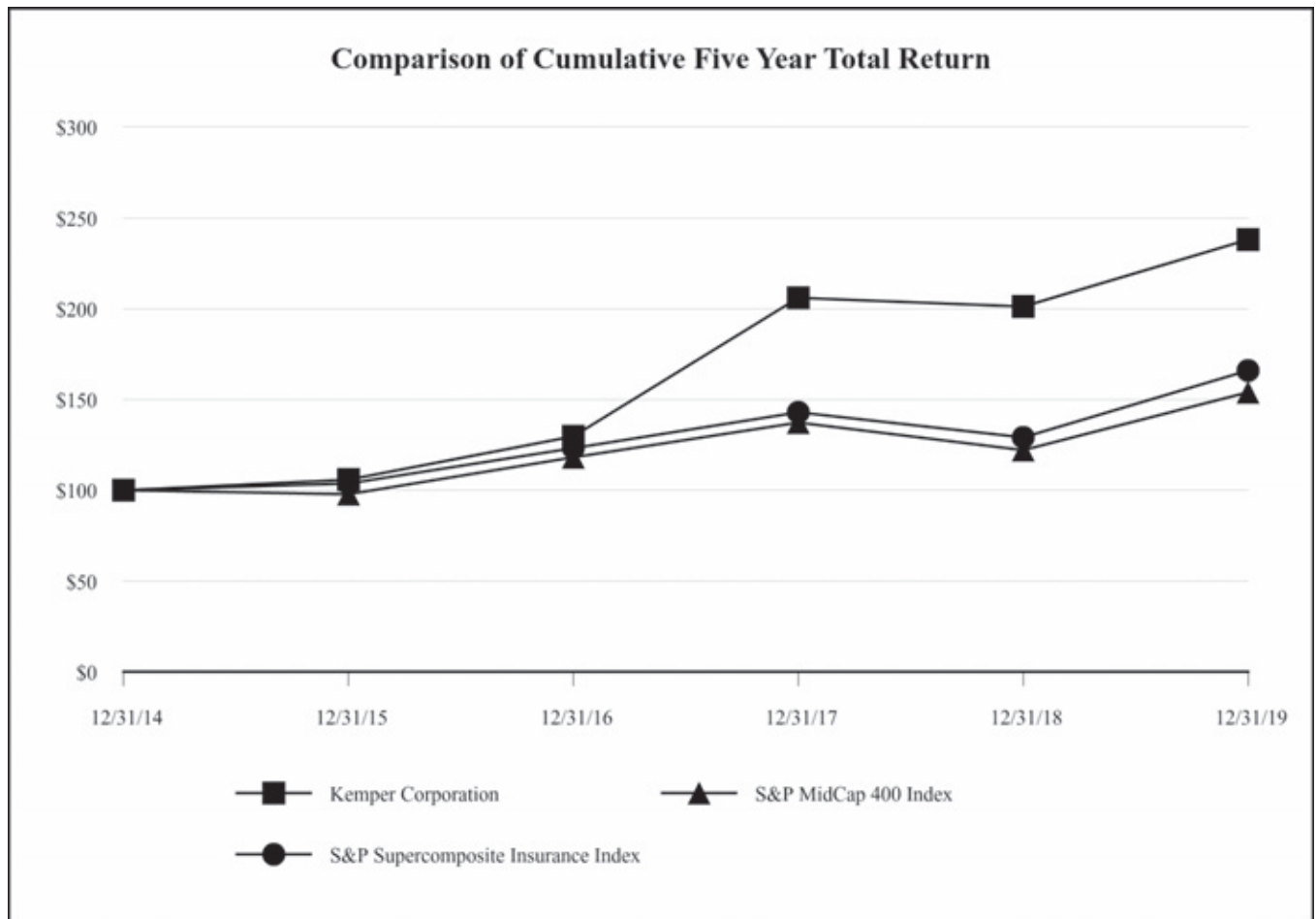
**Issuer Purchases of Equity Securities**

On August 6, 2014, Kemper’s Board of Directors authorized the repurchase of up to \$300.0 million of Kemper’s common stock. As of December 31, 2019, the remaining share repurchase authorization was \$243.7 million under the repurchase program. The Company did not repurchase any shares during the year ended December 31, 2019.

### Kemper Common Stock Performance Graph

The following graph assumes \$100 invested on December 31, 2014 in (i) Kemper common stock, (ii) the S&P MidCap 400 Index and (iii) the S&P Supercomposite Insurance Index, in each case with dividends reinvested. Kemper is a constituent of each of these two indices.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kemper common stock.



<u>Company / Index</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Kemper Corporation .....	\$ 100.00	\$ 105.82	\$ 129.75	\$ 205.95	\$ 201.20	\$ 238.01
S&P MidCap 400 Index.....	100.00	97.82	118.11	137.30	122.08	154.07
S&P Supercomposite Insurance Index .....	100.00	103.64	123.20	142.89	129.08	165.91

## Item 6. Selected Financial Data.

Selected financial information as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 is presented below. See Note 2, “Summary of Accounting Policies and Accounting Changes”, and Note 3, “Acquisition of Business,” to the Consolidated Financial Statements for items which may affect comparability of selected financial information across the periods presented.

<u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>FOR THE YEAR</b>					
Earned Premiums .....	\$ 4,472.4	\$ 3,384.4	\$ 2,350.0	\$ 2,220.0	\$ 2,009.6
Net Investment Income .....	364.3	340.9	327.2	298.3	302.6
Other Income .....	35.5	42.2	4.0	3.2	3.7
Loss from Change in Fair value of Equity and Convertible Securities .....	138.9	(64.3)	—	—	—
Net Realized Gains on Sales of Investments .....	41.9	26.4	56.5	33.1	52.1
Net Impairment Losses Recognized in Earnings .....	(13.8)	(4.5)	(14.3)	(32.7)	(27.2)
Total Revenues .....	<u>\$ 5,039.2</u>	<u>\$ 3,725.1</u>	<u>\$ 2,723.4</u>	<u>\$ 2,521.9</u>	<u>\$ 2,340.8</u>
Income from Continuing Operations .....	\$ 531.1	\$ 188.4	\$ 119.9	\$ 12.7	\$ 80.2
Income from Discontinued Operations .....	—	1.7	1.0	4.1	5.5
Net Income .....	<u>\$ 531.1</u>	<u>\$ 190.1</u>	<u>\$ 120.9</u>	<u>\$ 16.8</u>	<u>\$ 85.7</u>
Per Unrestricted Share:					
Income from Continuing Operations .....	\$ 8.04	\$ 3.22	\$ 2.32	\$ 0.25	\$ 1.55
Income from Discontinued Operations .....	—	0.03	0.02	0.08	0.10
Net Income .....	<u>\$ 8.04</u>	<u>\$ 3.25</u>	<u>\$ 2.34</u>	<u>\$ 0.33</u>	<u>\$ 1.65</u>
Per Unrestricted Share Assuming Dilution:					
Income from Continuing Operations .....	\$ 7.96	\$ 3.19	\$ 2.31	\$ 0.25	\$ 1.55
Income from Discontinued Operations .....	—	0.03	0.02	0.08	0.10
Net Income .....	<u>\$ 7.96</u>	<u>\$ 3.22</u>	<u>\$ 2.33</u>	<u>\$ 0.33</u>	<u>\$ 1.65</u>
Dividends Paid to Shareholders Per Share .....	<u>\$ 1.03</u>	<u>\$ 0.96</u>	<u>\$ 0.96</u>	<u>\$ 0.96</u>	<u>\$ 0.96</u>
<b>AT YEAR END</b>					
Total Assets .....	<u>\$ 12,989.1</u>	<u>\$ 11,544.9</u>	<u>\$ 8,376.2</u>	<u>\$ 8,210.5</u>	<u>\$ 8,036.1</u>
Insurance Reserves .....	\$ 5,471.8	\$ 5,366.8	\$ 4,470.8	\$ 4,339.9	\$ 4,137.7
Unearned Premiums .....	1,545.5	1,424.3	653.9	618.7	613.1
Policyholder Contract Liabilities .....	309.8	76.8	67.0	66.8	66.1
Long-term Debt, Current and Non-current .....	778.4	909.0	592.3	751.6	750.6
All Other Liabilities .....	911.3	717.9	476.6	458.3	476.2
Total Liabilities .....	<u>9,016.8</u>	<u>8,494.8</u>	<u>6,260.6</u>	<u>6,235.3</u>	<u>6,043.7</u>
Shareholders' Equity .....	<u>3,972.3</u>	<u>3,050.1</u>	<u>2,115.6</u>	<u>1,975.2</u>	<u>1,992.4</u>
Total Liabilities and Shareholders' Equity .....	<u>\$ 12,989.1</u>	<u>\$ 11,544.9</u>	<u>\$ 8,376.2</u>	<u>\$ 8,210.5</u>	<u>\$ 8,036.1</u>
Book Value Per Share .....	<u>\$ 59.59</u>	<u>\$ 47.10</u>	<u>\$ 41.11</u>	<u>\$ 38.52</u>	<u>\$ 38.82</u>



**MDA Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

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**Kemper Corporation and Subsidiaries**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**SUMMARY OF RESULTS**

Net Income was \$531.1 million (\$8.04 per unrestricted common share) for the year ended December 31, 2019, compared to \$190.1 million (\$3.25 per unrestricted common share) for the year ended December 31, 2018. Income from Continuing Operations was \$531.1 million (\$8.04 per unrestricted common share) in 2019, compared to \$188.4 million (\$3.22 per unrestricted common share) in 2018.

A reconciliation of Net Income to Adjusted Consolidated Net Operating Income (a non-GAAP financial measure) for the years ended December 31, 2019, 2018 and 2017 is presented below.

<u>DOLLARS IN MILLIONS</u>	2019	2018	Increase (Decrease) in Income from 2018 to 2019	2017	Increase (Decrease) in Income from 2017 to 2018
Net Income.....	\$ 531.1	190.1	341.0	120.9	69.2
Income from Discontinued Operations.....	—	1.7	(1.7)	1.0	0.7
Income from Continuing Operations .....	<u>531.1</u>	<u>188.4</u>	<u>342.7</u>	<u>119.9</u>	<u>68.5</u>
Less:					
Income from Change in Fair Value of Equity and Convertible Securities.....	109.7	(50.8)	160.5	—	(50.8)
Net Realized Gains on Sales of Investments.....	33.1	20.9	12.2	36.7	(15.8)
Net Impairment Losses Recognized in Earnings.....	(10.9)	(3.6)	(7.3)	(9.3)	5.7
Acquisition Related Transaction, Integration and Other Costs.....	(14.5)	(36.5)	22.0	—	(36.5)
Loss from Early Extinguishment of Debt.....	(4.6)	—	(4.6)	—	—
Adjusted Consolidated Net Operating Income .....	<u>418.3</u>	<u>258.4</u>	<u>159.9</u>	<u>92.5</u>	<u>165.9</u>

Components of Adjusted Consolidated Net Operating  
Income:

Segment Net Operating Income:					
Specialty Property & Casualty Insurance.....	\$ 283.1	\$ 115.8	167.3	\$ 56.3	59.5
Preferred Property & Casualty Insurance.....	41.9	25.7	\$ 16.2	(45.4)	\$ 71.1
Life & Health Insurance .....	98.7	91.5	7.2	91.9	(0.4)
Segment Net Operating Income.....	<u>423.7</u>	<u>233.0</u>	<u>190.7</u>	<u>102.8</u>	<u>130.2</u>
Corporate and Other Net Operating Income (Loss) From:					
Effects of Tax Law Changes.....	—	26.4	(26.4)	7.4	19.0
Partial Satisfaction of Judgment.....	15.9	28.2	(12.3)	—	28.2
Other .....	(21.3)	(29.2)	7.9	(17.7)	(11.5)
Corporate and Other Net Operating Income (Loss).....	<u>(5.4)</u>	<u>25.4</u>	<u>(30.8)</u>	<u>(10.3)</u>	<u>35.7</u>
Adjusted Consolidated Net Operating Income .....	<u>\$ 418.3</u>	<u>\$ 258.4</u>	<u>\$ 159.9</u>	<u>92.5</u>	<u>\$ 165.9</u>

**Net Income**

**2019 Compared with 2018**

The Company's net income increased by \$341.0 million in 2019, compared to 2018, due primarily to higher Adjusted Consolidated Net Operating Income, higher investment results and lower acquisition related transaction, integration and other costs. Adjusted Consolidated Net Operating Income increased by \$159.9 million in 2019, compared to 2018, due primarily to higher Specialty Property & Casualty Insurance and Preferred Property & Casualty Insurance segment net operating income, partially offset by a reduction in Corporate and Other Net Operating Income. Specialty Property & Casualty Insurance segment net operating income increased by \$167.3 million due primarily to the inclusion of Infinity for twelve months of 2019 versus six months in 2018 and favorable underlying loss and prior year development. See MD&A, "Specialty Property & Casualty Insurance," beginning on page 33 for additional discussion of the segment's results. In the Preferred Property & Casualty Insurance segment, segment net operating results increased by \$16.2 million due primarily to lower incurred catastrophe losses and LAE (excluding loss and LAE reserve development) and favorable prior year loss and LAE development (including a one-

**SUMMARY OF RESULTS (Continued)**

time recovery on prior year catastrophes), partially offset by lower net investment income and higher underlying losses and LAE as a percentage of earned premiums.

In the Life & Health Insurance segment, segment net operating income increased by \$7.2 million due primarily from a decrease in policyholders’ benefits and release in accrued reserves. See MD&A, “Life & Health Insurance,” beginning on page 44 for additional discussion of the segment’s results. Corporate and Other net operating income decreased due primarily to a tax benefit as a result of the finalization of certain effects of Public Law 115-97, more commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”), on deferred income taxes recognized in the third quarter of 2018 as well as lower gain recognized for the partial satisfaction of a final judgment against Computer Sciences Corporation (“CSC”). The Company’s investment results were favorably impacted in 2019, compared to 2018, by a \$160.5 million after-tax increase from the change in fair value of the equity and convertible securities and a \$12.2 million after-tax increase from net realized gains on sales of investments, partially offset by \$7.3 million after-tax of higher impairment losses recognized in earnings. See MD&A, “Investment Results,” beginning on page 48 and MD&A, “Income Taxes,” beginning on page 55 and Note 23, “Contingencies.” to the Consolidated Financial Statements for additional discussion.

***2018 Compared with 2017***

The Company’s net income increased by \$69.2 million in 2018, compared to 2017. In the Specialty Property & Casualty Insurance segment, segment net operating results increased by \$59.5 million due primarily to the impact of lower underlying losses and LAE as a percentage of earned premiums on a higher level of earned premiums, higher net investment income and lower levels of adverse loss and LAE reserve development, partially offset by the impact of higher insurance expenses as a percentage of earned premiums on a higher level of earned premiums and driven by the amortization of purchase accounting adjustments associated with Kemper’s acquisition of Infinity. See MD&A, “Specialty Property & Casualty Insurance,” beginning on page 33 for additional discussion of the segment’s results. In the Preferred Property & Casualty Insurance segment, segment net operating results increased by \$71.1 million due primarily to lower catastrophe losses and LAE (excluding reserve development) and the favorable impact of loss and LAE reserve development, partially offset by higher insurance expenses as a percentage of earned premiums. See MD&A, “Preferred Property & Casualty Insurance,” beginning on page 38 for additional discussion of the segment’s results. In the Life & Health Insurance segment, segment net operating income decreased by \$0.4 million due primarily to higher policyholders’ benefits and incurred losses and LAE and lower net investment income, almost entirely offset by lower income tax expense due to the lower corporate income tax rate in 2018. See MD&A, “Life & Health Insurance,” beginning on page 44 for additional discussion of the segment’s results. Additionally, the Company’s results were impacted in 2018, compared to 2017, by transaction and integration costs associated with Kemper’s acquisition of Infinity and a loss from the change in the fair value of the Company’s equity security portfolio, for which such changes are recorded through the Consolidated Statement of Income in 2018, compared to Accumulated Other Comprehensive Income, in 2017, partially offset by the positive effects of tax law changes and the partial satisfaction of a legal judgment. See MD&A, “Investment Results,” beginning on page 48 and MD&A, “Income Taxes,” beginning on page 55 and Note 23, “Contingencies.” to the Consolidated Financial Statements for additional information.

***Revenues***

***2019 Compared with 2018***

Earned Premiums were \$4,472.4 million in 2019, compared to \$3,384.4 million in 2018, an increase of \$1,088.0 million. Earned Premiums increased by \$1,051.0 million, \$19.6 million and \$17.4 million in the Specialty Property & Casualty Insurance segment, Preferred Property & Casualty Insurance Segment and Life & Health Insurance segment, respectively. See MD&A, “Specialty Property & Casualty Insurance,” beginning on page 33, MD&A, “Preferred Property & Casualty Insurance,” beginning on page 38 and MD&A, “Life & Health Insurance,” beginning on page 44 for discussion of the changes in each segment’s earned premiums.

Net Investment Income increased by \$23.4 million in 2019 due primarily to higher levels of investments, largely due to the inclusion of the Infinity portfolio beginning in July 2018, partially offset by a lower rate of return from Alternative Investments. Net Investment Income from Alternative Investments, which consist of Equity Method Limited Liability Investments, and other limited liability investments included in Equity Securities at Fair Value or Equity Securities at Modified Cost, decreased by \$18.4 million. Alternative investment income from Equity Method Limited Liability Investments decreased by \$10.0 million. Alternative investment income from limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost decreased by \$8.4 million for the year ended December 31, 2019, compared to the same period in

**SUMMARY OF RESULTS (Continued)**

2018. See MD&A, "Investment Results," under the sub-caption "Net Investment Income" beginning on page 48 for additional discussion.

Other Income decreased by \$6.7 million for the year ended December 31, 2019, compared to the same period in 2018. Other Income for the year ended December 31, 2019 includes a gain of \$20.1 million, compared to a gain of \$35.7 million for the same period in 2018 related to the partial satisfaction of a final judgment against CSC. The company cannot make any assurance as to the final judgment that will actually be collected or when that it may be received. The unpaid balance of the final judgment is treated as a gain contingency for accounting purposes and, accordingly, is not recognized in these Consolidated Financial Statements. See Note 23, "Contingencies," to the Consolidated Financial Statements for additional discussion. In July 2019, the Company entered into a marketing agreement with Hagerty to transfer the Company's Classic Collectors book of business to Hagerty. Other Income for the year ended December 31, 2019 includes a gain of \$3.8 million related to this agreement. Other Income for the year ended December 31, 2019 includes income of \$7.8 million, compared to income of \$3.6 million for the same period in 2018 from the Company's corporate-owned life insurance ("COLI") policies. Other Income from COLI increased due in part to the purchase of additional life insurance in the second and fourth quarters of 2019.

Net Realized Gains on Sales of Investments were \$41.9 million in 2019, compared to \$26.4 million in 2018. See MD&A, "Investment Results," under the sub-caption "Net Realized Gains on Sales of Investments" beginning on page 50 for additional discussion. Net Impairment Losses Recognized in Earnings in 2019 and 2018 were \$13.8 million and \$4.5 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 51 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

**2018 Compared with 2017**

Earned Premiums were \$3,384.4 million in 2018, compared to \$2,350.0 million in 2017, an increase of \$1,034.4 million driven primarily by growth in Kemper's legacy specialty personal automobile insurance and the acquisition of Infinity. Earned Premiums increased by \$1,021.7 million, \$0.4 million and \$12.3 million in the Specialty Property & Casualty Insurance, Preferred Property & Casualty Insurance, and Life & Health Insurance segments, respectively. See MD&A "Specialty Property & Casualty Insurance," beginning on page 33, MD&A, "Preferred Property & Casualty Insurance," beginning on page 38, MD&A "Specialty Property & Casualty Insurance," beginning on page 33, and MD&A, "Life & Health Insurance," beginning on page 44 for discussion of the changes in each segment's earned premiums.

Net Investment Income increased by \$13.7 million in 2018 due primarily to a higher level of investments in fixed income securities and short-term securities, partially offset by a lower rate of return from Alternative Investments, lower yields on fixed income securities and the impact of presenting Fair Value Option Investments within Loss from Change in Fair Value of Equity and Convertible Securities (outside of Net Investment Income) as of January 1, 2018. 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 at Fair Value or Equity Securities at Modified Costs, decreased by \$17.3 million. Alternative investment income from Equity Method Limited Liability Investments, decreased by \$13.8 million. Alternative investment income from limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Costs, decreased by \$2.2 million for the year ended December 31, 2018, compared to the same period in 2017. No Net Investment Income was recorded on Fair Value Option Investment for the year ended December 31, 2018, compared to \$1.3 million, for the same period in 2017. See MD&A, "Investment Results," under the sub-caption "Net Investment Income" beginning on page 48 for additional discussion.

Other Income increased by \$38.2 million for the year ended December 31, 2018, compared to the same period in 2017, due primarily to the the partial satisfaction of a final judgment against CSC. See Note 23, "Contingencies," to the Consolidated Financial Statements for additional discussion. The Company cannot make any assurance as to the additional amounts of the final judgment that will actually be collected or when they may be received. The unpaid balance of the final judgment is treated as a gain contingency for accounting purposes and accordingly, is not recognized in the Consolidated Financial Statements.

The Company adopted Accounting Standards Update ("ASU") 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, in 2018. As a result of adoption, beginning in 2018, changes in the fair value of the Company's investments in equity securities with readily determinable fair values are recognized in the Consolidated Statements of Income. Loss from Change in Fair Value of Equity and Convertible Securities recognized in the Consolidated Statements of Income was \$64.3 million in 2018. Prior to 2018, changes in the fair value of



**Kemper Corporation and Subsidiaries**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations—(Continued)**

**SUMMARY OF RESULTS (Continued)**

equity securities were recognized in other comprehensive income. See MD&A, “Investment Results,” under the sub-caption “Loss from Change in Fair Value of Equity and Convertible Securities” beginning on page 49 for additional discussion.

Net Realized Gains on Sales of Investments were \$26.4 million in 2018, compared to \$56.5 million in 2017. See MD&A, “Investment Results,” under the sub-caption “Net Realized Gains on Sales of Investments” beginning on page 50 for additional discussion. Net Impairment Losses Recognized in Earnings in 2018 and 2017 were \$4.5 million and \$14.3 million, respectively. See MD&A, “Investment Results,” under the sub-caption “Net Impairment Losses Recognized in Earnings” beginning on page 51 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

**CATASTROPHES**

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company’s property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by ISO to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25.0 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry.

The number of ISO-classified catastrophic events and catastrophe losses and LAE, net of reinsurance recoveries, (excluding loss and LAE reserve development) by range of loss and business segment for the years ended December 31, 2019, 2018 and 2017 are presented below.

	Year Ended					
	Dec 31, 2019		Dec 31, 2018		Dec 31, 2017	
	Number of Events	Losses and LAE	Number of Events	Losses and LAE	Number of Events	Losses and LAE
<b><i>DOLLARS IN MILLIONS</i></b>						
Range of Losses and LAE Per Event:						
Below \$5 .....	56	\$ 42.4	45	\$ 34.7	39	\$ 61.3
\$5 - \$10 .....	3	20.8	4	27.6	1	5.3
\$10 - \$15 .....	1	14.0	—	—	2	21.4
\$15 - \$20 .....	—	—	—	—	—	—
\$20 - \$25 .....	—	—	—	—	1	24.4
Greater Than \$25 .....	—	—	1	33.7	2	72.5
Total .....	<b>60</b>	<b>\$ 77.2</b>	<b>50</b>	<b>\$ 96.0</b>	<b>45</b>	<b>\$ 184.9</b>
Specialty Property & Casualty Insurance .....		11.1		4.7		5.5
Preferred Property & Casualty Insurance .....		63.0		87.3		173.5
Life & Health Insurance .....		3.1		4.0		5.9
Total Catastrophe Losses and LAE .....		<b>\$ 77.2</b>		<b>\$ 96.0</b>		<b>\$ 184.9</b>

***Catastrophe Reinsurance***

The Company primarily manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and a catastrophe reinsurance program for the Company’s Specialty Property & Casualty Insurance and Preferred Property & Casualty Insurance segments. Coverage under the catastrophe reinsurance program is provided in various contracts and layers. The Company’s Specialty Property & Casualty Insurance and Preferred Property & Casualty Insurance segments also purchase reinsurance from the FHCF for hurricane losses in Florida at retentions lower than its catastrophe reinsurance program. The Life & Health Insurance segment also purchases

reinsurance from the FHCF for hurricane losses in Florida and is party to the Property & Casualty catastrophe reinsurance program for its Kemper Home Service companies.

In 2019, 2018 and 2017 the Company had catastrophe reinsurance recoveries of \$15.5 million, \$31.8 million and \$11.9 million under its catastrophe reinsurance programs, respectively. Catastrophe recoveries under the FHCF were not material in 2019, 2018, or 2017. In 2019, 2018 and 2017 the Company paid \$0.0 million, \$0.4 million and \$0.8 million in reinstatement premium, respectively. In 2019, the Company received a \$0.9 million refund of reinstatement premiums related to the 2017 and 2018 wildfires.

See the “Reinsurance” subsection of the “Property and Casualty Insurance Business” and “Life and Health Insurance Business” sections of Item 1(c), “Description of Business,” and Note 20, “Catastrophe Reinsurance,” to the Consolidated Financial Statements for additional information on the Company’s reinsurance programs.

**LOSS AND LAE RESERVE DEVELOPMENT**

Increases (decreases) in the Company’s property and casualty loss and LAE reserves for the years ended December 31, 2019, 2018 and 2017 to recognize adverse (favorable) loss and LAE reserve development from prior accident years in continuing operations, hereinafter also referred to as “reserve development” in the discussion of segment results, are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years:			
Non-catastrophe .....	(54.0)	1.0	23.4
Catastrophe .....	(17.1)	(8.4)	(4.5)
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years.....	<u>\$ (71.1)</u>	<u>\$ (7.4)</u>	<u>\$ 18.9</u>

See MD&A, “Specialty Property & Casualty Insurance,” MD&A, “Preferred Property & Casualty Insurance,” MD&A, “Life & Health Insurance,” and Note 6, “Property and Casualty Insurance Reserves,” to the Consolidated Financial Statements for additional information on the Company’s reserve development. See MD&A, “Critical Accounting Estimates,” of this 2019 Annual Report for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, and the estimated variability thereof, development of property and casualty insurance losses and LAE, and a discussion of some of the variables that may impact them.

**NON-GAAP FINANCIAL MEASURES**

Pursuant to the rules and regulations of the SEC, the Company is required to file consolidated financial statements prepared in accordance with the accounting principles generally accepted in the United States (“GAAP”). The Company is permitted to include non-GAAP financial measures in its filings provided that they are defined along with an explanation of their usefulness to investors, are no more prominent than the comparable GAAP financial measures and are reconciled to such GAAP financial measures.

These 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.

***Underlying Losses and LAE and Underlying Combined Ratio***

The following discussion of segment results use 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 impacted 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 years, it has no bearing on

the performance of the Company's insurance products that were in force in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company's underwriting performance.

***Adjusted Consolidated Net Operating Income***

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

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

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations. There were no applicable significant non-recurring items that the Company excluded from the calculation of Adjusted Consolidated Net Operating Income for the years ended December 31, 2019, 2018 or 2017.

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

**SPECIALTY PROPERTY & CASUALTY INSURANCE**

Selected financial information for the Specialty Property & Casualty Insurance segment is presented below.

<u>DOLLARS IN MILLIONS</u>	2019	2018	2017
Net Premiums Written.....	<u>\$ 3,211.3</u>	<u>\$ 2,067.4</u>	<u>\$ 1,043.5</u>
Earned Premiums.....	<u>\$ 3,078.4</u>	<u>\$ 2,027.4</u>	<u>\$ 1,005.7</u>
Net Investment Income.....	107.5	63.4	39.2
Other Income.....	7.0	2.4	1.1
Total Revenues.....	<u>3,192.9</u>	<u>2,093.2</u>	<u>1,046.0</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	2,302.4	1,517.4	791.2
Catastrophe Losses and LAE.....	11.1	4.7	5.5
Prior Years:			
Non-catastrophe Losses and LAE.....	(35.1)	2.0	4.1
Catastrophe Losses and LAE.....	0.5	(0.3)	(0.3)
Total Incurred Losses and LAE.....	<u>2,278.9</u>	<u>1,523.8</u>	<u>800.5</u>
Insurance Expenses.....	555.6	421.7	165.0
Other Expenses.....	2.5	2.1	—
Operating Profit.....	<u>355.9</u>	<u>145.6</u>	<u>80.5</u>
Income Tax Expense.....	(72.8)	(29.8)	(24.2)
Segment Net Operating Income.....	<u>\$ 283.1</u>	<u>\$ 115.8</u>	<u>\$ 56.3</u>
<u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	74.7%	74.9%	78.7%
Current Year Catastrophe Losses and LAE Ratio.....	0.4	0.2	0.5
Prior Years Non-catastrophe Losses and LAE Ratio.....	(1.1)	0.1	0.4
Prior Years Catastrophe Losses and LAE Ratio.....	—	—	—
Total Incurred Loss and LAE Ratio.....	<u>74.0</u>	<u>75.2</u>	<u>79.6</u>
Insurance Expense Ratio.....	<u>18.0</u>	<u>20.8</u>	<u>16.4</u>
Combined Ratio.....	<u>92.0%</u>	<u>96.0%</u>	<u>96.0%</u>
<u>Underlying Combined Ratio</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	74.7%	74.9%	78.7%
Insurance Expense Ratio.....	18.0	20.8	16.4
Underlying Combined Ratio.....	<u>92.7%</u>	<u>95.7%</u>	<u>95.1%</u>
<u>Non-GAAP Measure Reconciliation</u>			
Combined Ratio.....	92.0%	96.0%	96.0%
Less:			
Current Year Catastrophe Losses and LAE Ratio.....	0.4	0.2	0.5
Prior Years Non-catastrophe Losses and LAE Ratio.....	(1.1)	0.1	0.4
Prior Years Catastrophe Losses and LAE Ratio.....	—	—	—
Underlying Combined Ratio.....	<u>92.7%</u>	<u>95.7%</u>	<u>95.1%</u>



## SPECIALTY PROPERTY &amp; CASUALTY INSURANCE (Continued)

## INSURANCE RESERVES

<u>DOLLARS IN MILLIONS</u>	<u>Dec 31, 2019</u>	<u>Dec 31, 2018</u>
Insurance Reserves:		
Non-Standard Automobile .....	\$ 1,321.9	\$ 1,177.2
Commercial Automobile .....	229.1	209.8
Total Insurance Reserves .....	<u>\$ 1,551.0</u>	<u>\$ 1,387.0</u>
 Insurance Reserves:		
Loss and Allocated LAE Reserves:		
Case and Allocated LAE .....	\$ 730.0	\$ 692.8
Incurred But Not Reported .....	672.2	556.2
Total Loss and LAE Reserves .....	<u>1,402.2</u>	<u>1,249.0</u>
Unallocated LAE Reserves .....	148.8	138.0
Total Insurance Reserves .....	<u>\$ 1,551.0</u>	<u>\$ 1,387.0</u>

See MD&A, “Critical Accounting Estimates,” under the caption “Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses” beginning on page 62 for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE from prior accident years, also referred to as “reserve development” in the discussion of segment results, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

**Acquisition of Infinity**

As discussed in Note 3, “Acquisition of Business,” to the Consolidated Financial Statements, the Company completed its acquisition of Infinity on July 2, 2018. The results of Infinity’s operations have been included in the Company’s consolidated financial results from the date of its acquisition and forward.

**Overall****2019 Compared with 2018**

The Specialty Property & Casualty Insurance segment reported Segment Net Operating Income of \$283.1 million for the year ended December 31, 2019, compared to \$115.8 million in 2018. Segment net operating results increased by \$167.3 million due primarily to the acquisition of Infinity in 2018 and favorable loss and LAE reserve development.

Earned Premiums in the Specialty Property & Casualty Insurance segment increased by \$1,051.0 million in 2019, compared to 2018. Infinity accounted for \$803.2 million of the increase in earned premiums, while higher volume and higher average earned premium accounted for increases in earned premiums of \$224.7 million and \$23.1 million, respectively. Both of the segment’s product lines had higher volume, although the overall impact on Earned Premiums was driven primarily by specialty personal automobile insurance, which had a volume increase of \$213.6 million. Both of the segment’s product lines experienced an increase from higher average earned premium, although the overall impact on Earned Premiums was driven primarily by specialty personal automobile insurance which had an increase from higher average earned premium of \$21.3 million.

Net Investment Income in the Specialty Property & Casualty Insurance segment increased by \$44.1 million in 2019, compared to 2018, due primarily to a higher investment base, largely due to the inclusion of the Infinity investment portfolio for the entire year in 2019 versus only a six month period in 2018, partially offset by lower rate of return on Alternative Investments.

Underlying losses and LAE as a percentage of earned premiums were 74.7% in 2019, an improvement of 0.2 percentage points, compared to 2018, driven primarily by lower underlying losses as a percentage of earned premiums in commercial automobile insurance. Underlying losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe

**SPECIALTY PROPERTY & CASUALTY INSURANCE (Continued)**

losses and LAE (excluding reserve development) were \$11.1 million in 2019, compared to \$4.7 million in 2018, an increase of \$6.4 million. Favorable loss and LAE reserve development (including catastrophe reserve development) was \$34.6 million in 2019, compared to adverse development of \$1.7 million in 2018.

Insurance expenses were \$555.6 million, or 18.0% of earned premiums, in 2019, a improvement of 2.8% percentage points, compared to 2018, driven primarily by lower amortization of Infinity purchase accounting adjustments in 2019, versus 2018.

***2018 Compared with 2017***

The Specialty Property & Casualty Insurance segment reported Segment Net Operating Income of \$115.8 million for the year ended December 31, 2018, compared to \$56.3 million in 2017. Segment net operating results improved by \$59.5 million due primarily to the impact of lower underlying losses and LAE as a percentage of earned premiums on a higher level of earned premiums, particularly in the Company's specialty personal automobile insurance business, higher net investment income and lower levels of adverse loss and LAE reserve development, partially offset by the impact of higher insurance expenses as a percentage of earned premiums on a higher level of earned premiums and driven by the amortization of purchase accounting adjustments associated with Kemper's acquisition of Infinity.

Earned Premiums in the Specialty Property & Casualty Insurance segment increased by \$1,021.7 million in 2018, compared to 2017. Infinity accounted for \$758.1 million of the increase while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$198.9 million and \$64.7 million, respectively. Both of Kemper's legacy product lines experienced an increase in average earned premium, although the overall impact on Earned Premiums was driven primarily by specialty personal automobile insurance which had increases due to higher average earned premium of \$61.9 million. Kemper's legacy's higher volume was driven by specialty personal automobile insurance, which had a volume increase of \$202.9 million, partially offset primarily by a volume decrease in commercial automobile insurance of \$4.0 million.

Net Investment Income in the Specialty Property & Casualty Insurance segment increased by \$24.2 million in 2018, compared to 2017, due primarily to higher levels of investments due in large part to growth in Kemper's legacy specialty automobile insurance business and the acquisition of Infinity, partially offset by lower income from Alternative Investments. The Specialty Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$19.1 million in 2018, compared to \$14.9 million in 2017.

Underlying losses and LAE as a percentage of earned premiums were 74.9% in 2018, an improvement of 3.8% percentage points, compared to 2017, driven by both specialty personal automobile insurance and commercial automobile insurance product lines, particularly in the Infinity business which historically had lower underlying losses and LAE as a percentage of earned premiums. Catastrophe losses and LAE (excluding reserve development) were \$4.7 million in 2018, compared to \$5.5 million in 2017. Adverse loss and LAE reserve development (including catastrophe reserve development) was \$1.7 million in 2018, compared to \$3.8 million in 2017.

Insurance expenses were \$421.7 million, or 20.8% of earned premiums, in 2018, a deterioration of 4.4 percentage points compared to 2017, driven primarily by the amortization of Infinity purchase accounting adjustments.

**SPECIALTY PROPERTY & CASUALTY INSURANCE (Continued)***Specialty Personal Automobile Insurance*

Selected financial information for the specialty personal automobile insurance product line for the years ended December 31, 2019, 2018 and 2017 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Premiums Written .....	<u>\$ 2,941.1</u>	<u>\$ 1,927.9</u>	<u>\$ 992.3</u>
Earned Premiums.....	<u>\$ 2,825.6</u>	<u>\$ 1,889.5</u>	<u>\$ 954.3</u>
Incurred Losses and LAE related to: .....			
Current Year:			
Non-catastrophe Losses and LAE .....	\$ 2,131.5	\$ 1,418.2	\$ 750.4
Catastrophe Losses and LAE.....	9.9	3.9	4.8
Prior Years:			
Non-catastrophe Losses and LAE .....	(24.3)	5.7	3.1
Catastrophe Losses and LAE.....	0.5	(0.2)	(0.2)
Total Incurred Losses and LAE.....	<u>\$ 2,117.6</u>	<u>\$ 1,427.6</u>	<u>\$ 758.1</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio .....	75.4%	75.1%	78.6%
Current Year Catastrophe Losses and LAE Ratio .....	0.4	0.2	0.5
Prior Years Non-catastrophe Losses and LAE Ratio.....	(0.9)	0.3	0.3
Prior Years Catastrophe Losses and LAE Ratio.....	—	—	—
Total Incurred Loss and LAE Ratio.....	<u>74.9%</u>	<u>75.6%</u>	<u>79.4%</u>

**2019 Compared with 2018**

Earned Premiums on specialty personal automobile insurance increased by \$936.1 million in 2019, compared to 2018. Infinity accounted for \$701.2 million of the increase in earned premiums, while higher volume and higher average earned premium accounted for increases in earned premiums of \$213.6 million and \$21.3 million, respectively. Incurred losses and LAE were \$2,117.6 million, or 74.9% of earned premiums, in 2019, compared to \$1,427.6 million, or 75.6% of earned premiums, in 2018. Incurred losses and LAE as a percentage of earned premiums improved due primarily to favorable change in loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 75.4% in 2019, compared to 75.1% in 2018. Catastrophe losses and LAE (excluding reserve development) were \$9.9 million in 2019, compared to \$3.9 million in 2018. Favorable loss and LAE reserve development was \$23.8 million in 2019, compared to adverse development of \$5.5 million in 2018.

**2018 Compared with 2017**

Earned Premiums on specialty personal automobile insurance increased by \$935.2 million in 2018, compared to 2017. Infinity accounted for \$670.4 million of the increase, while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$202.9 million and \$61.9 million, respectively. Incurred losses and LAE were \$1,427.6 million, or 75.6% of earned premiums, in 2018, compared to \$758.1 million, or 79.4% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums improved 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 75.1% in 2018, compared to 78.6% in 2017, an improvement of 3.5 percentage points due primarily to the inclusion of Infinity and higher average earned premium and lower frequency of claims in Kemper's legacy business, partially offset by higher severity of losses on most coverages in Kemper's legacy business. Catastrophe losses and LAE (excluding reserve development) were \$3.9 million in 2018, compared to \$4.8 million in 2017. Adverse loss and LAE reserve development was \$5.5 million in 2018, compared to \$2.9 million in 2017.

**SPECIALTY PROPERTY & CASUALTY INSURANCE (Continued)***Commercial Automobile Insurance*

Selected financial information for the commercial automobile insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Premiums Written.....	<u>\$ 270.2</u>	<u>\$ 139.5</u>	<u>\$ 51.2</u>
Earned Premiums.....	<u>\$ 252.8</u>	<u>\$ 137.9</u>	<u>\$ 51.4</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	\$ 170.9	\$ 99.2	\$ 40.8
Catastrophe Losses and LAE.....	1.2	0.8	0.7
Prior Years:			
Non-catastrophe Losses and LAE.....	(10.8)	(3.7)	1.0
Catastrophe Losses and LAE.....	—	(0.1)	(0.1)
Total Incurred Losses and LAE.....	<u>\$ 161.3</u>	<u>\$ 96.2</u>	<u>\$ 42.4</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	67.6%	72.0%	79.4%
Current Year Catastrophe Losses and LAE Ratio.....	0.5	0.6	1.4
Prior Years Non-catastrophe Losses and LAE Ratio.....	(4.3)	(2.7)	1.9
Prior Years Catastrophe Losses and LAE Ratio.....	—	(0.1)	(0.2)
Total Incurred Loss and LAE Ratio.....	<u>63.8%</u>	<u>69.8%</u>	<u>82.5%</u>

**2019 Compared with 2018**

Earned premiums in commercial automobile insurance increased by \$114.9 million in 2019, compared to 2018. Infinity accounted for \$101.8 million of the increase in earned premiums, while higher volume and higher average earned premium accounted for increases in earned premiums of \$11.3 million and \$1.8 million, respectively. Incurred losses and LAE were \$161.3 million, or 63.8% of earned premiums, in 2019, compared to \$96.2 million, or 69.8% of earned premiums, in 2018. Incurred losses and LAE as a percentage of earned premiums improved due primarily to lower underlying losses and LAE as a percentage of earned premiums as well as higher levels of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 67.6% in 2019, compared to 72.0% in 2018, an improvement of 4.4 percentage points due primarily to lower frequency of claims in 2019 relative to the prior year. Favorable loss and LAE reserve development was \$10.8 million in 2019, compared to \$3.8 million in 2018.

**2018 Compared with 2017**

Earned premiums in commercial automobile insurance increased by \$86.5 million in 2018, compared to 2017. Infinity accounted \$87.8 million of the increase, while higher average earned premium on Kemper legacy business accounted for an increase of \$2.8 million, partially offset by lower volume of \$4.1 million. Incurred losses and LAE were \$96.2 million, or 69.8% of earned premiums, in 2018, compared to \$42.4 million, or 82.5% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums improved due primarily to lower underlying losses and LAE as a percentage of earned premiums and a favorable change in loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 72.0% in 2018, compared to 79.4% in 2017, an improvement of 7.4 percentage points due primarily to the inclusion of Infinity and higher average earned premium and lower frequency of claims, partially offset by higher severity of losses. Favorable loss and LAE reserve development was \$3.8 million in 2018, compared to adverse development of \$0.9 million in 2017.



**PREFERRED PROPERTY & CASUALTY INSURANCE**

Selected financial information for the Preferred Property & Casualty Insurance segment is presented below.

<u>DOLLARS IN MILLIONS</u>	2019	2018	2017
Net Premiums Written.....	<u>\$ 739.3</u>	<u>\$ 748.8</u>	<u>\$ 726.1</u>
Earned Premiums.....	<u>\$ 750.3</u>	<u>\$ 730.7</u>	<u>\$ 730.3</u>
Net Investment Income.....	<u>44.1</u>	<u>61.8</u>	<u>58.9</u>
Total Revenues.....	<u>794.4</u>	<u>792.5</u>	<u>789.2</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	<u>481.8</u>	459.4	460.3
Catastrophe Losses and LAE.....	<u>63.0</u>	87.3	173.5
Prior Years:			
Non-catastrophe Losses and LAE.....	<u>(17.6)</u>	(0.1)	20.4
Catastrophe Losses and LAE.....	<u>(18.4)</u>	(8.2)	(4.7)
Total Incurred Losses and LAE.....	<u>508.8</u>	538.4	649.5
Insurance Expenses.....	<u>233.3</u>	225.5	217.8
Operating Profit (Loss).....	<u>52.3</u>	28.6	(78.1)
Income Tax Benefit (Expense).....	<u>(10.4)</u>	(2.9)	32.7
Segment Net Operating Income (Loss).....	<u>\$ 41.9</u>	<u>\$ 25.7</u>	<u>\$ (45.4)</u>
<u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	<u>64.2%</u>	62.9%	62.9%
Current Year Catastrophe Losses and LAE Ratio.....	<u>8.4</u>	11.9	23.8
Prior Years Non-catastrophe Losses and LAE Ratio.....	<u>(2.3)</u>	—	2.8
Prior Years Catastrophe Losses and LAE Ratio.....	<u>(2.5)</u>	(1.1)	(0.6)
Total Incurred Loss and LAE Ratio.....	<u>67.8</u>	73.7	88.9
Insurance Expense Ratio.....	<u>31.1</u>	30.9	29.8
Combined Ratio.....	<u>98.9%</u>	104.6%	118.7%
<u>Underlying Combined Ratio</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	<u>64.2%</u>	62.9%	62.9%
Insurance Expense Ratio.....	<u>31.1</u>	30.9	29.8
Underlying Combined Ratio.....	<u>95.3%</u>	93.8%	92.7%
<u>Non-GAAP Measure Reconciliation</u>			
Combined Ratio.....	<u>98.9%</u>	104.6%	118.7%
Less:			
Current Year Catastrophe Losses and LAE Ratio.....	<u>8.4</u>	11.9	23.8
Prior Years Non-catastrophe Losses and LAE Ratio.....	<u>(2.3)</u>	—	2.8
Prior Years Catastrophe Losses and LAE Ratio.....	<u>(2.5)</u>	(1.1)	(0.6)
Underlying Combined Ratio.....	<u>95.3%</u>	93.8%	92.7%

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

CATASTROPHE FREQUENCY AND SEVERITY

<u>DOLLARS IN MILLIONS</u>	Dec 31, 2019		Dec 31, 2018	
	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:				
Below \$5 .....	53	\$ 30.9	45	\$ 32.9
\$5 - \$10 .....	3	19.0	3	21.3
\$10 - \$15 .....	1	13.1	—	—
\$15 - \$20 .....	—	—	—	—
\$20 - \$25 .....	—	—	—	—
Greater Than \$25.....	—	—	1	33.1
Total.....	<u>57</u>	<u>\$ 63.0</u>	<u>49</u>	<u>\$ 87.3</u>

INSURANCE RESERVES

<u>DOLLARS IN MILLIONS</u>	Dec 31, 2019	Dec 31, 2018
Insurance Reserves:		
Preferred Automobile.....	\$ 262.3	\$ 270.0
Homeowners .....	95.3	147.9
Other .....	30.9	35.0
Total Insurance Reserves.....	<u>\$ 388.5</u>	<u>\$ 452.9</u>
Insurance Reserves:		
Loss and Allocated LAE Reserves:		
Case and Allocated LAE.....	\$ 241.3	\$ 312.5
Incurred But Not Reported.....	118.8	110.0
Total Loss and LAE Reserves.....	<u>360.1</u>	<u>422.5</u>
Unallocated LAE Reserves.....	28.4	30.4
Total Insurance Reserves.....	<u>\$ 388.5</u>	<u>\$ 452.9</u>

See MD&A, “Critical Accounting Estimates,” under the caption “Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses” beginning on page 62 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.

**Overall**

**2019 Compared with 2018**

The Preferred Property & Casualty Insurance segment reported Segment Net Operating Income of \$41.9 million for the year ended December 31, 2019, compared to \$25.7 million in 2018. Segment net operating results improved by \$16.2 million due primarily to lower incurred catastrophe losses and LAE (excluding loss and LAE reserve development) and favorable prior year loss and LAE development (including a recovery on prior year catastrophes) partially offset by higher underlying losses and LAE as a percentage of earned premiums and lower net investment income.

Earned Premiums in the Preferred Property & Casualty Insurance segment increased by \$19.6 million in 2019, compared to 2018, due primarily to higher average earned premium. Earned Premiums was driven primarily by preferred automobile insurance, which had an increase in earned premiums of \$30.3 million due to higher average earned premium. Other personal

**PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)**

insurance had an increase in earned premiums from higher average earned premium of \$4.4 million. Overall volume declined with decreases in preferred automobile, homeowners, and other insurance of \$0.3 million, \$8.8 million, and \$6.0 million, respectively.

Net Investment Income in the Preferred Property & Casualty Insurance segment decreased by \$17.7 million in 2019, compared to 2018, due primarily to a lower rate of return on Alternative Investments.

Underlying losses and LAE as a percentage of earned premiums were 64.2% and 62.9% in 2019 and 2018, respectively. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were \$63.0 million in 2019, compared to \$87.3 million in 2018, which is a decrease of \$24.3 million. Catastrophe losses and LAE (excluding reserve development) decreased due primarily to fewer catastrophic events in the greater than \$25 million per event range in 2019, compared to 2018, and lower severity of other catastrophic events in 2019, compared to 2018. Favorable loss and LAE reserve development (including catastrophe reserve development) was \$36.0 million in 2019, compared to favorable development of \$8.3 million in 2018. Favorable catastrophe reserve development in 2019 included the impact of the recognition and sale in the third quarter of 2019 of the Company's subrogation rights related to certain California wildfires that had occurred in 2017 and 2018.

Insurance expenses were \$233.3 million, or 31.1% of earned premiums, in 2019, a deterioration of 0.2 percentage points compared to 2018.

***2018 Compared with 2017***

The Preferred Property & Casualty Insurance segment reported Segment Net Operating Income of \$25.7 million for the year ended December 31, 2018, compared to Segment Net Operating Loss of \$45.4 million in 2017. Segment net operating results improved by \$71.1 million due primarily to lower current year catastrophe losses and LAE (excluding loss and LAE reserve development) and the favorable impact of loss and LAE reserve development, partially offset by higher insurance expense as a percentage of earned premiums.

Earned Premiums in the Preferred Property & Casualty Insurance segment increased by \$0.4 million in 2018, compared to 2017, as higher average earned premium accounted for an increase of \$21.4 million partially offset by a decrease in volume of \$21.0 million. All product lines experienced an increase average earned premium, although the overall impact on Earned Premiums was driven primarily by preferred personal automobile insurance, which had increases due to higher average earned premium of \$19.5 million. The lower volume was driven by homeowners insurance and preferred personal automobile insurance which had volume decreases of \$15.5 million and \$2.1 million, respectively.

Net Investment Income in the Preferred Property & Casualty Insurance segment increased by \$2.9 million in 2018, compared to 2017, due primarily to higher levels of fixed maturity investments and higher income from fixed maturity investments, partially offset by lower income from Alternative Investments. The Preferred Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$18.6 million in 2018, compared to \$22.5 million in 2017.

Underlying losses and LAE as a percentage of earned premiums were 62.9% in both 2018 and 2017. Underlying losses and LAE exclude the impact of catastrophe and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were \$87.3 million in 2018, compared to \$173.5 million in 2017, which is a decrease of \$86.2 million due primarily to lower losses on California wildfires in 2018 and 2017, due in part to reinsurance recoveries in 2018 under the aggregate property catastrophe reinsurance contract and fewer catastrophe losses and LAE (excluding reserve development) from events with greater than \$20 million in losses and LAE. Favorable loss and LAE reserve development (including catastrophe reserve development) was \$8.3 million in 2018, compared to adverse development of \$15.7 million in 2017. Adverse development in 2017 was driven primarily by preferred personal automobile insurance.

Insurance expenses were \$225.5 million, or 30.9% of earned premiums, in 2018, a deterioration of 1.1 percentage points compared to 2017, driven primarily by increased ceded premiums in 2018 under the Company's aggregate property catastrophe reinsurance contract.

**PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)***Preferred Personal Automobile Insurance*

Selected financial information for the preferred personal automobile insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Premiums Written.....	<u>\$ 468.9</u>	<u>\$ 462.1</u>	<u>\$ 424.4</u>
Earned Premiums .....	<u>\$ 470.2</u>	<u>\$ 440.2</u>	<u>\$ 422.8</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	332.5	308.8	309.0
Catastrophe Losses and LAE .....	7.8	7.2	11.3
Prior Years:			
Non-catastrophe Losses and LAE.....	(8.2)	(5.7)	19.5
Catastrophe Losses and LAE .....	—	(0.1)	(0.2)
Total Incurred Losses and LAE .....	<u>\$ 332.1</u>	<u>\$ 310.2</u>	<u>\$ 339.6</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	70.6%	70.2%	73.0%
Current Year Catastrophe Losses and LAE Ratio.....	1.7	1.6	2.7
Prior Years Non-catastrophe Losses and LAE Ratio .....	(1.7)	(1.3)	4.6
Prior Years Catastrophe Losses and LAE Ratio.....	—	—	—
Total Incurred Loss and LAE Ratio .....	<u>70.6%</u>	<u>70.5%</u>	<u>80.3%</u>

**2019 Compared with 2018**

Earned premiums in preferred personal automobile insurance increased by \$30.0 million in 2019, compared to 2018, as higher average earned premiums accounted for an increase in earned premiums of \$30.3 million, partially offset by lower volume in earned premiums of \$0.3 million. Incurred losses and LAE were \$332.1 million, or 70.6% of earned premiums, in 2019, compared to \$310.2 million, or 70.5% of earned premiums, in 2018. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a deterioration in the underlying loss and LAE ratio, partially offset by a favorable change in loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 70.6% in 2019, compared to 70.2% in 2018, which was a deterioration of 0.4 percentage points due primarily to the impact of business mix in 2019. Catastrophe losses and LAE (excluding reserve development) were \$7.8 million in 2019, compared to \$7.2 million in 2018. Favorable loss and LAE reserve development was \$8.2 million in 2019, compared to \$5.8 million in 2018.

**2018 Compared with 2017**

Earned premiums in preferred personal automobile insurance increased by \$17.4 million in 2018, compared to 2017, as higher average earned premium accounted for an increase of \$19.5 million, while lower volume accounted for a decrease of \$2.1 million. The decrease in earned premium attributed to lower volume was primarily due to the run-off of the direct-to-consumer business. Incurred losses and LAE were \$310.2 million, or 70.5% of earned premiums, in 2018, compared to \$339.6 million, or 80.3% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of related earned premiums and lower catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of related earned premiums were 70.2% in 2018, compared to 73.0% in 2017, which was an improvement of 2.8 percentage points due primarily to lower frequency of claims and higher average earned premiums, partially offset by higher severity of losses, particularly on bodily injury coverages. Catastrophe losses and LAE (excluding reserve development) were \$7.2 million in 2018, compared to \$11.3 million in 2017. Favorable loss and LAE reserve development was \$5.8 million in 2018, compared to adverse development of \$19.3 million in 2017.

**PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)***Homeowners Insurance*

Selected financial information for the homeowners insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Premiums Written.....	<u>\$ 233.1</u>	<u>\$ 247.3</u>	<u>\$ 260.5</u>
Earned Premiums.....	<u>\$ 241.3</u>	<u>\$ 250.1</u>	<u>\$ 264.8</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	131.6	131.5	129.5
Catastrophe Losses and LAE.....	54.0	75.2	157.3
Prior Years:			
Non-catastrophe Losses and LAE.....	(2.7)	10.4	4.7
Catastrophe Losses and LAE.....	(17.0)	(7.2)	(3.7)
Total Incurred Losses and LAE.....	<u>\$ 165.9</u>	<u>\$ 209.9</u>	<u>\$ 287.8</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	54.5%	52.5%	48.9%
Current Year Catastrophe Losses and LAE Ratio.....	22.4	30.1	59.4
Prior Years Non-catastrophe Losses and LAE Ratio.....	(1.1)	4.2	1.8
Prior Years Catastrophe Losses and LAE Ratio.....	(7.0)	(2.9)	(1.4)
Total Incurred Loss and LAE Ratio.....	<u>68.8%</u>	<u>83.9%</u>	<u>108.7%</u>

**2019 Compared with 2018**

Earned premiums in homeowners insurance decreased by \$8.8 million in 2019, compared to 2018, with lower volume accounting for the entirety of the decrease. Incurred losses and LAE were \$165.9 million, or 68.8% of earned premiums, in 2019, compared to \$209.9 million, or 83.9% of earned premiums, in 2018. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower incurred catastrophe losses and LAE (excluding loss and LAE reserve development) and higher favorable 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 54.5% in 2019, compared to 52.5% in 2018, a deterioration of 2.0 percentage points due primarily to higher severity of non-catastrophe large losses in 2019 compared to 2018. Catastrophe losses and LAE (excluding reserve development) were \$54.0 million in 2019, compared to \$75.2 million in 2018. Loss and LAE reserve development was favorable by \$19.7 million in 2019, compared to adverse development of \$3.2 million in 2018. Favorable loss and LAE reserve development in 2019 included the impact of the recognition and sale of the Company's subrogation rights related to certain California wildfires that had occurred in 2017 and 2018.

**2018 Compared with 2017**

Earned premiums in homeowners insurance decreased by \$14.7 million in 2018, compared to 2017, as lower volume accounted for a decrease of \$15.5 million, while higher average earned premium accounted for an increase of \$0.8 million. Incurred losses and LAE were \$209.9 million, or 83.9% of earned premiums, in 2018, compared to \$287.8 million, or 108.7% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due to reinsurance recoveries from the Company's 2018 catastrophe aggregate reinsurance program, partially offset by an unfavorable change in 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 52.5% in 2018, compared to 48.9% in 2017, a deterioration of 3.6 percentage points due primarily to higher severity of losses, and to a lesser extent, higher frequency of claims, partially offset by higher average earned premium. Catastrophe losses and LAE (excluding reserve development) were \$75.2 million in 2018, compared to \$157.3 million in 2017. This decrease was driven primarily by fewer catastrophe losses and LAE (excluding reserve development) from events with greater than \$20.0 million in losses and LAE and reinsurance recoveries under the Company's



**PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)**

2018 aggregate property catastrophe reinsurance program. Loss and LAE reserve development was adverse by \$3.2 million in 2018, compared to \$1.0 million in 2017.

**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 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Premiums Written.....	<u>\$ 37.3</u>	<u>\$ 39.4</u>	<u>\$ 41.2</u>
Earned Premiums.....	<u>\$ 38.8</u>	<u>\$ 40.4</u>	<u>\$ 42.7</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE.....	17.7	19.1	21.8
Catastrophe Losses and LAE.....	1.2	4.9	4.9
Prior Years:			
Non-catastrophe Losses and LAE.....	(6.7)	(4.8)	(3.8)
Catastrophe Losses and LAE.....	(1.4)	(0.9)	(0.8)
Total Incurred Losses and LAE.....	<u>\$ 10.8</u>	<u>\$ 18.3</u>	<u>\$ 22.1</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio.....	45.6%	47.3%	51.1%
Current Year Catastrophe Losses and LAE Ratio.....	3.1	12.1	11.5
Prior Years Non-catastrophe Losses and LAE Ratio.....	(17.3)	(11.9)	(8.9)
Prior Years Catastrophe Losses and LAE Ratio.....	(3.6)	(2.2)	(1.9)
Total Incurred Loss and LAE Ratio.....	<u>27.8%</u>	<u>45.3%</u>	<u>51.8%</u>

**2019 Compared with 2018**

Earned premiums in other personal insurance decreased by \$1.6 million in 2019, compared to 2018, as lower volume accounted for a decrease in earned premiums of \$6.0 million, while higher average earned premium accounted for an increase in earned premiums of \$4.4 million. Incurred losses and LAE were \$10.8 million, or 27.8% of earned premiums, in 2019, compared to \$18.3 million, or 45.3% of earned premiums, in 2018. Incurred losses and LAE as a percentage of earned premiums improved due primarily to higher favorable loss and LAE reserve development in 2019, compared to 2018. Underlying losses and LAE as a percentage of earned premiums were 45.6% in 2019, compared to 47.3% in 2018, which was an improvement of 1.7 percentage points. Catastrophe losses and LAE (excluding reserve development) were \$1.2 million in 2019, compared to \$4.9 million in 2018. Favorable loss and LAE reserve development was \$8.1 million in 2019, compared to \$5.7 million in 2018.

**2018 Compared with 2017**

Earned premiums in other personal insurance decreased by \$2.3 million in 2018, compared to 2017, as lower volume accounted for a decrease of \$3.4 million, while higher average earned premium accounted for an increase of \$1.1 million. Incurred losses and LAE were \$18.3 million, or 45.3% of earned premiums, in 2018, compared to \$22.1 million, or 51.8% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums improved due to lower underlying losses and LAE as a percentage of earned premiums and a higher level of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 47.3% in 2018, compared to 51.1% in 2017, which was an improvement of 3.8 percentage points due primarily to lower frequency of claims and higher average earned premiums, partially offset by higher severity of losses. Favorable loss and LAE reserve development was \$5.7 million in 2018, compared to \$4.6 million in 2017.

**LIFE & HEALTH INSURANCE**

Selected financial information for the Life & Health Insurance segment is presented below.

<u>DOLLARS IN MILLIONS</u>	2019	2018	2017
Earned Premiums.....	\$ 643.7	\$ 626.3	\$ 614.0
Net Investment Income.....	206.4	210.9	223.2
Other Income .....	8.5	4.0	2.6
Total Revenues .....	<u>858.6</u>	<u>841.2</u>	<u>839.8</u>
Policyholders' Benefits and Incurred Losses and LAE.....	402.7	404.2	387.4
Insurance Expenses .....	334.0	321.1	312.2
Operating Profit .....	<u>121.9</u>	<u>115.9</u>	<u>140.2</u>
Income Tax Expense.....	(23.2)	(24.4)	(48.3)
Segment Net Operating Income .....	<u>\$ 98.7</u>	<u>\$ 91.5</u>	<u>\$ 91.9</u>

**INSURANCE RESERVES**

<u>DOLLARS IN MILLIONS</u>	Dec 31, 2019	Dec 31, 2018
Insurance Reserves:		
Future Policyholder Benefits.....	\$ 3,385.3	\$ 3,333.6
Incurred Losses and LAE Reserves:		
Life .....	89.2	130.5
Accident and Health .....	27.5	27.8
Property .....	3.3	4.4
Total Incurred Losses and LAE Reserves .....	<u>120.0</u>	<u>162.7</u>
Total Insurance Reserves.....	<u>\$ 3,505.3</u>	<u>\$ 3,496.3</u>

***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 cross-references its life insurance policies against the DMF and other 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 year ended December 31, 2016 included a pre-tax charge of \$77.8 million to recognize the initial 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. During 2019, the Company reduced its estimate of the initial impact of using death verification databases by \$21.0 million.

See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements under the sub-caption "Insurance Reserves" for additional discussion.

***2019 Compared with 2018***

Earned Premiums in the Life & Health Insurance segment increased by \$17.4 million for the year ended December 31, 2019, compared to 2018, due primarily to higher volume from accident and health insurance products offered by Reserve National, and sales volume on life insurance products.

Net Investment Income decreased by \$4.5 million in 2019, compared to 2018, due primarily to lower investment yields on fixed income securities and a lower rate of return from alternative investments, partially offset by a higher investment base. The weighted-average book yield on the Company's life and health insurance subsidiaries' investments in fixed maturities was approximately 5.1% and 5.3% at December 31, 2019 and 2018, respectively.

Other income increased by \$4.5 million in 2019, compared to 2018, due primarily to a higher level of corporate owned life insurance.

**LIFE & HEALTH INSURANCE (Continued)**

Policyholders’ Benefits and Incurred Losses and LAE decreased by \$1.5 million in 2019, compared to 2018, due primarily to decrease of \$21.0 million in the company’s estimate of the ultimate cost of using death verification databases in the Company’s operations, partially offset by higher severity on accident and health insurance claims. Insurance Expenses in the Life & Health Insurance segment increased by \$12.9 million due primarily to higher commissions on increased volume within the business and investments to enhance the capabilities of the business. Segment Net Operating Income in the Life & Health Insurance segment was \$98.7 million for the year ended December 31, 2019, compared to \$91.5 million in 2018.

**2018 Compared with 2017**

Earned Premiums in the Life & Health Insurance segment increased by \$12.3 millions for the year ended December 31, 2018, compared to 2017, due primarily to higher volume from accident and health insurance products offered by Reserve National, partially offset by lower volume from life products offered by Reserve National and property insurance products offered by Kemper Home Service Companies (“KHSC”).

Net Investment Income increased by \$12.3 million in 2018, compared to 2017, due primarily to lower investment returns from alternative investments and lower income from fixed maturities, partially offset by higher levels of fixed maturities. The weighted-average book yield on the Company’s life and health insurance subsidiaries’ investments in fixed maturities was approximately 5.3% and 5.4% at December 31, 2018 and 2017, respectively.

Policyholders’ Benefits and Incurred Losses and LAE increased by \$16.8 million in 2018, compared to 2017 due primarily to higher policyholders’ benefits and incurred losses and LAE on life and accident and health business and overall growth in the accident and health business. Insurance Expenses in the Life & Health Insurance segment increased by \$8.9 million due primarily to growth in the accident and health business for Reserve National and higher general expenses, incentive commissions and fringe benefits for KHSC, partially offset by lower expenses related to lower volume of life insurance sold by Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was \$91.5 million for the year ended December 31, 2018, compared to \$91.9 million in 2017.

**Life Insurance**

Selected financial information for the life insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	2019	2018	2017
Earned Premiums .....	\$ 384.6	\$ 378.4	379.7
Net Investment Income .....	198.8	202.6	216.0
Other Income .....	8.1	3.5	2.4
Total Revenues .....	<u>591.5</u>	<u>584.5</u>	<u>598.1</u>
Policyholders’ Benefits and Incurred Losses and LAE .....	270.1	279.4	274.1
Insurance Expenses .....	215.3	207.7	207.9
Operating Profit .....	106.1	97.4	116.1
Income Tax Expense .....	(20.0)	(20.7)	(39.9)
Total Product Line Net Operating Income .....	<u>\$ 86.1</u>	<u>\$ 76.7</u>	<u>\$ 76.2</u>

**LIFE & HEALTH INSURANCE (Continued)**

**2019 Compared with 2018**

Earned premiums on life insurance increased by \$6.2 million in 2019, compared to 2018, due primarily to a higher volume of new business sales. Policyholders’ benefits and incurred losses and LAE on life insurance were \$270.1 million in 2019, compared to \$279.4 million in 2018, a decrease of \$9.3 million due primarily to adjustment of the company’s estimate of the ultimate cost of using death verification databases in the company’s operations. Insurance expenses increased by \$7.6 million in 2019, compared to 2018 due primarily to higher commissions on increased volume and investments to enhance the capabilities of the business.

**2018 Compared with 2017**

Earned premiums on life insurance decreased by \$1.3 million in 2018, compared to 2017, due primarily to lower volume on products offered by Reserve National, offset by slightly higher premium for KHSC. Policyholders’ benefits and incurred losses and LAE on life insurance were \$279.4 million in 2018, compared to \$274.1 million in 2017, an increase of \$5.3 million due primarily to higher incurred claims on life policies offered by KHSC, partially offset by the favorable impact on policyholders’ benefits due to the reduction in Reserve National’s life business. Insurance expenses decreased by \$0.2 million in 2018, compared to 2017.

**Accident and Health Insurance**

Selected financial information for the accident and health insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Earned Premiums .....	\$ 190.9	\$ 177.5	\$ 161.7
Net Investment Income .....	6.0	6.1	5.2
Other Income .....	0.4	0.5	0.2
Total Revenues .....	<u>197.3</u>	<u>184.1</u>	<u>167.1</u>
Policyholders’ Benefits and Incurred Losses and LAE .....	109.8	98.9	88.7
Insurance Expenses .....	88.7	82.2	71.7
Operating Profit (Loss) .....	(1.2)	3.0	6.7
Income Tax Expense (Benefit) .....	0.3	(0.6)	(2.5)
Total Product Line Net Operating Income (Loss) .....	<u>\$ (0.9)</u>	<u>\$ 2.4</u>	<u>\$ 4.2</u>

**2019 Compared with 2018**

Earned premiums on accident and health insurance increased by \$13.4 million in 2019, compared to 2018, due primarily to higher volume of in force business. Policyholders’ benefits and incurred losses and LAE on accident and health insurance were \$109.8 million, or 57.5% of accident and health insurance earned premiums, in 2019, compared to \$98.9 million, or 55.7% of accident and health insurance earned premiums, in 2018. The increase of 1.8 percentage points was due primarily to higher severity of claims for certain health products. Insurance expenses increased by \$6.5 million in 2019, compared to 2018, due primarily to premium growth.

**2018 Compared with 2017**

Earned premiums on accident and health insurance increased by \$15.8 million in 2018, compared to 2017, due primarily to higher volume on accident and health insurance products offered by Reserve National. Incurred accident and health insurance losses and LAE were \$98.9 million, or 55.7% of accident and health insurance earned premiums, in 2018, compared to \$88.7 million, or 54.9% of accident and health insurance earned premiums, in 2017, an increase of 0.8 percentage points due primarily to higher incurred claims on certain health products offered by Reserve National. Insurance expenses increased by \$10.5 million in 2018, compared to 2017, due primarily to growth in Reserve National’s accident and health business.

**Kemper Corporation and Subsidiaries**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)**

**LIFE & HEALTH INSURANCE (Continued)**

**Property Insurance**

Selected financial information for the property insurance product line is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Earned Premiums .....	\$ 68.2	\$ 70.4	\$ 72.6
Net Investment Income .....	1.6	2.2	2.0
Total Revenues .....	<u>69.8</u>	<u>72.6</u>	<u>74.6</u>
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE .....	18.1	20.5	17.8
Catastrophe Losses and LAE .....	3.1	4.0	5.9
Prior Years:			
Non-catastrophe Losses and LAE .....	0.8	1.3	0.4
Catastrophe Losses and LAE .....	0.8	0.1	0.5
Total Incurred Losses and LAE .....	<u>22.8</u>	<u>25.9</u>	<u>24.6</u>
Insurance Expenses .....	30.0	31.2	32.6
Operating Profit .....	17.0	15.5	17.4
Income Tax Expense .....	(3.5)	(3.1)	(5.9)
Total Product Line Net Operating Income .....	<u>\$ 13.5</u>	<u>\$ 12.4</u>	<u>\$ 11.5</u>
 <u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio .....	26.5%	29.2%	24.5%
Current Year Catastrophe Losses and LAE Ratio .....	4.5	5.7	8.1
Prior Years Non-catastrophe Losses and LAE Ratio .....	1.2	1.8	0.6
Prior Years Catastrophe Losses and LAE Ratio .....	1.2	0.1	0.7
Total Incurred Loss and LAE Ratio .....	<u>33.4%</u>	<u>36.8%</u>	<u>33.9%</u>

**2019 Compared with 2018**

Earned premiums on property insurance decreased by \$2.2 million in 2019, compared to 2018, due primarily to a lower volume of insurance sold. Incurred losses and LAE on property insurance were \$22.8 million, or 33.4% of property insurance earned premiums, in 2019, compared to \$25.9 million, or 36.8% of property insurance earned premiums, in 2018. Current year non-catastrophe losses and LAE on property insurance were \$18.1 million, or 26.5% of property insurance earned premiums, in 2019, compared to \$20.5 million, or 29.2% of property insurance earned premiums, in 2018, a decrease of 2.7 percentage points due to lower frequency of claims. Catastrophe losses and LAE (excluding development) were \$3.1 million in 2019, compared to \$4.0 million in 2018, due primarily to a lower frequency of claims and severity of losses in connection with catastrophic events. Adverse loss and LAE reserve development was \$1.6 million in 2019, compared to \$1.4 million in 2018. Insurance expenses decreased \$1.2 million in 2019, compared to 2018, due primarily to lower volume of policies issued.

**2018 Compared with 2017**

Earned premiums on property insurance decreased by \$2.2 million in 2018, compared to 2017, due primarily to a lower volume of insurance sold. Incurred losses and LAE on property insurance were \$25.9 million, or 36.8% of property insurance earned premiums, in 2018, compared to \$24.6 million, or 33.9% of property insurance earned premiums, in 2017. Current year non-catastrophe losses and LAE on property insurance were \$20.5 million, or 29.2% of property insurance earned premiums, in 2018, compared to \$17.8 million, or 24.5% of property insurance earned premiums, in 2017, an increase of 4.7 percentage points due to a higher frequency of claims. Catastrophe losses and LAE (excluding development) were \$4.0 million in 2018, compared to \$5.9 million in 2017, due primarily to a higher frequency of claims and severity of losses in connection with



**LIFE & HEALTH INSURANCE (Continued)**

catastrophic events in the prior year. Adverse loss and LAE reserve development was \$1.4 million in 2018, compared to \$0.9 million in 2017. Insurance expenses decreased \$1.4 million in 2018, compared to 2017, due primarily to lower commission expense due in part to a lower volume of earned premium.

**INVESTMENT RESULTS***Net Investment Income*

Net Investment Income for the years ended December 31, 2019, 2018 and 2017 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment Income:			
Interest on Fixed Income Securities .....	\$ 299.4	\$ 268.9	\$ 246.6
Dividends on Equity Securities Excluding Alternative Investments.....	22.9	13.6	9.3
Alternative Investments:			
Equity Method Limited Liability Investments.....	1.0	11.0	24.8
Fair Value Option Investments.....	—	—	1.3
Limited Liability Investments Included in Equity Securities .....	18.0	26.4	28.6
Total Alternative Investments .....	<u>19.0</u>	<u>37.4</u>	<u>54.7</u>
Short-term Investments.....	8.2	7.0	1.6
Loans to Policyholders .....	22.6	22.5	21.6
Real Estate .....	9.8	9.6	10.7
Other .....	1.5	0.9	0.5
Total Investment Income .....	<u>383.4</u>	<u>359.9</u>	<u>345.0</u>
Investment Expenses:			
Real Estate .....	9.6	9.7	10.5
Other Investment Expenses .....	9.5	9.3	7.3
Total Investment Expenses .....	<u>19.1</u>	<u>19.0</u>	<u>17.8</u>
Net Investment Income.....	<u>\$ 364.3</u>	<u>\$ 340.9</u>	<u>\$ 327.2</u>

**2019 Compared with 2018**

Net Investment Income increased by \$23.4 million for the year ended December 31, 2019, compared to 2018, due primarily to the inclusion of the Infinity investment portfolio for the entire year in 2019 versus only six months in 2018, partially offset by a lower rate of return from Alternative Investments.

**2018 Compared with 2017**

Net Investment Income increased by \$13.7 million for the year ended December 31, 2018, compared to 2017, due primarily to higher levels of investments in fixed income securities, partially offset by lower returns from Alternative Investments and lower yields on fixed income securities.

**INVESTMENT RESULTS (Continued)*****Total Comprehensive Investment Gains (Losses)***

The components of Total Comprehensive Investment Gains (Losses) for the years ended December 31, 2019, 2018 and 2017 are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Recognized in Consolidated Statements of Income:			
Income (Loss) from Change in Fair Value of Equity and Convertible Securities .....	\$ 138.9	\$ (64.3)	\$ —
Gains on Sales .....	46.9	37.6	56.9
Losses on Sales .....	(5.0)	(11.2)	(1.0)
Net Impairment Losses Recognized in Earnings .....	(13.8)	(4.5)	(14.3)
Net Gains on Trading Securities .....	—	—	0.6
Net Gain (Loss) Recognized in Consolidated Statements of Income.....	<u>167.0</u>	<u>(42.4)</u>	<u>42.2</u>
Recognized in Other Comprehensive Income (Loss) .....	405.3	(235.8)	85.5
Total Comprehensive Investment Gains (Losses).....	<u>\$ 572.3</u>	<u>\$ (278.2)</u>	<u>\$ 127.7</u>

***Gain (Loss) From Change in Fair Value of Equity and Convertible Securities***

The components of Gain (Loss) from Change in Fair Value of Equity and Convertible Securities for the years ended December 31, 2019 and 2018 are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Preferred Stocks.....	\$ 6.2	\$ (6.9)
Common Stocks.....	1.9	(2.0)
Other Equity Interests:		
Exchange Traded Funds.....	121.0	(54.7)
Limited Liability Companies and Limited Partnerships.....	4.2	0.2
Total Other Equity Interests.....	<u>125.2</u>	<u>(54.5)</u>
Income (Loss) from Change in Fair Value of Equity Securities.....	<u>133.3</u>	<u>(63.4)</u>
Income (Loss) from Change in Fair Value of Convertible Securities .....	5.6	(0.9)
Income (Loss) from Change in Fair Value of Equity and Convertible Securities.....	<u>\$ 138.9</u>	<u>\$ (64.3)</u>

**Kemper Corporation and Subsidiaries**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations—(Continued)**

**INVESTMENT RESULTS (Continued)**

*Net Realized Gains on Sales of Investments*

The components of Net Realized Gains on Sales of Investments for the year ended December 31, 2019, 2018 and 2017 are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Fixed Maturities:			
Gains on Sales.....	\$ 41.1	\$ 25.3	\$ 8.4
Losses on Sales.....	(4.8)	(11.1)	(0.9)
Equity Securities:			
Gains on Sales.....	5.8	12.3	42.0
Losses on Sales.....	(0.2)	—	—
Real Estate:			
Gains on Sales.....	—	—	6.4
Other Investments:			
Gains on Sales.....	—	—	0.1
Losses on Sales.....	—	(0.1)	(0.1)
Net Gains on Trading Securities.....	—	—	0.6
Net Realized Gains on Sales of Investments.....	<u>\$ 41.9</u>	<u>\$ 26.4</u>	<u>\$ 56.5</u>
Gross Gains on Sales.....	\$ 46.9	\$ 37.6	\$ 56.9
Gross Losses on Sales.....	(5.0)	(11.2)	(1.0)
Net Gains on Trading Securities.....	—	—	0.6
Net Realized Gains on Sales of Investments.....	<u>\$ 41.9</u>	<u>\$ 26.4</u>	<u>\$ 56.5</u>

*Fixed Maturities*

Net Realized Gains on Sales of Fixed Maturities for the year ended December 31, 2019 primarily relate to a repositioning of the portfolio for duration extension purposes.

During the fourth quarter of 2018, the Company began repositioning the fixed maturity investment portfolio in its Life and Health Insurance segment and recognized Realized Gains on Sales of Fixed Maturities of \$13.3 million and Realized Losses on Sales of Fixed Maturities of \$4.4 million in connection with the repositioning.

*Equity Securities*

Net Realized Gains on Sales of Equity Securities for the year ended December 31, 2019 primarily relate to transactions whereby the Company’s investments were acquired by other companies.

Net Realized Gains on Sales of Equity Securities for the year ended December 31, 2018 primarily relate to gains on dispositions of certain Investments in Equity Securities at Modified Cost resulting from transactions whereby the Company’s investments were acquired by other companies.

Net Realized Gains on Sales of Equity Securities for the year ended December 31, 2017 includes \$35.2 million recognized on the sale of exchange traded fund shares due to tax planning initiatives and portfolio allocation adjustments.

Other sales activity in 2019, 2018 and 2017 was due to normal portfolio management.

## INVESTMENT RESULTS (Continued)

*Net Impairment Losses Recognized in Earnings*

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair values of an investment is other-than-temporary. Losses arising from other-than-temporary declines in fair value are reported in the Consolidated Statements of Income in the period that the declines are determined to be other-than-temporary.

Information pertaining to Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income for the year ended December 31, 2019, 2018 and 2017 is presented below.

<i>DOLLARS IN MILLIONS</i>	2019		2018		2017	
	Amount	Number of Issuers	Amount	Number of Issuers	Amount	Number of Issuers
Fixed Maturities .....	\$ (13.3)	14	\$ (2.0)	24	\$ (12.1)	10
Equity Securities .....	(0.5)	1	(2.5)	5	(2.2)	5
Net Impairment Losses Recognized in Earnings .....	<u>\$ (13.8)</u>		<u>\$ (4.5)</u>		<u>\$ (14.3)</u>	

*Fixed Maturities*

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2019 related to Investments in Fixed Maturities were due to the Company's intent to sell or requirement to sell.

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2018 related to Investments in Fixed Maturities were due to the Company's intent to sell or requirement to sell.

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2017 related to Investments in Fixed Maturities include losses of \$10.4 million due to the Company's intent to sell or requirement to sell bonds of eight issuers and credit losses of \$1.7 million from other-than-temporary declines in the fair values of investments in fixed maturities of two issuers.

*Real Estate*

The Company did not recognize any impairment losses related to Investments in Real Estate in the Consolidated Statements of Income for the year ended December 31, 2019 or 2018 or 2017.

## INVESTMENT QUALITY AND CONCENTRATIONS

The Company's fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At December 31, 2019, approximately 93% 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 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 S&P; a rating of Aaa, Aa, A or Baa from Moody's; or a rating of AAA, AA, A or BBB from Fitch.

The following table summarizes the credit quality of the Company's fixed maturity investment portfolio at December 31, 2019 and 2018.

NAIC Rating	Rating	Dec 31, 2019		Dec 31, 2018	
		Fair Value in Millions	Percentage of Total	Fair Value in Millions	Percentage of Total
1	AAA, AA, A .....	\$ 4,387.1	63.4%	\$ 4,156.6	64.7%
2	BBB .....	2,044.1	29.5	1,752.6	27.3
3-4	BB, B .....	319.2	4.6	333.7	5.2
5-6	CCC or Lower .....	171.7	2.5	181.3	2.8
Total Investments in Fixed Maturities .....		<u>\$ 6,922.1</u>	<u>100.0%</u>	<u>\$ 6,424.2</u>	<u>100.0%</u>

**INVESTMENT QUALITY AND CONCENTRATIONS (Continued)**

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were \$11.7 million and \$17.1 million at December 31, 2019 and 2018, respectively.

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at December 31, 2019 and 2018.

	Dec 31, 2019		Dec 31, 2018	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
<b><i>DOLLARS IN MILLIONS</i></b>				
U.S. Government and Government Agencies and Authorities .....	\$ 815.9	9.0%	\$ 865.7	10.7%
States and Political Subdivisions:				
Revenue Bonds .....	958.6	10.6	991.6	12.3
States .....	427.5	4.7	479.7	5.9
Political Subdivisions .....	129.7	1.4	147.8	1.8
Foreign Governments .....	16.8	0.2	5.9	0.1
Total Investments in Governmental Fixed Maturities .....	<u>\$ 2,348.5</u>	<u>25.9%</u>	<u>\$ 2,490.7</u>	<u>30.8%</u>

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at December 31, 2019 and 2018.

	Dec 31, 2019		Dec 31, 2018	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
<b><i>DOLLARS IN MILLIONS</i></b>				
Finance, Insurance and Real Estate .....	\$ 1,522.8	16.8%	\$ 1,269.3	15.7%
Manufacturing .....	1,356.4	15.0	1,270.0	15.7
Transportation, Communication and Utilities .....	650.2	7.2	449.0	5.6
Services .....	604.4	6.7	516.4	6.4
Retail Trade .....	183.3	2.0	164.8	2.0
Mining .....	154.5	1.7	158.6	2.0
Wholesale Trade .....	72.9	0.8	78.4	1.0
Agriculture, Forestry and Fishing .....	12.4	0.1	13.7	0.2
Other .....	16.6	0.2	13.3	0.2
Total Investments in Non-governmental Fixed Maturities .....	<u>\$ 4,573.5</u>	<u>50.5%</u>	<u>\$ 3,933.5</u>	<u>48.8%</u>

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by range of amount invested at December 31, 2019.

	Number of Issuers	Aggregate Fair Value
<b><i>DOLLARS IN MILLIONS</i></b>		
Below \$5 .....	457	\$ 992.6
\$5 - \$10 .....	181	1,224.5
\$10 - \$20 .....	122	1,653.5
\$20 - \$30 .....	28	667.7
Greater Than \$30 .....	1	35.2
Total .....	<u>789</u>	<u>\$ 4,573.5</u>

The Company's short-term investments primarily consist of U.S. treasury bills, money market funds and overnight interest bearing accounts. At December 31, 2019, the Company had \$365.0 million invested in U.S. treasury bills, \$83.9 million invested in money market funds which primarily invest in U.S. Treasury securities and \$22.0 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 December 31, 2019.

<u>DOLLARS IN MILLIONS</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
Fixed Maturities:		
States including their Political Subdivisions:		
Texas .....	\$ 118.6	1.3%
Georgia .....	101.8	1.1
Colorado .....	86.0	1.0
Louisiana .....	70.9	0.8
Michigan .....	69.6	0.8
California .....	67.8	0.7
New York .....	60.4	0.7
Ohio .....	55.1	0.6
Equity Securities at Fair Value—Other Equity Interests:		
Vanguard Long-Term Corp Bond ETF .....	106.1	1.2
iShares Long-Term Corporate Bond ETF .....	69.7	0.8
Total .....	<u>\$ 806.0</u>	<u>9.0%</u>

## INVESTMENTS IN LIMITED LIABILITY COMPANIES AND LIMITED PARTNERSHIPS

The Company owns investments in various limited liability investment companies and limited partnerships that primarily invest in mezzanine debt, distressed debt, real estate and senior debt. Beginning January 1, 2018, the Company's investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings, Other Equity Interests and included in Equity Securities at Fair Value, or Equity Securities at Modified Cost depending on the accounting method used to report the investment. Additional information pertaining to these investments at December 31, 2019 and 2018 is presented below.

Asset Class	Unfunded Commitment in Millions	Reported Value in Millions	
	Dec 31, 2019	Dec 31, 2019	Dec 31, 2018
<b>Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:</b>			
Mezzanine Debt .....	\$ 59.9	\$ 129.3	\$ 99.6
Senior Debt .....	21.7	16.0	15.4
Distressed Debt .....	—	22.7	34.5
Secondary Transactions.....	15.6	11.5	21.2
Leveraged Buyout .....	—	0.1	4.2
Growth Equity .....	—	5.3	5.4
Real Estate.....	—	29.9	—
Other.....	—	5.6	6.7
Total Equity Method Limited Liability Investments .....	<u>97.2</u>	<u>220.4</u>	<u>187.0</u>
<b>Reported as Other Equity Interests at Fair Value:</b>			
Mezzanine Debt .....	94.7	126.1	111.7
Senior Debt .....	23.2	39.5	34.3
Distressed Debt .....	18.7	16.8	14.5
Secondary Transactions.....	6.8	4.9	6.7
Hedge Funds .....	—	48.2	14.7
Leveraged Buyout .....	2.2	4.4	4.2
Other.....	8.0	8.2	5.9
Total Reported as Other Equity Interests at Fair Value.....	<u>153.6</u>	<u>248.1</u>	<u>192.0</u>
<b>Reported as Equity Securities at Modified Cost:</b>			
Mezzanine Debt .....	—	1.6	1.5
Other.....	0.1	18.9	22.1
Total Reported as Equity Securities at Modified Cost.....	<u>0.1</u>	<u>20.5</u>	<u>23.6</u>
Total Investments in Limited Liability Companies and Limited Partnerships ....	<u>\$ 250.9</u>	<u>\$ 489.0</u>	<u>\$ 402.6</u>

The Company expects that it will be required to fund its commitments over the next several years. The Company expects that the proceeds from distributions from these investments will be the primary source of funding of such commitments.

**INSURANCE EXPENSES AND INTEREST AND OTHER EXPENSES**

Insurance Expenses and Interest and Other Expenses for the year ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Insurance Expenses:			
Commissions .....	\$ 708.8	\$ 558.7	\$ 425.6
General Expenses .....	278.0	231.9	196.2
Premium Tax Expense .....	93.5	71.0	50.7
Total Costs Incurred .....	<u>1,080.3</u>	<u>861.6</u>	<u>672.5</u>
Policy Acquisition Costs:			
Deferred .....	(475.2)	(481.5)	(351.6)
Amortized .....	408.3	377.1	318.3
Net Policy Acquisition Costs Amortized .....	<u>(66.9)</u>	<u>(104.4)</u>	<u>(33.3)</u>
Amortization of Value of Business Acquired ("VOBA") .....	6.3	143.3	5.1
Insurance Expenses .....	<u>1,019.7</u>	<u>900.5</u>	<u>644.3</u>
Loss from Early Extinguishment of Debt .....	5.8	—	—
Interest Expense .....	42.5	43.4	34.9
Other Expenses:			
Loss on Cash Flow Hedge .....	—	—	1.1
Acquisition Related Transaction, Integration and Other Costs .....	18.4	44.7	—
Other .....	102.9	70.9	44.6
Other Expenses .....	<u>121.3</u>	<u>115.6</u>	<u>45.7</u>
Interest and Other Expenses .....	<u>163.8</u>	<u>159.0</u>	<u>80.6</u>
Total Expenses .....	<u>\$ 1,189.3</u>	<u>\$ 1,059.5</u>	<u>\$ 724.9</u>

*Insurance Expenses*

Insurance Expenses increased by \$119.2 million for the year ended December 31, 2019, compared to 2018, due primarily to the inclusion of Infinity for the full twelve months in 2019 as compared to only six months in 2018, partially offset by a reduction in the amortization of VOBA. Insurance Expenses increased by \$256.2 million for the year ended December 31, 2018, compared to 2017, due primarily to the acquisition of Infinity and the amortization of purchase accounting adjustments in 2018.

*Interest and Other Expenses*

Interest expense decreased by \$0.9 million for the year ended December 31, 2019, compared to 2018, due primarily to lower levels of debt outstanding in the current year. Interest expense increased by \$8.5 million for the year ended December 31, 2018, compared to 2017, due primarily to higher levels of debt outstanding to facilitate the funding of the acquisition of Infinity. See MD&A, "Liquidity and Capital Resources," and Note 8, "Debt," to the Consolidated Financial Statements for additional discussion of debt activity.

Other Expenses increased by \$5.7 million for the year ended December 31, 2019, compared to 2018, due primarily to higher employee compensation, bonuses and legal fees, partially offset by a reduction in costs associated with the acquisition of Infinity and the related transaction and integration cost. Other Expenses increased by \$69.9 million for the year ended December 31, 2018, compared to 2017, due primarily to the acquisition of Infinity, the inclusion of acquisition related transaction, integration and other costs and higher employee compensation.

**INCOME TAXES**

The Company's effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to (1) the effects of tax-exempt investment income and dividends received deductions, (2) a permanent difference between the amount of long-term equity-based compensation expense recognized under GAAP and the amount deductible in the computation of Federal taxable income, (3) a permanent difference associated with nondeductible executive compensation, and (4) the Tax Act.

**INCOME TAXES (Continued)**

Tax-exempt investment income and dividends received deductions were \$20.4 million, \$22.4 million and \$28.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of expense recognized for long-term equity-based compensation expense under U.S. GAAP was \$21.0 million, \$6.7 million, and \$1.1 million lower than the amount that would be deductible under the Internal Revenue Code (the “IRC”) for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of nondeductible executive compensation was \$11.9 million, \$6.7 million, and \$0.0 million for years ended December 31, 2019, 2018 and 2017, respectively. The tax benefit recorded pursuant to the Tax Act was \$26.4 million and \$7.4 million for the years ended December 31, 2018 and 2017, respectively. See Note 16, “Income Taxes,” to the Consolidated Financial Statements for additional discussion of income taxes.

**LIQUIDITY AND CAPITAL RESOURCES**

*Common Stock Offering*

On June 7, 2019 the Company completed a public offering of its common stock and issued 1,552,500 shares of common stock, at \$83.00 per share. Gross proceeds from the offering were \$128.9 million. Transaction costs, including the underwriting discount, were \$1.7 million, of which \$0.1 million was accrued for and reflected in Accrued Expenses and Other Liabilities on the Company’s Consolidated Balance Sheets at December 31, 2019. In July 2019, the Company used the net proceeds of \$127.2 million, together with a portion of the proceeds from delayed-draw term loan facility entered into by the Company on June 4, 2019 (the “2023 Term Loan”) to redeem all \$150.0 million in aggregate outstanding principal of its 7.375% Subordinated Debentures due 2054.

*Amended and Extended Credit Agreement and Term Loan Facility*

On June 8, 2018, the Company entered into an amended and extended credit agreement and term loan facility. The amended and extended credit agreement increased the borrowing capacity of the existing unsecured credit agreement to \$300.0 million and extended the maturity date to June 8, 2023. The term loan facility included a delayed draw feature with borrowing capacity of \$250.0 million and a maturity date two years from the borrowing date (see discussion below under the heading, “Repayment of Term Loan Due 2020,” for additional information regarding the initial borrowing and subsequent repayment of this delayed-draw term loan). On June 4, 2019, the Company utilized the the accordion feature under the credit agreement to increase its credit borrowing capacity by \$100.0 million, resulting in the available credit commitments increasing from \$300.0 million to \$400.0 million. The Company incurred \$0.1 million in additional debt issuance costs in connection with the utilization of the accordion feature, which in addition to the \$1.1 million of remaining unamortized costs under the credit agreement, will be amortized under the remaining term of the credit agreement. There were no outstanding borrowings under the credit agreement at either December 31, 2019 or December 31, 2018.

*Long-term 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 outstanding at December 31, 2019 and December 31, 2018 was:

(Dollars in Millions)	Dec 31, 2019	Dec 31, 2018
Term Loan due June 29, 2020.....	\$ —	\$ 34.9
5.0% Senior Notes due September 19, 2022.....	279.9	281.5
Term Loan due July 5, 2023 .....	49.9	—
4.35% Senior Notes due February 15, 2025 .....	448.6	448.4
7.375% Subordinated Debentures due February 27, 2054 .....	—	144.2
Total Long-term Debt Outstanding.....	<u>\$ 778.4</u>	<u>\$ 909.0</u>

*Repayment of Term Loan Due 2020*

On June 29, 2018, the Company borrowed \$250.0 million under its delayed-draw term loan facility dated June 8, 2018, to facilitate the funding of the acquisition of Infinity. The proceeds from the term loan facility, net of debt issuance costs, were \$249.4 million. On December 28, 2018, the Company repaid \$215.0 million of the outstanding term loan. On May 31, 2019, the remaining outstanding balance of \$35.0 million was repaid.

**LIQUIDITY AND CAPITAL RESOURCES (Continued)***Term Loan Due 2023*

On June 4, 2019, the Company entered into the 2023 Term Loan with a borrowing capacity of \$50.0 million and a maturity date four years from the borrowing date. On July 5, 2019, the Company borrowed \$49.9 million, net of debt issuance costs, under the 2023 Term Loan, with a final maturity date of July 5, 2023. The agreement includes a mutual option to extend the maturity date by one year.

*5.0% Senior Notes Due 2022*

Infinity's liabilities at the acquisition date included \$275.0 million principal amount, 5.0% Senior Notes due September 19, 2022 (the "2022 Senior Notes"). The 2022 Senior Notes were recorded at fair value as of the acquisition date, \$282.1 million, with the \$7.1 million premium being amortized as a reduction to interest expense over the remaining term, resulting in an effective interest rate of 4.36%. On November 30, 2018, Kemper executed a guarantee to fully and unconditionally guarantee the payment and performance obligations of the 2022 Senior Notes.

*4.35% Senior Notes Due 2025*

Kemper has \$450.0 million aggregate principal of 4.35% senior notes due February 15, 2025 (the "2025 Senior Notes") outstanding as of December 31, 2019. Kemper initially issued \$250.0 million of the notes in February of 2015 and issued an additional \$200.0 million of the notes in June of 2017. The additional notes are fungible with the initial notes issued in 2015, 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.

*Redemption of 7.375% Subordinated Debentures Due 2054*

On June 7, 2019, Kemper issued a notice of redemption for the entire \$150.0 million aggregate principal outstanding of its 7.375% Subordinated Debentures due 2054 (the "7.375% Subordinated Debentures") at a redemption price equal to 100% of their principal, plus accrued and unpaid interest on the redemption date. On July 8, 2019, Kemper completed the redemption, and the 7.375% Subordinated Debentures were repaid in full. The Company recognized a loss on early extinguishment of debt of \$5.8 million in the Consolidated Statement of Income for the year ended December 31, 2019.

The Company used the proceeds received from Kemper's common stock offering on June 7, 2019, as well as a portion of the proceeds from its July 5, 2019 borrowing under the 2023 Term Loan, to repay the 7.375% Subordinated Debentures. See Note 8, "Debt," and Note 10, "Shareholders' Equity," to the Consolidated Financial Statements for additional information.

*Policyholder Contract Liabilities*

Kemper's subsidiaries, United Insurance and Trinity Universal Insurance Company ("Trinity"), are members of the Federal Home Loan Bank ("FHLB") of Chicago and Dallas, respectively. As a requirement of membership in the FHLB, United Insurance and Trinity maintain a certain level of investment in FHLB common stock and additional amounts based on the level of outstanding borrowings. The Company's investment in FHLB common stock are reported at cost and included in Equity Securities at Modified Cost. The carrying value of FHLB of Chicago common stock was \$4.9 million and \$0.8 million at December 31, 2019 and December 31, 2018, respectively. The carrying value of FHLB of Dallas common stock was \$3.3 million at both December 31, 2019 and December 31, 2018. The Company periodically uses short-term and long-term FHLB borrowings for a combination of cash management, risk management, and spread lending purposes.

In March of 2018, United Insurance received advances of \$10.0 million from the FHLB of Chicago. These advances were made in connection with the start-up of the Company's spread lending program, were collateralized by U.S Government Agency securities held in a custodial account with the FHLB of Chicago with a fair value of \$15.7 million at December 31, 2018. These advances were repaid in March of 2019.

During 2019, United Insurance received advances of \$614.5 million from the FHLB of Chicago and made repayments of \$381.1 million under the spread lending program. United Insurance had outstanding advances from the FHLB of Chicago totaling \$243.4 million at December 31, 2019. These advances were made in connection with the Company's spread lending program. The proceeds related to these advances were used to purchase fixed maturity securities to earn incremental net investment income. With respect to these advances, United Insurance held pledged securities in a custodial account with the



**LIQUIDITY AND CAPITAL RESOURCES (Continued)**

FHLB of Chicago with a fair value of \$287.8 million at December 31, 2019. The fair value of the collateral pledged must be maintained at certain specified levels above the borrowed amount, which can vary depending on the assets pledged. If the fair value of the collateral declines below these specified levels of the amount borrowed, United Insurance would be required to pledge additional collateral or repay outstanding borrowings. See Note 7, "Policyholder Contract Liabilities," to the Consolidated Financial Statements.

*Subsidiary Dividends and Capital Contributions*

Various state insurance laws restrict the ability of Kemper's insurance subsidiaries to pay dividends without regulatory approval. Such insurance laws generally restrict the amount of dividends paid in an annual period to the greater of statutory net income from the previous year or 10% of statutory capital and surplus. Kemper's direct insurance subsidiaries collectively paid \$239.0 million, \$130.4 million and \$108.1 million in dividends to Kemper in 2019, 2018 and 2017, respectively. In 2020, Kemper estimates that its direct insurance subsidiaries would be able to pay approximately \$435.4 million in dividends to Kemper without prior regulatory approval.

Kemper made capital contributions to insurance subsidiaries of \$83 million and \$20 million during 2019 and 2018, respectively.

*Dividends to Shareholders*

Kemper paid a quarterly dividend of \$0.25 per common share for the first three quarters of 2019 and \$0.28 for the fourth quarter of 2019. The quarterly dividend rate was \$0.24 for each quarter of 2018. Dividends and dividend equivalents paid were \$67.8 million and \$56.4 million for the years ended December 31, 2019 and 2018, respectively.

*Sources and Uses of Funds*

Kemper directly held cash and investments totaling \$206.8 million at December 31, 2019, compared to \$100.6 million at December 31, 2018.

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

The primary sources of funds for Kemper's insurance subsidiaries are premiums, investment income, 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, repayments of advances from the FHLBs of Dallas and Chicago and dividends to Kemper. Generally, there is a time lag between when premiums are collected and when policyholder benefits and insurance claims are paid.

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

Net Cash Provided by Operating Activities decreased by \$4.9 million for the year ended December 31, 2019, compared to 2018. Net Cash Provided by Operating Activities increased by \$298.6 million for the year ended December 31, 2018, compared to 2017.

**LIQUIDITY AND CAPITAL RESOURCES (Continued)**

Net Cash Provided by Financing Activities was \$160.8 million for the year ended December 31, 2019, compared to net cash used of \$12.2 million for the same period in 2018. Net proceeds from Policyholder Contract Liabilities provided \$232.2 million of cash for the year ended December 31, 2019 compared to \$8.9 million for the year ended December 31, 2018. Net proceeds from the issuance of common stock were \$127.5 million for the year ended December 31, 2019. Net proceeds from borrowing under the term loan facilities provided \$49.9 million of cash for the year ended December 31, 2019, compared to \$249.4 million for the year ended December 31, 2018. Kemper used \$185.0 million of cash to repay long-term debt for the year ended December 31, 2019 compared to \$215.0 million for the year ended December 31, 2018. Kemper did not use any cash during 2019 or 2018 to repurchase shares of its common stock. Kemper used \$67.8 million of cash to pay dividends for the year ended December 31, 2019, compared to \$56.4 million of cash used to pay dividends in the same period of 2018. The quarterly dividend rate was \$0.25 per common share for the first three quarters of 2019 and \$0.28 for the fourth quarter of 2019. The quarterly dividend rate was \$0.24 for each quarter of 2018.

Net Cash Used by Financing Activities was \$12.2 million for the year ended December 31, 2018, compared to \$205.2 million for the same period in 2017. Net proceeds from the issuance of long-term debt, which was used to fund the acquisition of Infinity, provided \$249.4 million of cash for the year ended December 31, 2017. Kemper used \$215.0 million of cash to repay long-term debt for the year ended December 31, 2018. Kemper did not use any cash during 2018 or 2017 to repurchase shares of its common stock. Kemper used \$56.4 million of cash to pay dividends for the year ended December 31, 2018, compared to \$49.5 million of cash used to pay dividends in the same period of 2017. The quarterly dividend rate was \$0.24 per common share for each quarter of 2018 and 2017.

Cash available for investment activities in total is dependent on cash flow from Operating Activities and Financing Activities and the level of cash the Company elects to maintain. Net Cash Used by Investing Activities was \$633.4 million for the year ended December 31, 2019, compared to \$497.6 million in 2018. Net cash used to acquire short-term investments was \$176.0 million for the year ended December 31, 2019, compared to net cash provided by dispositions of short-term investments of \$52.7 million in 2018. Fixed Maturities investing activities used net cash of \$55.8 million for the year ended December 31, 2019, compared to providing net cash of \$230.1 million in 2018. Equity Securities investing activities used net cash of \$89.7 million for the year ended December 31, 2019, compared to \$126.6 million in 2018. Equity Method Limited Liability Investments investing activities used net cash of \$44.2 million for the year ended December 31, 2019, compared to \$29.0 million in 2018.

Net Cash Used by Investing Activities was \$497.6 million for the year ended December 31, 2018, compared to \$105.4 million in 2017. Net cash provided by dispositions of short-term investments was \$52.7 million for the year ended December 31, 2018, compared to \$39.4 million in 2017. Fixed Maturities investing activities provided net cash of \$230.1 million for the year ended December 31, 2018, compared to net cash used of \$181.9 million in 2017. Equity Securities investing activities used net cash of \$126.6 million for the year ended December 31, 2018, compared to \$0.7 million in 2017. Equity Method Limited Liability Investments investing activities used net cash of \$29.0 million for the year ended December 31, 2018, compared to providing net cash of \$20.2 million in 2017. As of January 1, 2018, with the adoption of new accounting guidance, the Company's historical Fair Value Option Investments are carried as Equity Securities at Fair Value or Equity Securities at Modified Cost. Accordingly, no activity was recorded for Fair Value Option Investments for the year ended December 31, 2018, compared net cash provided by Fair Value Option Investing Activities of \$35.2 million in 2017.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no material obligations under guarantee contracts. The Company has no material retained or contingent interests in assets transferred to an unconsolidated entity. The Company has no material obligations, including contingent obligations, under contracts that would be accounted for as derivative instruments. The Company has no obligations, including contingent obligations, arising out of a variable interest in an unconsolidated entity held by, and material to, the Company, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with the Company. Accordingly, the Company has no material off-balance sheet arrangements.

## CONTRACTUAL OBLIGATIONS

Estimated cash disbursements pertaining to the Company's contractual obligations at December 31, 2019 are presented below.

<i><u>DOLLARS IN MILLIONS</u></i>	<u>Jan 1, 2020 to Dec 31, 2020</u>	<u>Jan 1, 2021 to Dec 31, 2022</u>	<u>Jan 1, 2023 to Dec 31, 2024</u>	<u>After Dec 31, 2024</u>	<u>Total</u>
Long Term Debt Obligations.....	\$ —	\$ 275.0	\$ 50.0	\$ 450.0	\$ 775.0
Finance Lease Obligations .....	0.3	0.2	—	—	0.5
Operating Lease Obligations.....	20.5	36.3	23.0	28.1	107.9
Purchase Obligations.....	11.7	4.0	0.4	—	16.1
Life and Health Insurance Policy Benefits.....	294.5	516.3	493.4	7,408.9	8,713.1
Property and Casualty Insurance Reserves .....	1,189.7	584.7	138.7	56.7	1,969.8
Other Contractual Obligations Reflected in Long Term Liabilities on the Consolidated Balance Sheet under GAAP.....	39.9	75.2	49.2	42.4	206.7
Total Contractual Obligations .....	<u>\$ 1,556.6</u>	<u>\$ 1,491.7</u>	<u>\$ 754.7</u>	<u>\$ 7,986.1</u>	<u>\$ 11,789.1</u>

Amounts included in Life and Health Insurance Policy Benefits within the contractual obligations table above represent the estimated cash payments to be made to policyholders and beneficiaries. Such cash outflows are based on the Company's current assumptions for mortality, morbidity and policy lapse, but are undiscounted with respect to interest. Policies must remain in force for the policyholder or beneficiary to receive the benefit under the policy. Depending on the terms of a particular policy, future premiums from the policyholder may be required for the policy to remain in force. The Company estimates that future cash inflows would total \$4.4 billion using the same assumptions used to estimate the cash outflows. The Company's Life Insurance Reserves in the Company's Consolidated Balance Sheets are generally based on the historical assumptions for mortality and policy lapse rates and are on a discounted basis. Accordingly, the sum of the amounts presented above for Life and Health Insurance Policy Benefits significantly exceeds the amount of Life and Health Insurance Reserves reported on the Company's Consolidated Balance Sheet at December 31, 2019.

In addition to the purchase obligations included above, the Company had certain investment commitments totaling \$515.4 million at December 31, 2019. The funding of such investment commitments is dependent on a number of factors, the timing of which is indeterminate. The Company cannot make a reasonably reliable estimate of the amount and period of related future payments, if any, for such liability. Other Contractual Obligations Reflected in Long Term Liabilities on the Consolidated Balance Sheets under GAAP primarily consist of interest obligations related to Long Term Debt Obligations.

## 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.

*Valuation of Investments*

The reported value of the Company's investments was \$9,044.4 million at December 31, 2019, of which \$7,866.7 million, or 87%, was reported at fair value, \$220.4 million, or 2%, was reported under the equity method of accounting, \$305.6 million, or 3%, was reported at unpaid principal balance and \$651.7 million, or 7%, was reported at cost, modified cost or depreciated cost. Investments, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility risk. Accordingly, it is reasonably possible that changes in the fair values of the Company's investments reported at fair value will occur in the near term and such changes could materially affect the amounts reported in the financial statements. Also, it is reasonably possible that changes in the carrying values of the Company's Equity Method Limited Liability Investments will occur in the near term and such changes could materially affect the amounts reported in the financial statements because these issuers follow specialized industry accounting rules which require that they report all of their investments at fair value (See

**CRITICAL ACCOUNTING ESTIMATES (Continued)**

Item 1A., “Risk Factors” under the title “The Company’s investment portfolio is exposed to a variety of risks that may negatively impact net investment income and cause realized and unrealized losses”).

As more fully described under the heading, “Fair Value Measurements,” in Note 2, “Summary of Accounting Policies and Accounting Changes,” to the Consolidated Financial Statements, the Company uses a hierarchical framework which prioritizes and ranks the market observability used in fair value measurements.

The fair value of the Company’s investments measured and reported at fair value was \$7,866.7 million at December 31, 2019, of which \$6,574.4 million, or 84%, were investments that were based on quoted market prices or significant value drivers that are observable, \$1,044.2 million, or 13%, were investments where at least one significant value driver was unobservable and \$248.1 million or 3% were investments for which fair value is measured using the net asset value per share practical expedient. Fair value measurements based on readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment, compared to fair value measurements based on significant unobservable inputs used in measuring fair value. The prices that the Company might realize from actual sales of investments are likely to vary from their respective estimated fair values at December 31, 2019 due to changing market conditions and limitations inherent in the estimation process.

The classification of a company’s investment in a financial instrument may affect its reported results. Under GAAP, a company may elect to use the fair value option method of accounting for some or all of its investments in financial instruments. Under the fair value option method of accounting, a company is required to recognize changes in fair values into income for the period reported. The Company has elected the fair value option for investments in fixed maturities with equity conversion features which are recorded on the Consolidated Balance Sheets as Convertible Securities. Accordingly, both the reported and fair values of the Company’s investments in Convertible Securities accounted for under the fair value option method of accounting were \$37.3 million at December 31, 2019. For investments in fixed maturities classified as held to maturity, a company is required to carry the investment at amortized cost, with only amortization occurring during the period recognized into income. None of the Company’s investments in fixed maturities were classified as held to maturity at December 31, 2019. Changes in the fair value of investments in fixed maturities classified as available for sale are not recognized in income during the period, but rather are recognized as a separate component of Accumulated Other Comprehensive Income (“AOCI”) until realized. Both the reported and fair values of the Company’s investments in fixed maturities classified as available for sale were \$6,922.1 million at December 31, 2019.

Equity securities with readily determinable fair values are recorded as Equity Securities at Fair Value with changes in fair values recognized into income for the period reported. Accordingly, both the reported and fair values of the Company’s investments in Equity Securities at Fair Value were \$907.3 million at December 31, 2019. The Company holds certain equity investments without readily determinable fair values at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. Changes in the carrying value of Equity Securities at Modified Cost due to observable price changes are recorded into income for the period reported.

Had the Company elected the fair value option for all of its investments in financial instruments, the Company’s reported net income for the year ended December 31, 2019, would have increased by \$323.7 million.

The Company regularly reviews its fixed maturity investment portfolio and holdings in Equity Securities at Modified Cost for factors that may indicate that a decline in the fair value of an investment below its cost, amortized cost or modified cost basis is other than temporary. Such reviews are inherently uncertain in that the value of the investment may not fully recover or may decline further in future periods. Some factors considered in evaluating whether or not a decline in fair value of an investment is other than temporary include, but are not limited to, the following:

*Fixed Maturity Securities*

- The financial condition, credit rating and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The ability of the issuer to make scheduled principal and interest payments;
- The volatility of the investment;

**CRITICAL ACCOUNTING ESTIMATES (Continued)**

*Equity Securities at Modified Cost*

- Opinions of the Company’s external investment managers;
- The financial condition and prospects of the issuer;
- Current market conditions;
- Changes in credit ratings; and
- Changes in the regulatory environment.

Changes in these factors from their December 31, 2019 evaluation date could result in the Company determining that a temporary decline in the fair value of an investment held and evaluated at December 31, 2019 is no longer temporary at a subsequent evaluation date. Such determination would result in an impairment loss recognized in earnings in the period such determination is made.

*Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses*

The Company’s Property and Casualty Insurance Reserves are reported using the Company’s estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid. The Company had \$1,969.8 million and \$1,874.9 million of gross loss and LAE reserves at December 31, 2019 and 2018, respectively.

Property and Casualty Insurance Reserves for the Company’s business segments at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Business Segments:		
Specialty Property & Casualty Insurance .....	1,551.0	1,387.0
Preferred Property & Casualty Insurance .....	388.5	452.9
Life & Health Insurance.....	3.3	4.4
Total Business Segments.....	<u>1,942.8</u>	<u>1,844.3</u>
Unallocated Reserves.....	27.0	30.6
Total Property and Casualty Insurance Reserves .....	<u>\$ 1,969.8</u>	<u>\$ 1,874.9</u>

In estimating the Company’s Property and Casualty Insurance Reserves, the Company’s actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company’s Property and Casualty Insurance Reserves is inherently uncertain, and the actual ultimate cost of known and unknown claims may vary materially from the estimated amounts reserved.

The Company’s actuaries generally estimate reserves at least quarterly for most product lines and/or coverage levels using accident quarters or years spanning 10 or more years, depending on the product line and/or coverage level or emerging issues relating to them. The Company’s actuaries use a variety of generally accepted actuarial loss reserving estimation methodologies, including, but not limited to, the following:

- Incurred Loss Development Methodology;
- Paid Loss Development Methodology;
- Bornhuetter-Ferguson Incurred Loss Methodology;
- Bornhuetter-Ferguson Paid Loss Methodology; and
- Frequency and Severity Methodology.

The Company’s actuaries generally review the results of at least four of the estimation methodologies, two based on paid data and two based on incurred data, to initially estimate the ultimate losses and LAE for the current accident quarter or year and re-estimate the ultimate losses and LAE for previous accident quarters or years to determine if changes in the previous estimates of the ultimate losses and LAE are indicated by the most recent data. In some cases, the methodologies produce a cluster of estimates with a tight band of indicated possible outcomes. In other cases, however, the methodologies produce conflicting results and wider bands of indicated possible outcomes, and the Company’s actuaries perform additional analyses before making their final selections. However, such bands do not necessarily constitute a range of outcomes, nor does the Company’s management or the Company’s actuaries calculate a range of outcomes.



**CRITICAL ACCOUNTING ESTIMATES (Continued)**

The key assumption in these estimation methodologies is that patterns observed in prior periods are indicative of how losses and LAE are expected to develop in the future and that such historical data can be used to predict and estimate ultimate losses and LAE. However, changes in the Company's business processes, by their very nature, are likely to affect the development patterns, which means the Company's actuaries must routinely make assumptions about how changes in business practices would affect historical patterns.

The ultimate impact of a single change in a business process is difficult to quantify and detect, and even more difficult if several changes to business processes occur over several years. Initially after a change is implemented, there are fewer data points, as compared to the historical data, for the Company's actuaries to analyze. With fewer data points to analyze, the Company's actuaries cannot be certain that observed differences from the historical data trends are a result of the change in business process or merely a random fluctuation in the data. As the Company's actuaries observe more data points following the change in business process, the Company's actuaries can gain more confidence in whether the change in business process is affecting the development pattern. The challenge for the Company's actuaries is how much weight to place on the development patterns based on the older historical data and how much weight to place on the development patterns based on more recent data.

For each accident quarter or year, the point estimate selected by the Company's actuaries is not necessarily one of the points produced by any particular one of the methodologies utilized, but often is another point selected by the Company's actuaries, using their professional judgment, that takes into consideration each of the points produced by the several loss reserving estimation methodologies used. In some cases, for a particular product, the current accident quarter or year may not have enough paid claims data to rely upon, leading the Company's actuaries to conclude that the incurred loss development methodology provides a better estimate than the paid loss development methodology. Therefore, the Company's actuaries may give more weight to the incurred loss development methodology for that particular accident quarter or year. As an accident quarter or year ages for that same product, the actuary may gain more confidence in the paid loss development methodology and begin to give more weight to the paid loss development methodology. The Company's actuaries' quarterly selections are summed by product and/or coverage levels to create the actuarial indication of the ultimate losses. More often than not, the actuarial indication for a particular product line and accident quarter or year is most heavily weighted toward the incurred loss development methodology, particularly for short-tail lines such as personal automobile insurance. Historically, the incurred loss development methodology has been more reliable in predicting ultimate losses for short-tail lines, especially in the more recent accident quarters or years, compared with the paid loss development methodology. However, in some circumstances changes can occur which impact numerous variables, including, but not limited to, those variables identified below that are difficult to quantify and/or impact the predictive value of prior development patterns relied upon in the incurred loss development methodology and paid loss development methodology. In those circumstances, the Company's actuaries must make adjustments to these loss reserving estimation methodologies or use additional generally accepted actuarial estimation methodologies. In those circumstances, the Company's actuaries, using their professional judgment, may place more weight on the adjusted loss reserving estimation methodologies or other generally accepted actuarial estimation methodologies until the newer development patterns fully emerge and the Company's actuaries can fully rely on the unadjusted loss reserving estimation methodologies. In the event of a wide variation among results generated by the different projection methodologies, the Company's actuaries further analyze the data using additional techniques.

In estimating reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify, such as:

- Changes in the level of minimum case reserves, and the automatic aging of those minimum case reserves;
- Changes to claims practices, including, but not limited to, changes in the reporting and impact of large losses, timing of reported claims, changes in claims closing and re-opening patterns, adequacy of case reserves, implementation of new systems for handling claims, turnover of claims department staffs, timing and depth of the audit review of claims handling procedures;
- Changes in underwriting practices;
- Changes in the mix of business by state, class and policy limit within product line;
- Growth in new lines of business;

**CRITICAL ACCOUNTING ESTIMATES (Continued)**

- Changes in the attachment points of the Company's reinsurance programs;
- Medical costs, including, but not limited to, the ability to assess the extent of injuries and the impact of inflation;
- Repair costs, including, but not limited to, the impact of inflation and the availability of labor and materials;
- Changes in the judicial environment, including, but not limited to, the interpretation of policy provisions, the impact of jury awards and changes in case law; and
- Changes in state regulatory requirements.

A change in any one or more of the foregoing factors is likely to result in a projected ultimate net loss and LAE that is different from the previously estimated reserve and/or previous frequency and severity trends. Such changes in estimates may be material.

For example, the Company's actuaries review frequency (number of claims per policy or exposure), severity (dollars of loss per claim) and average premium (dollars of premium per exposure). Actual frequency and severity experienced will vary depending on changes in mix by class of insured risk. Similarly, the actual frequency and rate of recovery from reinsurance will vary depending on changes in the attachment point for reinsurance. In particular, in periods of high growth or expansion into new markets, there may be additional uncertainty in estimating the ultimate losses and LAE. The contributing factors of this potential risk are changes in the Company's mix by policy limit and mix of business by state or jurisdiction.

Actuaries use historical experience and trends as predictors of how losses and LAE will emerge over time. However, historical experience may not necessarily be indicative of how actual losses and LAE will emerge. Changes in case reserve adequacy, changes in minimum case reserves and changes in internal claims handling procedures could impact the timing and recognition of incurred claims and produce an estimate that is either too high or too low if not adjusted for by the actuary. For example, if, due to changes in claims handling procedures, actual claims are settled more rapidly than they were settled historically, the estimate produced by the paid loss development methodology would tend to be overstated if the actuary did not identify and adjust for the impact of the changes in claims handling procedures. Similarly, if, due to changes in claims handling procedures, actual claim reserves are set at levels higher than past experience, the estimate produced by the incurred loss development methodology would tend to be overstated if the actuary did not identify and adjust for the impact of the changes in claims handling procedures.

The final step in the quarterly loss and LAE reserving process involves a comprehensive review of the actuarial indications by the Company's corporate actuary and corporate management who apply their collective judgment and determine the appropriate estimated level of reserves to record. Numerous factors are considered in this determination process, including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, changes in claim handling practices or other changes that affect the timing of payment or development patterns, changes in the mix of business, the maturity of the accident quarter or year, pertinent trends observed over the recent past, the level of volatility within a particular line of business, the improvement or deterioration of actuarial indications in the current period as compared to prior periods, and the amount of reserves related to third party pools for which the Company does not have access to the underlying data and, accordingly, relies on calculations provided by such pools.

*Estimated Variability of Property and Casualty Insurance Reserves*

The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while sustaining minimal variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully paid. Changes in the Company's estimates of these losses and LAE over time, also referred to as "development," will occur and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income.

Although development will emerge in all of the Company's product lines, development in the Company's specialty personal automobile insurance product line could have the most significant impact due to the relative size of its loss and LAE reserves. To further illustrate the sensitivity of the Company's reserves for specialty personal automobile insurance losses and LAE, the Company measures the standard deviation of the mean reserve estimate using a bootstrapping methodology. The Company believes that one standard deviation of variability is a reasonably likely scenario to measure variability for its loss and LAE reserves for specialty personal automobile insurance. The Company estimates that the Company's specialty personal

**CRITICAL ACCOUNTING ESTIMATES (Continued)**

automobile insurance loss and LAE reserves could have varied by \$71.6 million in either direction at December 31, 2019 for all accident years combined under this scenario. In addition to the factors described above, other factors may also impact loss reserve development in future periods. These factors include governmental actions, including court decisions interpreting existing laws, regulations or policy provisions, developments related to insurance policy claims and coverage issues, adverse or favorable outcomes in pending claims litigation, the number and severity of insurance claims, the impact of inflation on insurance claims and the impact of required participation in windpools and joint underwriting associations and residual market assessments. Although the Company's actuaries do not make specific numerical assumptions about these factors, changes in these factors from past patterns will impact historical loss development factors and, in turn, future loss reserve development. Significant favorable changes in one or more factors will lead to favorable future loss reserve development, which could result in the actual loss developing closer to, or even below, the lower end of the Company's estimated reserve variability. Significant unfavorable changes in one or more factors will lead to unfavorable loss reserve development, which could result in the actual loss developing closer to, or even above, the higher end of the Company's estimated reserve variability. Accordingly, due to these factors and the other factors enumerated throughout the MD&A and the inherent limitations of the loss reserving estimation methodologies, the estimated and illustrated reserve variability may not necessarily be indicative of the Company's future reserve variability, which could ultimately be greater than the estimated and illustrated variability. In addition, as previously noted, development will emerge in all of the Company's product lines over time. Accordingly, the Company's future reserve variability could ultimately be greater than the illustrated variability. Additional information pertaining to the estimation of, and development of, the Company's Property and Casualty Insurance Reserves is contained in Item 1 of Part I of this 2019 Annual Report under the heading "Property and Casualty Loss and Loss Adjustment Expense Reserves."

*Goodwill Recoverability*

The Company tests goodwill for recoverability at the reporting unit level on an annual basis, or whenever events or circumstances indicate the fair value of a reporting unit may have declined below its carrying value. The Company performed a qualitative goodwill impairment assessment for all reporting units with goodwill as of October 1, 2019. The qualitative assessment takes into consideration changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy and changes in our stock price since the last quantitative assessment, which was performed on January 1, 2017. Based on its qualitative assessment, the Company concluded that the associated goodwill was recoverable for each reporting unit tested.

*Pension Benefit Obligations*

The process of estimating the Company's pension benefit obligations and pension benefit costs is inherently uncertain and the actual cost of benefits may vary materially from the estimates recorded. These liabilities are particularly volatile due to their long-term nature and are based on several assumptions. The main assumptions used in the valuation of the Company's pension benefit obligations and pension costs are:

- Estimated mortality of the participants and beneficiaries eligible for benefits;
- Estimated expected long-term rates of returns on investments; and
- Estimated rate used to discount the expected benefit payment to a present value.

A change in any one or more of these assumptions is likely to result in a projected benefit obligation or pension cost that differs from the actuarial estimates at December 31, 2019. Such changes in estimates may be material. For example, a one-percentage point decrease in the Company's estimated discount rate would increase the pension benefit obligation at December 31, 2019 by \$90.8 million, while a one-percentage point increase in the rate would decrease the pension benefit obligation at December 31, 2019 by \$74.1 million. A one-percentage point decrease in the Company's estimated long-term rate of return on plan assets would increase the pension expense for the year ended December 31, 2019 by \$5.4 million, while a one-percentage point increase in the rate would decrease pension expense by \$5.4 million for the same period.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification ("ASC") is the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board ("FASB") that is applicable to the Company. The FASB issues ASUs to amend the authoritative literature in ASC.

The Company has adopted all recently issued accounting pronouncements with effective dates prior to January 1, 2020. See Note 2, "Summary of Accounting Policies and Accounting Changes" to the Consolidated Financial Statements for discussion on adoption of these ASUs and impacts to the Company's financial statements, which were not material. For all recently issued accounting pronouncements with effective dates after December 31, 2019, the Company does not expect adoption to have a material impact on its financial statements, with the possible exception of ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts*.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

### *Quantitative Information About Market Risk*

The Company's consolidated balance sheets include three types of financial instruments subject to the material market risk disclosures required by the SEC:

1. Investments in Fixed Maturities;
2. Investments in Equity Securities at Fair Value; and
3. Debt.

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

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

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

For the interest rate sensitivity analysis presented below, the Company assumed an adverse and instantaneous increase of 100 basis points in the yield curve at both December 31, 2019 and 2018 for Investments in Fixed Maturities. Such 100 basis point increase in the yield curve may not necessarily result in a corresponding 100 basis point increase in the interest rate for all investments in fixed maturities. For example, a 100 basis point increase in the yield curve for risk-free, taxable investments in fixed maturities may not result in a 100 basis point increase for tax-exempt investments in fixed maturities. For Investments in Fixed Maturities, the Company also anticipated changes in cash flows due to changes in the likelihood that investments would be called or prepaid prior to their contractual maturity. All other variables were held constant. For preferred stock equity securities, the Company assumed an adverse and instantaneous increase of 100 basis points in market interest rates from their levels at both December 31, 2019 and 2018. All other variables were held constant. For Debt, the Company assumed an adverse and instantaneous decrease of 100 basis points in market interest rates from their levels at December 31, 2019 and 2018. All other variables were held constant. The Company measured equity price sensitivity assuming an adverse and instantaneous 30% decrease in the Standard and Poor's Stock Index (the "S&P 500") from its level at December 31, 2019 and 2018, with all other variables held constant. The Company's investments in common stock equity securities were correlated with the S&P 500 using the portfolio's weighted-average beta of 0.99 and 0.97 at December 31, 2019 and 2018, respectively. Beta measures a stock's relative volatility in relation to the rest of the stock market, with the S&P 500 having a beta coefficient of 1.00. The common stock portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended December 31, 2019 and 2018, and weighted on the fair value of such securities at December 31, 2019 and 2018, respectively. For equity securities without observable market inputs, the Company assumed a beta of 1.00 at December 31, 2019 and 2018.



**Quantitative Information About Market Risk (continued)**

The estimated adverse effects on the fair value of the Company's financial instruments at December 31, 2019 using these assumptions were:

<u>DOLLARS IN MILLIONS</u>	Fair Value	Pro Forma Increase (Decrease)		
		Interest Rate Risk	Equity Price Risk	Total Market Risk
<b>ASSETS</b>				
Investments in Fixed Maturities.....	\$ 6,922.1	\$ (489.1)	\$ —	\$ (489.1)
Investments in Equity Securities.....	907.3	(40.2)	(175.1)	(215.3)
<b>LIABILITIES</b>				
Debt.....	\$ 820.2	\$ 29.2	\$ —	\$ 29.2

The estimated adverse effects on the fair value of the Company's financial instruments at December 31, 2018 using these assumptions were:

<u>DOLLARS IN MILLIONS</u>	Fair Value	Pro Forma Increase (Decrease)		
		Interest Rate Risk	Equity Price Risk	Total Market Risk
<b>ASSETS</b>				
Investments in Fixed Maturities.....	\$ 6,424.2	\$ (393.5)	\$ —	\$ (393.5)
Investments in Equity Securities.....	684.4	(7.4)	(175.6)	(183.0)
<b>LIABILITIES</b>				
Debt.....	\$ 911.2	\$ 34.3	\$ —	\$ 34.3

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

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

**Qualitative Information About Market Risk**

Market risk is a broad term related to economic losses due to adverse changes in the fair value of a financial instrument and is inherent to all financial instruments. SEC disclosure rules focus on only one element of market risk—price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates or other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company's primary market risk exposures are to changes in interest rates and equity prices.

The Company manages its interest rate exposures with respect to Investments in Fixed Maturities by investing primarily in investment-grade securities of moderate effective duration.

**Item 8. Financial Statements and Supplementary Data.**

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**KEMPER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

For the Year Ended December 31,

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS

	2019	2018	2017
Revenues:			
Earned Premiums .....	\$ 4,472.4	\$ 3,384.4	\$ 2,350.0
Net Investment Income .....	364.3	340.9	327.2
Other Income .....	35.5	42.2	4.0
Income (Loss) from Change in Fair Value of Equity and Convertible Securities .....	138.9	(64.3)	—
Net Realized Gains on Sales of Investments .....	41.9	26.4	56.5
Other-than-temporary Impairment Losses:			
Total Other-than-temporary Impairment Losses .....	(13.7)	(4.5)	(14.4)
Portion of Gains (Losses) Recognized in Other Comprehensive Income .....	(0.1)	—	0.1
Net Impairment Losses Recognized in Earnings .....	(13.8)	(4.5)	(14.3)
Total Revenues .....	<u>5,039.2</u>	<u>3,725.1</u>	<u>2,723.4</u>
Expenses:			
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses .....	3,188.3	2,466.5	1,837.4
Insurance Expenses .....	1,019.7	900.5	644.3
Loss from Early Extinguishment of Debt .....	5.8	—	—
Interest and Other Expenses .....	163.8	159.0	80.6
Total Expenses .....	<u>4,377.6</u>	<u>3,526.0</u>	<u>2,562.3</u>
Income from Continuing Operations before Income Taxes .....	661.6	199.1	161.1
Income Tax Expense .....	(130.5)	(10.7)	(41.2)
Income from Continuing Operations .....	531.1	188.4	119.9
Income from Discontinued Operations .....	—	1.7	1.0
Net Income .....	<u>\$ 531.1</u>	<u>\$ 190.1</u>	<u>\$ 120.9</u>
Income from Continuing Operations Per Unrestricted Share:			
Basic .....	<u>\$ 8.04</u>	<u>\$ 3.22</u>	<u>\$ 2.32</u>
Diluted .....	<u>\$ 7.96</u>	<u>\$ 3.19</u>	<u>\$ 2.31</u>
Net Income Per Unrestricted Share:			
Basic .....	<u>\$ 8.04</u>	<u>\$ 3.25</u>	<u>\$ 2.34</u>
Diluted .....	<u>\$ 7.96</u>	<u>\$ 3.22</u>	<u>\$ 2.33</u>

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

**KEMPER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

<u>DOLLARS IN MILLIONS</u>	For The Years Ended December 31,		
	2019	2018	2017
Net Income .....	<b>\$ 531.1</b>	\$ 190.1	\$ 120.9
Other Comprehensive Income (Loss) Before Income Taxes:			
Unrealized Holding Gains (Losses).....	405.3	(236.1)	83.8
Foreign Currency Translation Adjustments.....	—	0.3	1.7
Decrease (Increase) in Net Unrecognized Postretirement Benefit Costs .....	(7.8)	(6.9)	3.3
Gain (Loss) on Cash Flow Hedges .....	0.4	1.2	(6.7)
Other Comprehensive Income (Loss) Before Income Taxes.....	<b>397.9</b>	(241.5)	82.1
Other Comprehensive Income Tax Benefit (Expense).....	(83.6)	50.7	(24.7)
Other Comprehensive Income (Loss).....	<b>314.3</b>	(190.8)	57.4
Total Comprehensive Income (Loss).....	<b>\$ 845.4</b>	\$ (0.7)	\$ 178.3

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

**KEMPER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u>	December 31,	
	2019	2018
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2019 - \$6,372.7; 2018 - \$6,284.5).....	\$ 6,922.1	\$ 6,424.2
Equity Securities at Fair Value (Cost: 2019 - \$818.8; 2018 - \$720.8).....	907.3	684.4
Equity Securities at Modified Cost.....	41.9	41.5
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings.....	220.4	187.0
Convertible Securities at Fair Value.....	37.3	31.5
Short-term Investments at Cost which Approximates Fair Value.....	470.9	286.1
Other Investments.....	444.5	414.8
Total Investments.....	9,044.4	8,069.5
Cash.....	136.8	75.1
Receivables from Policyholders.....	1,117.1	1,007.1
Other Receivables.....	219.7	245.4
Deferred Policy Acquisition Costs.....	537.7	470.0
Goodwill.....	1,114.0	1,112.4
Current Income Tax Assets.....	44.7	38.9
Other Assets.....	774.7	526.5
Total Assets.....	\$ 12,989.1	\$ 11,544.9
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health.....	\$ 3,502.0	\$ 3,491.9
Property and Casualty.....	1,969.8	1,874.9
Total Insurance Reserves.....	5,471.8	5,366.8
Unearned Premiums.....	1,545.5	1,424.3
Policyholder Contract Liabilities.....	309.8	76.8
Deferred Income Tax Liabilities.....	178.2	26.2
Liabilities for Unrecognized Tax Benefits.....	—	4.4
Accrued Expenses and Other Liabilities.....	733.1	687.3
Long-term Debt, Current and Non-current, at Amortized Cost (Fair Value: 2019 - \$820.2; 2018 - \$911.2).....	778.4	909.0
Total Liabilities.....	9,016.8	8,494.8
Shareholders' Equity:		
Common Stock, \$0.10 Par Value Per Share, 100 Million Shares Authorized; 66,665,888 Shares Issued and Outstanding at December 31, 2019 and 64,756,833 Shares Issued and Outstanding at December 31, 2018.....	6.7	6.5
Paid-in Capital.....	1,819.2	1,666.3
Retained Earnings.....	1,810.3	1,355.5
Accumulated Other Comprehensive Income.....	336.1	21.8
Total Shareholders' Equity.....	3,972.3	3,050.1
Total Liabilities and Shareholders' Equity.....	\$ 12,989.1	\$ 11,544.9

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



**KEMPER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For The Years Ended December 31,

DOLLARS IN MILLIONS

	2019	2018	2017
Operating Activities:			
Net Income .....	\$ 531.1	\$ 190.1	\$ 120.9
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Increase in Deferred Policy Acquisition Costs.....	(66.9)	(104.6)	(33.3)
Amortization of Intangible Assets Acquired .....	29.7	156.3	5.1
Equity in Earnings of Equity Method Limited Liability Investments .....	(1.0)	(11.0)	(24.8)
Contribution to Defined Benefit Pension Plan.....	(55.3)	(5.1)	—
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments...	11.9	13.9	19.6
Decrease (Increase) in Value of Fair Value Option Investments reported in Investment Income.....	—	—	(1.3)
Decrease (Increase) in Value of Equity and Convertible Securities at Fair Value .....	(138.9)	64.3	—
Amortization of Investment Securities and Depreciation of Investment Real Estate .....	0.5	7.7	16.7
Net Realized Gains on Sales of Investments.....	(41.9)	(26.4)	(56.5)
Net Impairment Losses Recognized in Earnings .....	13.8	4.5	14.3
Loss from Early Extinguishment of Debt .....	5.8	—	—
Depreciation and Amortization of Property, Equipment and Software.....	32.8	15.6	13.1
Increase in Receivables .....	(84.3)	(80.7)	(29.2)
Increase in Insurance Reserves .....	102.3	183.2	131.1
Increase in Unearned Premiums.....	121.2	54.7	35.2
Change in Income Taxes .....	58.8	13.1	28.9
Change in Accrued Expenses and Other Liabilities .....	(16.0)	49.9	2.9
Other, Net .....	30.7	13.7	(2.1)
Net Cash Provided by Operating Activities .....	<u>534.3</u>	<u>539.2</u>	<u>240.6</u>
Investing Activities:			
Sales, Paydowns and Maturities of Fixed Maturities .....	1,229.1	2,643.3	528.2
Purchases of Fixed Maturities .....	(1,284.9)	(2,413.2)	(710.1)
Sales of Equity and Convertible Securities .....	217.3	351.9	342.0
Purchases of Equity and Convertible Securities .....	(307.0)	(478.5)	(342.7)
Acquisition and Improvements of Investment Real Estate .....	(1.4)	(1.5)	(1.5)
Sales of Investment Real Estate .....	—	—	26.7
Sale of and Return of Investment of Equity Method Limited Liability Investments.....	29.5	14.1	48.1
Acquisitions of Equity Method Limited Liability Investments .....	(73.7)	(43.1)	(27.9)
Sales of Fair Value Option Investments .....	—	—	42.2
Purchases of Fair Value Option Investments.....	—	—	(7.0)
Decrease (Increase) in Short-term Investments .....	(176.0)	52.7	39.4
Acquisition of Business, Net of Cash Acquired.....	—	(560.6)	—
Acquisitions of Mortgage Loans .....	(44.5)	—	—
Paydowns of Mortgage Loans.....	17.2	—	—
Increase in Other Investments .....	(0.1)	(2.0)	(4.5)
Purchases of Corporate-owned Life Insurance .....	(150.0)	—	—
Acquisition of Software and Long-lived Assets.....	(84.0)	(65.3)	(35.5)
Other, Net .....	(4.9)	4.6	(2.8)
Net Cash Used by Investing Activities .....	<u>(633.4)</u>	<u>(497.6)</u>	<u>(105.4)</u>
Financing Activities:			
Net Proceeds from Issuance of Long-term Debt.....	49.9	249.4	200.2
Repayment of Long-term Debt .....	(185.0)	(215.0)	(360.0)
Proceeds from Policyholder Contract Liabilities .....	615.8	11.4	3.0
Repayment of Policyholder Contract Liabilities.....	(383.6)	(2.5)	(2.9)
Proceeds from Issuance of Common Stock, Net of Transaction Costs.....	127.5	—	—
Dividends and Dividend Equivalents Paid.....	(67.8)	(56.4)	(49.5)
Proceeds from Shares Issued under Employee Stock Purchase Plan.....	1.6	—	—
Cash Exercise of Stock Options .....	2.4	0.9	4.0
Net Cash Provided (Used) by Financing Activities .....	<u>160.8</u>	<u>(12.2)</u>	<u>(205.2)</u>
Increase (Decrease) in Cash.....	61.7	29.4	(70.0)
Cash, Beginning of Year .....	75.1	45.7	115.7
Cash, End of Year.....	<u>\$ 136.8</u>	<u>\$ 75.1</u>	<u>\$ 45.7</u>

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

**KEMPER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

For the Years Ended December 31, 2019, 2018 and 2017

<i><b>DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE AMOUNTS</b></i>	<b>Number of Shares</b>	<b>Common Stock</b>	<b>Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Shareholders' Equity</b>
<b>BALANCE, DECEMBER 31, 2016</b> .....	51.3	\$ 5.1	\$ 660.3	\$ 1,172.8	\$ 137.0	\$ 1,975.2
Cumulative Effect of Adoption of New Accounting Standard .....	—	—	—	0.5	—	0.5
Net Income .....	—	—	—	120.9	—	120.9
Other Comprehensive Income (Loss) (Note 13) .....	—	—	—	—	57.4	57.4
Cash Dividends and Dividend Equivalents to Shareholders (\$0.96 per share) .....	—	—	—	(49.5)	—	(49.5)
Equity-based Compensation Cost (Note 11) .....	—	—	9.4	—	—	9.4
Equity-based Awards, Net of Shares Exchanged (Note 11) .....	0.2	—	3.4	(1.7)	—	1.7
<b>BALANCE, DECEMBER 31, 2017 As Reported</b> ..	51.5	\$ 5.1	\$ 673.1	\$ 1,243.0	\$ 194.4	\$ 2,115.6
Cumulative Effect of Adoption of New Accounting Standards .....	—	—	—	(18.2)	18.2	—
<b>BALANCE, JANUARY 1, 2018 As Adjusted</b> .....	51.5	5.1	673.1	1,224.8	212.6	2,115.6
Net Income .....	—	—	—	190.1	—	190.1
Other Comprehensive Income (Loss) (Note 13) .....	—	—	—	—	(190.8)	(190.8)
Cash Dividends and Dividend Equivalents to Shareholders (\$0.96 per share) .....	—	—	—	(56.4)	—	(56.4)
Issuances of Common Stock (Note 3) .....	13.1	1.4	977.2	—	—	978.6
Equity-based Compensation Cost (Note 11) .....	—	—	18.6	—	—	18.6
Equity-based Awards, Net of Shares Exchanged (Note 11) .....	0.1	—	(2.6)	(3.0)	—	(5.6)
<b>BALANCE, DECEMBER 31, 2018</b> .....	64.7	\$ 6.5	\$ 1,666.3	\$ 1,355.5	\$ 21.8	\$ 3,050.1
Net Income .....	—	—	—	531.1	—	531.1
Other Comprehensive Income (Loss) (Note 13) .....	—	—	—	—	314.3	314.3
Cash Dividends and Dividend Equivalents to Shareholders (\$1.03 per share) .....	—	—	—	(68.4)	—	(68.4)
Issuances of Common Stock (Note 10) .....	1.6	0.2	127.0	—	—	127.2
Shares Issued Under Employee Stock Purchase Plan (Note 10) .....	—	—	1.9	—	—	1.9
Equity-based Compensation Cost (Note 11) .....	—	—	25.3	—	—	25.3
Equity-based Awards, Net of Shares Exchanged (Note 11) .....	0.4	—	(1.3)	(7.9)	—	(9.2)
<b>BALANCE, DECEMBER 31, 2019</b> .....	<b>66.7</b>	<b>\$ 6.7</b>	<b>\$ 1,819.2</b>	<b>\$ 1,810.3</b>	<b>\$ 336.1</b>	<b>\$ 3,972.3</b>

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

**NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ESTIMATES**

The Consolidated Financial Statements included herein have been prepared on the basis of accounting principles generally accepted in the United States ("GAAP") and include the accounts of Kemper Corporation ("Kemper") and its subsidiaries (individually and collectively referred to herein as the "Company"). All significant intercompany accounts and transactions have been eliminated. Certain prior year amounts for policyholder contract amounts have been reclassified to conform to the current presentation.

*Use of Estimates*

The preparation of financial statements in conformity 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. Actual results could differ materially from those estimates and assumptions.

The fair values of the Company's Investments in Fixed Maturities, Investments in Convertible Securities at Fair Value, Investments in Equity Securities at Fair Value and Debt are estimated using a hierarchical framework which prioritizes and ranks market price observability. The carrying amounts reported in the Consolidated Balance Sheets approximate fair value for Cash, Short-term Investments and certain other assets and other liabilities because of their short-term nature. The actual value at which financial instruments could be sold or settled with a willing buyer or seller may differ from estimated fair values depending on a number of factors, including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

The process of estimating and establishing reserves for losses and loss adjustment expenses ("LAE") for property and casualty insurance is inherently uncertain, and the actual ultimate net cost of known and unknown claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving long-tailed exposures, which may not be discovered or reported until years after the insurance policy period has ended. Management considers a variety of factors, including, but not limited to, past claims experience, current claim trends and relevant legal, economic and social conditions, in estimating reserves. A change in any one or more factors is likely to result in the ultimate net claim costs differing from the estimated reserve. Changes in such estimates may be material and would be recognized in the Consolidated Financial Statements when such estimates change.

The process of determining whether an asset is impaired or recoverable relies on projections of future cash flows, operating results and market conditions. Projections are inherently uncertain, and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company's assessment of the impairment of long-lived assets is susceptible to the risk inherent in making such projections.

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES**

*Investments*

Investments in Fixed Maturities include bonds, notes and redeemable preferred stocks. Investments in Fixed Maturities are classified as available for sale and reported at fair value. Net Investment Income, including amortization of purchased premiums and accretion of market discounts, on Investments in Fixed Maturities is recognized as interest over the period that it is earned using the effective yield method. Unrealized appreciation or depreciation, net of applicable deferred income taxes, on fixed maturities classified as available for sale is reported in Accumulated Other Comprehensive Income ("AOCI") included in Shareholders' Equity.

Investments in Convertible Securities include fixed maturities with equity conversion features. The Company has elected the fair value option method of accounting for investments in Convertible Securities and records Convertible Securities at fair value on the Consolidated Balance Sheets. Changes in fair value of Convertible Securities are recorded in the Consolidated Statements of Income during the period such changes occur.

Equity investments include common stocks, non-redeemable preferred stocks, exchange traded funds, money market mutual funds and limited liability companies and investment partnerships in which the Company's interests are deemed minor. Equity investments with readily determinable fair values are recorded as Equity Securities at Fair Value on the Consolidated Balance Sheets. Effective January 1, 2018, changes in the fair value of such equity securities are reported in the Consolidated Statements of Income. Prior to January 1, 2018, changes in the fair values of such equity securities were reported in AOCI. Dividend income on investments in common and non-redeemable preferred stocks is recognized on the ex-dividend date. The Company

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

holds certain equity investments without readily determinable fair values at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer on the Consolidated Balance Sheets as Equity Securities at Modified Cost. Changes in the carrying value of Modified Cost investments due to observable price changes are recorded as Income (Loss) from Change in Fair Value of Equity and Convertible Securities.

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.

Short-term Investments include certificates of deposit and other fixed maturities that mature within one year from the date of purchase, U.S. Treasury bills, money market mutual funds and overnight interest bearing accounts. Short-term Investments are reported at cost, which approximates fair value.

Other Investments primarily include loans to policyholders, real estate and mortgage loans. Loans to policyholders are carried at unpaid principal balance. Real estate is carried at cost, net of accumulated depreciation. Real estate is depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Real estate is evaluated for impairment when events or circumstances indicate the carrying value may not be recoverable. An impairment loss on real estate is recognized when the carrying value exceeds the sum of undiscounted projected future cash flows as well as the fair value, or, in the case of a property classified as held for sale, when the carrying value exceeds the fair value, net of costs to sell. Mortgage loans are carried at amortized cost, net of a reserve for expected credit losses.

Gains and losses on sales of investments are computed on the specific identification method and are reported in the Consolidated Statements of Income in the period in which the sales occur. 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. Losses are computed on the specific identification method and reported in the Consolidated Statements of Income in the period that the decline is determined to be other than temporary. The portion of an impairment of an investment in a fixed maturity attributed to a credit loss is reported in Net Impairment Losses Recognized in Earnings in the Consolidated Statements of Income, with the portion of the impairment that is not attributed to a credit loss reported in AOCI.

***Fair Value Measurements***

The Company uses a hierarchical framework which prioritizes and ranks the market observability of inputs used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The Company classifies the inputs used to measure fair value into one of three levels as follows:

- Level 1 — Quoted prices in an active market for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and
- Level 3 — Significant unobservable inputs for the asset or liability being measured.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement. Such determination requires significant management judgment.

***Deferred Policy Acquisition Costs***

Costs directly associated with the successful acquisition of business, principally commissions and certain premium taxes and policy issuance costs, are deferred. Costs deferred on property and casualty insurance contracts and short duration health

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

insurance contracts are amortized over the period in which premiums are earned. Costs deferred on traditional life insurance products and other long-duration insurance contracts are primarily amortized over the anticipated premium-paying period of the related policies in proportion to the ratio of the annual premiums to the total premiums anticipated, which is estimated using the same assumptions used in calculating policy reserves.

***Goodwill***

The cost of an acquired entity over the fair value of net assets acquired is reported as Goodwill. Goodwill is not amortized, but rather is tested for recoverability annually or when certain triggering events require testing.

***Insurance Reserves***

Reserves for losses and LAE on property and casualty insurance coverage and health insurance coverage represent the estimated claim cost and loss adjustment expense necessary to cover the ultimate net cost of investigating and settling all losses incurred and unpaid at the end of any given accounting period. Such estimates are based on individual case estimates for reported claims and estimates for incurred but not reported (“IBNR”) losses, including expected development on reported claims. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends, with any change in the estimated ultimate liabilities being reported in the Consolidated Statements of Income in the period of change. Changes in such estimates may be material.

For traditional life insurance products, the reserves for future policy benefits are estimated on the net level premium method using assumptions as of the issue date for mortality, interest, policy lapses and expenses, including provisions for adverse deviations. These assumptions vary by such characteristics as plan, age at issue and policy duration. Mortality assumptions are based on the Company’s historical experience and industry standards. Interest rate assumptions principally range from 3% to 7%. Lapse rate assumptions are based on actual and industry experience. Insurance Reserves for life insurance products are comprised of reserves for future policy benefits plus an estimate of the Company’s liability for unpaid life insurance claims and claims adjustment expenses, which includes an estimate for IBNR life insurance claims. Prior to 2016, except when required by applicable law, the Company did not utilize the database of reported deaths maintained by the Social Security Administration or any other comparable database (a “Death Master File” or “DMF”) in its operations, including to determine its IBNR liability for life insurance products. Instead of using such a database, the Company calculated its IBNR liability for life insurance products using Company-specific historical information, which included analyzing average paid claims and the average lag between date of death and the date reported to the Company for claims for which proof of death had been provided. In 2016, the Company initiated a voluntary enhancement of its claims handling procedures for its life insurance policies. The Company is now utilizing a DMF to identify potential situations where the Company has yet to be notified of an insured’s death and, as appropriate, initiating an outreach process to identify and contact beneficiaries and settle claims. Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses for the year ended December 31, 2016 included a charge of \$77.8 million to recognize the initial impact of using a DMF in the Company’s operations, including to determine its IBNR liability for unpaid claims and claims adjustment expenses for life insurance products. The Company reduced its estimate of the initial impact of using death verification databases by \$21.0 million for the year ended December 31, 2019.

***Policyholder Contract Liabilities***

Policyholder contract liabilities include Federal Home Loan Bank (“FHLB”) funding agreements used for spread lending purposes and universal life-type policyholder contracts and are stated at account balances.

***Other Receivables***

Other Receivables primarily include reinsurance recoverables and accrued investment income. Reinsurance Recoverables were \$122.6 million and \$158.3 million at December 31, 2019 and 2018, respectively. Accrued Investment Income was \$78.7 million and \$77.9 million at December 31, 2019 and 2018, respectively.

***Other Assets***

Other Assets primarily include property and equipment, internal use software, right-of-use assets, insurance licenses acquired in business combinations, the value of other intangible assets acquired, corporate-owned life insurance (“COLI”) and prepaid expenses. Property and equipment is depreciated over the useful lives of the assets, generally using the straight-line or double declining balance methods of depreciation depending on the asset involved. Internal use software is amortized over the useful life of the asset using the straight-line method of amortization and is evaluated for recoverability upon identification of



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

impairment indicators. Insurance licenses acquired in business combinations and other indefinite life intangibles are not amortized, but rather tested periodically for recoverability.

COLI is reported at cash surrender value with changes due to cost of insurance and investment experience reported in Other Income in the Consolidated Statements of Income. COLI was \$217.0 million and \$59.3 million at December 31, 2019 and 2018, respectively.

The Company accounts for the value of business acquired (“VOBA”) based on actuarial estimates of the present value of future cash flows embedded in insurance in force as of an acquisition date. VOBA was \$24.1 million and \$30.2 million at December 31, 2019 and 2018, respectively. VOBA is amortized over the expected profit emergence period of the policies in force as of the acquisition date. The Company evaluates VOBA assets for recoverability annually.

The Company accounts for the future profits embedded in customer relationships (“Customer Relationships”) acquired based on the present value of estimated future cash flows from such relationships. Customer Relationships was \$4.3 million and \$6.7 million at December 31, 2019 and 2018, respectively, and are amortized on a straight-line basis over the estimated useful life of the relationship. Customer Relationships are tested for recoverability using undiscounted projections of future cash flows and written down to estimated fair value if the carrying value exceeds the sum of such projections of undiscounted cash flows.

The Company accounts for the present value of the future profits embedded in broker or agent relationships acquired (“Agent Relationships”) based on the present value of estimated future cash flows from such acquired relationships or, using the cost recovery method, which estimates the ultimate cost to build a comparable distribution network. Agent Relationships was \$62.5 million and \$68.0 million at December 31, 2019 and 2018, respectively, and are amortized on a straight-line basis over the estimated useful life of the relationship. Agent Relationships are tested for recoverability using undiscounted projections of future cash flows and written down to estimated fair value if the carrying value exceeds the sum of such projections of undiscounted cash flows.

***Accrued Expenses and Other Liabilities***

Accrued Expenses and Other Liabilities primarily include drafts payable, accrued salaries and commissions, pension benefits, postretirement medical benefits, lease liability and accrued taxes, licenses and fees.

***Recognition of Earned Premiums and Related Expenses***

Property and casualty insurance and short duration health insurance premiums are deferred when written and recognized and earned ratably over the periods to which the premiums relate. Unearned Premiums represent the portion of the premiums written related to the unexpired portion of policies in force which has been deferred and is reported as a liability. The Company performs a premium deficiency analysis typically at a product line level, namely automobile insurance, homeowners insurance and other insurance, which is consistent with the manner in which the Company acquires and services policies and measures profitability. Anticipated investment income is excluded from such analysis. A premium deficiency is recognized when the sum of expected claim costs, claim adjustment expenses, unamortized deferred policy acquisition costs and maintenance costs exceeds the related unearned premiums by first reducing related deferred policy acquisition costs to an amount, but not below zero, at which the premium deficiency would not exist. If a premium deficiency remains after first reducing deferred policy acquisition costs, a premium deficiency reserve is established and reported as a liability in the Company’s financial statements.

Traditional life insurance premiums are recognized as revenue when due. Policyholders’ benefits are associated with related premiums to result in recognition of profits over the periods for which the benefits are provided using the net level premium method.

Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses include provisions for future policy benefits under life and certain accident and health insurance contracts and provisions for reported claims, estimates for IBNR claims and loss adjustment expenses. Benefit payments in excess of policy account balances are expensed.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

***Reinsurance***

In the normal course of business, Kemper's insurance subsidiaries reinsure certain risks above certain retention levels with other insurance enterprises. These reinsurance agreements do not relieve Kemper's insurance subsidiaries of their legal obligations to the policyholder. Amounts recoverable from reinsurers are included in Other Receivables.

Gains related to long-duration reinsurance contracts are deferred and amortized over the life of the underlying reinsured policies. Losses related to long-duration reinsurance contracts are recognized immediately. Any gain or loss associated with reinsurance agreements for which Kemper's insurance subsidiaries have been legally relieved of their obligations to the policyholder is recognized in the period of relief.

***Income Taxes***

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance, if any, is maintained for the portion of deferred income tax assets that the Company does not expect to recover. Increases, if any, in the valuation allowance for deferred income tax assets are recognized as income tax expense. Decreases, if any, in the valuation allowance for deferred income tax assets are generally recognized as income tax benefit. The effect on deferred income tax assets and liabilities of a change in tax law including a change in tax rates is recognized in income from continuing operations in the period in which the change is enacted.

The Company reports a liability for unrecognized tax benefits, if any, resulting from uncertain tax positions taken, or expected to be taken, in an income tax return, if any. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

***Discontinued Operations***

In 2008, the Company sold its Unitrin Business Insurance operations and retained certain liabilities for unpaid insured losses that occurred prior to the date of the sale. Changes in the Company's estimate of such retained liabilities after the sale are reported in Income from Discontinued Operations.

***Change in Accounting and Adoption of New Accounting Standards***

***Accounting Standards Adopted in 2019***

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, *Leases—(Topic 842)*. ASU 2016-02 introduced a lessee model that requires the recognition of a right-of-use ("ROU") asset and a lease liability for all leases with terms greater than twelve months. The Company adopted ASU 2016-02 using the modified retrospective method at the beginning of the period of the adoption and elected the permitted practical expedients to not reassess whether any expired or existing contracts contain leases, the lease classification for any expired or existing leases and initial direct costs for any existing leases. The adoption of ASU 2016-02 had no impact on the Company's Shareholders' Equity as of January 1, 2019, but resulted in the establishment of a ROU asset of \$66.5 million, a lease liability of \$82.5 million and an adjustment to deferred rent liability of \$16.0 million. The ROU asset and related liabilities were included in Other Assets and Accrued Expenses and Other Liabilities, respectively, on the Consolidated Balance Sheet at December 31, 2019.

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. The impact of adoption of ASU 2017-12 on the Company's consolidated financial position was not material.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

In August 2018, the SEC issued Final Rule Release No. 33-10532, “*Disclosure Update and Simplification*,” which made a number of changes meant to simplify interim disclosures. The new rule required a presentation of changes in stockholders’ equity in the form of a reconciliation, either as a separate financial statement or in the notes to the financial statements, for the current and comparative year-to-date interim periods. In July 2019, the FASB issued ASU 2019-07, “*Codification Updates to SEC Sections - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates (SEC Update)*.” ASU 2019-07 codifies Final Rule Release No. 33-10532 and was effective immediately. The additional elements of this release did not have a material impact on the Company’s overall Consolidated Financial Statements.

*Accounting Standards Not Yet Adopted*

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 existing incurred loss impairment model with an expected credit loss impairment model. The expected credit loss impairment model requires the entity to recognize its estimate of expected credit losses for affected financial assets using an allowance for credit losses 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. 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 occurred during the period. Credit losses on available-for-sale debt securities are measured in a manner similar to current GAAP, although ASU 2016-13 requires that they be presented as an allowance rather than as a write-down of the amortized cost. In situations where the estimate of credit loss on an available-for-sale debt security declines, entities will be able to record a reversal of the allowance to income in the current period, which was prohibited prior to the adoption of ASU 2016-13. ASU 2016-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The impact of the initial adoption of ASU 2016-13 is not expected to be material.

In August 2018, the FASB issued ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts*. ASU 2018-12 amends the accounting model for certain long-duration insurance contracts and requires the insurer to provide additional disclosures in annual and interim reporting periods. ASU 2018-12 is effective for fiscal years beginning January 1, 2022. The amendments in ASU 2018-12 are intended to improve measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts, measurement and presentation of market risk benefits, amortization of deferred acquisition costs, and enhance presentation and disclosures. The Company is currently evaluating the impact of this guidance on its financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU 2019-04 clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments, previously addressed by ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, ASU 2017-12, *Targeted Improvements to Derivatives and Hedging Activities*, and ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The Company adopted ASU 2017-12 in the first quarter of 2019. Accordingly, the amendments in ASU 2019-04 related to clarifications on accounting for hedging activities are effective for the Company in the first quarter of 2020. The amendments of ASU 2019-04 related to ASU 2016-01 and ASU 2016-13 are effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The impact of the initial adoption of ASU 2019-04 is not expected to be material.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. ASU 2019-05 provides transition relief for entities adopting the credit loss standard, ASU 2016-13. Specifically ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option for financial instruments that are: (i) within the scope of the credit loss guidance in Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments—Credit Losses*; (ii) were previously recorded at amortized cost; (iii) are eligible for the fair value option under ASC Topic 825, *Financial Instruments*; and (iv) are not held to maturity debt. ASU 2019-05 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The Company does not intend to elect the fair value option upon adoption of ASU 2016-13 for financial instruments outlined above.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 is intended to simplify accounting for income taxes by eliminating certain exceptions to the guidance in ASC Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Further, ASU 2019-12 clarifies that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but they could elect to do so. ASU 2019-12 is effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods. The Company is currently evaluating the impact of this guidance on its financial statements.

The Company has adopted all other recently issued accounting pronouncements with effective dates prior to January 1, 2020. Other than the adoption of ASU 2016-02, *Leases—(Topic 842)*, there were no adoptions of such accounting pronouncements during the year ended December 31, 2019 that had a material impact on the Company's Consolidated Financial Statements. With the exception of ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts*, the Company does not expect the adoption of recently issued accounting pronouncements with effective dates after December 31, 2019 to have a material impact on the Company's financial statements and/or disclosures.

**NOTE 3. ACQUISITION OF BUSINESS**

*Acquisition of Infinity Property and Casualty Corporation*

On July 2, 2018, Kemper acquired 100% of the outstanding common stock of Infinity Property and Casualty Corporation ("Infinity"), pursuant to the terms of the merger agreement dated February 13, 2018, with total cash, stock and equity-based compensation consideration paid to Infinity shareholders of approximately \$1.5 billion. In conjunction with closing the acquisition, Kemper issued 13,184,107 shares, with an aggregate fair value of \$982.5 million based on Kemper's July 2, 2018 stock price of \$74.53 per share, and paid \$564.6 million in cash consideration to Infinity's shareholders. In addition, Kemper issued 44,010 restricted stock units under Kemper's equity-based compensation plan to replace Infinity restricted shares that were outstanding immediately prior to the closing. The aggregate fair value of such Kemper restricted stock units granted was \$3.3 million at July 2, 2018, of which \$1.6 million is attributed to service provided prior to the closing and included in consideration paid. The remaining amount of \$1.7 million is attributed to future service and will be recognized in compensation expense primarily over a period of two years. The cash consideration was funded by cash on hand as of July 2, 2018, inclusive of \$250.0 million in borrowings under the Company's delayed draw term loan facility and \$110.0 million of Kemper subsidiary borrowings from the FHLB of Dallas and FHLB of Chicago. On July 13, 2018, Kemper subsidiaries repaid in full the \$110.0 million of FHLB borrowings, plus accrued interest. On December 28, 2018, Kemper repaid \$215.0 million of the delayed draw term loan facility. See Note 8, "Debt," to the Consolidated Financial Statements for additional information. Infinity is a national provider of auto insurance focused on serving the specialty automobile market.

In 2019, the Company completed the process of estimating the fair value of assets acquired and liabilities assumed. In accordance with ASC Topic 805, *Business Combinations*, changes to the preliminary estimates and allocation as a result of events or conditions as of the acquisition date, are reported in the Company's financial statements as an adjustment to the assets acquired and liabilities assumed. The Company finalized its estimate of certain legal and tax accruals, increasing liabilities assumed by \$1.8 million, increasing current income tax assets by \$0.2 million and increasing goodwill by \$1.6 million compared with balances as of December 31, 2018. The Company has allocated all of the goodwill associated with the Infinity acquisition to the Specialty Property & Casualty Insurance segment. The factors that contributed to the recognition of goodwill include synergies from economies of scale within the underwriting and claims operations, acquiring a talented workforce and cost savings opportunities.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 3. ACQUISITION OF BUSINESS (Continued)**

Based on the Company's final allocation of the purchase price, the fair value of the assets acquired and liabilities assumed were:

**DOLLARS IN MILLIONS**

Investments.....	\$ 1,569.3
Short-term Investments at Cost which Approximates Fair Value	
Investments.....	98.8
Cash.....	4.0
Receivables from Policyholders.....	583.4
Other Receivables.....	31.7
Value of Intangible Assets Acquired (Reported in Other Assets).....	262.7
Current Income Tax Assets.....	1.0
Goodwill <sup>1</sup> .....	791.0
Other Assets.....	102.1
Property and Casualty Insurance Reserves.....	(717.2)
Unearned Premiums.....	(715.6)
Debt.....	(282.1)
Deferred Income Tax Liabilities.....	(10.8)
Accrued Expenses and Other Liabilities.....	(169.6)
Total Purchase Price.....	<u>\$ 1,548.7</u>

<sup>1</sup>Non-deductible for tax-purposes.

**NOTE 4. INVESTMENTS**

*Fixed Maturities*

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2019 were:

<b><u>DOLLARS IN MILLIONS</u></b>	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
U.S. Government and Government Agencies and Authorities.....	\$ 784.7	\$ 32.5	\$ (1.3)	\$ 815.9
States and Political Subdivisions.....	1,386.4	130.5	(1.1)	1,515.8
Foreign Governments.....	17.2	1.2	(1.6)	16.8
Corporate Securities:				
Bonds and Notes.....	3,465.0	401.8	(7.1)	3,859.7
Redeemable Preferred Stocks.....	6.8	—	(0.1)	6.7
Collateralized Loan Obligations.....	624.6	2.1	(8.5)	618.2
Other Mortgage- and Asset-backed.....	88.0	2.1	(1.1)	89.0
Investments in Fixed Maturities.....	<u>\$ 6,372.7</u>	<u>\$ 570.2</u>	<u>\$ (20.8)</u>	<u>\$ 6,922.1</u>



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 4. INVESTMENTS (Continued)**

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2018 were:

<u><i>DOLLARS IN MILLIONS</i></u>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Government and Government Agencies and Authorities .....	\$ 865.9	\$ 14.8	\$ (15.0)	\$ 865.7
States and Political Subdivisions .....	1,553.7	74.0	(8.6)	1,619.1
Foreign Governments.....	6.5	—	(0.6)	5.9
Corporate Securities:				
Bonds and Notes .....	3,307.8	135.1	(49.1)	3,393.8
Collateralized Loan Obligations .....	535.7	1.5	(13.2)	524.0
Other Mortgage- and Asset-backed.....	14.9	0.9	(0.1)	15.7
Investments in Fixed Maturities.....	<u>\$ 6,284.5</u>	<u>\$ 226.3</u>	<u>\$ (86.6)</u>	<u>\$ 6,424.2</u>

Other Receivables included \$1.0 million and \$0.5 million of unsettled sales of Investments in Fixed Maturities at December 31, 2019 and December 31, 2018, respectively. Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of \$19.5 million and \$10.5 million at December 31, 2019 and 2018, respectively.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2019 by contractual maturity were:

<u><i>DOLLARS IN MILLIONS</i></u>	Amortized Cost	Fair Value
Due in One Year or Less.....	\$ 82.5	\$ 85.1
Due after One Year to Five Years .....	882.3	909.2
Due after Five Years to Ten Years .....	1,581.7	1,708.9
Due after Ten Years .....	2,535.3	2,916.6
Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date .....	1,290.9	1,302.3
Investments in Fixed Maturities .....	<u>\$ 6,372.7</u>	<u>\$ 6,922.1</u>

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 December 31, 2019 consisted of securities issued by the Government National Mortgage Association with a fair value of \$575.9 million, securities issued by the Federal National Mortgage Association with a fair value of \$7.1 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$12.2 million and securities of other non-governmental issuers with a fair value of \$707.1 million.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 4. INVESTMENTS (Continued)**

An aging of unrealized losses on the Company's Investments in Fixed Maturities at December 31, 2019 is presented below.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i><u>DOLLARS IN MILLIONS</u></i>						
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities .....	\$ 118.5	\$ (1.3)	\$ 5.1	\$ —	\$ 123.6	\$ (1.3)
States and Political Subdivisions .....	63.0	(0.7)	5.4	(0.4)	68.4	(1.1)
Foreign Governments.....	1.0	(0.3)	3.1	(1.3)	4.1	(1.6)
Corporate Securities:						
Bonds and Notes .....	160.0	(2.1)	70.7	(5.0)	230.7	(7.1)
Redeemable Preferred Stocks .....	5.5	(0.1)	—	—	5.5	(0.1)
Collateralized Loan Obligations .....	95.5	(1.9)	355.6	(6.6)	451.1	(8.5)
Other Mortgage- and Asset-backed.....	72.8	(1.1)	—	—	72.8	(1.1)
Total Fixed Maturities.....	<u>516.3</u>	<u>(7.5)</u>	<u>439.9</u>	<u>(13.3)</u>	<u>956.2</u>	<u>(20.8)</u>

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

Unrealized losses on fixed maturities, which the Company has determined to be temporary at December 31, 2019, were \$20.8 million, of which \$13.3 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were \$0.3 million of unrealized losses at December 31, 2019 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, 2019 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 \$9.1 million and below-investment-grade fixed maturity investments comprised \$11.7 million of the unrealized losses on investments in fixed maturities at December 31, 2019. 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, 2019, 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 December 31, 2019 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.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 4. INVESTMENTS (Continued)**

An aging of unrealized losses on the Company's Investments in Fixed Maturities at December 31, 2018 is presented below.

<i><u>DOLLARS IN MILLIONS</u></i>	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities.....	\$ 401.1	\$ (7.6)	\$ 79.0	\$ (7.4)	\$ 480.1	\$ (15.0)
States and Political Subdivisions.....	299.4	(5.0)	102.6	(3.6)	402.0	(8.6)
Foreign Governments.....	4.9	(0.6)	—	—	4.9	(0.6)
Corporate Securities:						
Bonds and Notes.....	1,326.0	(38.2)	116.8	(10.9)	1,442.8	(49.1)
Collateralized Loan Obligations.....	439.2	(13.2)	—	—	439.2	(13.2)
Other Mortgage- and Asset-backed.....	0.2	—	4.5	(0.1)	4.7	(0.1)
Total Fixed Maturities.....	<u>\$ 2,470.8</u>	<u>\$ (64.6)</u>	<u>\$ 302.9</u>	<u>\$ (22.0)</u>	<u>\$ 2,773.7</u>	<u>\$ (86.6)</u>

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2018, were \$86.6 million, of which \$22.0 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at December 31, 2018 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months." There were no unrealized losses at December 31, 2018 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Investment-grade fixed maturity investments comprised \$69.5 million and below-investment-grade fixed maturity investments comprised \$17.1 million of the unrealized losses on investments in fixed maturities at December 31, 2018. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 5% of the amortized cost basis of the investment. At December 31, 2018, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at December 31, 2018 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

The following table sets forth the pre-tax amount of other-than-temporary impairments ("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.

<i><u>DOLLARS IN MILLIONS</u></i>	2019	2018	2017
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at Beginning of Year.....	\$ 1.1	\$ 1.6	\$ 1.4
Pre-tax Credit Losses on Fixed Maturities without Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Year.....	0.2	—	1.2
Reductions for Change in Impairment Status:			
From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell.....	—	(0.5)	(0.7)
Reductions for Investments Sold During Year.....	(0.1)	—	(0.3)
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at End of Year.....	<u>\$ 1.2</u>	<u>\$ 1.1</u>	<u>\$ 1.6</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 4. INVESTMENTS (Continued)**

*Equity Securities*

Equity Securities at Fair Value

Equity securities with readily-determinable fair values, including equity securities which the Company previously classified as Fair Value Option Investments, are classified as Equity Securities at Fair Value in the Consolidated Balance Sheets with changes in fair value recorded as Income from Change in Fair Value of Equity and Convertible Securities in the Consolidated Statements of Income. Net unrealized losses arising during the year-ended December 31, 2019 and recognized in earnings, related to such investments still held as of December 31, 2019 were \$126.0 million.

Equity Securities at Modified Cost

For Equity Securities at Modified Cost, the Company performs a qualitative impairment analysis on a quarterly basis consisting of various factors such as earnings performance, current market conditions, changes in credit ratings, changes in the regulatory environment and other factors. If the qualitative analysis identifies the presence of impairment indicators, the Company estimates the fair value of the investment. If the estimated fair value is below the carrying value, the Company records an other-than-temporary impairment in the Consolidated Statements of Income to reduce the carrying value to the estimated fair value. When the Company identifies observable transactions of the same or similar securities to those held by the Company, the Company increases or decreases the carrying value to the observable transaction price. The Company recognized a decrease of \$0.5 million in the carrying value due to observable transactions for the year ended December 31, 2019. The Company recognized an impairment of \$0.1 million on Equity Securities at Modified Cost for the year ended December 31, 2019 as a result of the Company's qualitative impairment analysis. The Company has recognized no cumulative increases in the carrying value due to observable transactions, no cumulative decreases in the carrying value due to observable transactions and \$5.0 million of cumulative impairments on Equity Securities at Modified Cost held as of December 31, 2019.

Equity Method Limited Liability Investments

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. In 2019 and 2018, aggregate investment income (losses) from Equity Method Limited Liability Investments exceeded 10% of the Company's pretax consolidated net income. Accordingly, the Company is disclosing aggregated summarized financial data for its Equity Method Limited Liability Investments for all periods presented in the Consolidated Financial Statements. Such aggregated summarized financial data does not represent the Company's proportionate share of the Equity Method Limited Liability Investment assets or earnings. Aggregate total assets of the Equity Method Limited Liability Investments in which the Company invested totaled \$2,368.1 million, \$2,805.3 million and \$2,393.7 million, as of December 31, 2019, 2018 and 2017, respectively. Aggregate total liabilities of the Equity Method Limited Liability Investments in which the Company invested totaled \$817.2 million, \$1,030.7 million and \$899.7 million, as of December 31, 2019, 2018 and 2017, respectively. Aggregate net income of the Equity Method Limited Liability Investments in which the Company invested totaled \$78.0 million, \$130.4 million and \$209.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. The aggregate summarized financial data is based on the most recent and sufficiently-timely financial information available to the Company as of the respective reporting dates and periods. The Company's maximum exposure to loss at December 31, 2019 is limited to the total carrying value of \$220.4 million. In addition, the Company had outstanding commitments totaling approximately \$97.2 million to fund Equity Method Limited Liability Investments at December 31, 2019.

*Other Investments*

The carrying values of the Company's Other Investments at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Loans to Policyholders at Unpaid Principal.....	\$ 305.6	\$ 300.6
Real Estate at Depreciated Cost.....	111.4	114.2
Mortgage Loans at Amortized Cost.....	27.5	—
Total.....	<u>\$ 444.5</u>	<u>\$ 414.8</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 5. GOODWILL AND INTANGIBLE ASSETS**

Goodwill balances by business segment at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Specialty Property & Casualty Insurance.....	\$ 845.0	\$ 843.4
Preferred Property & Casualty Insurance.....	49.6	49.6
Life & Health Insurance.....	219.4	219.4
Total.....	<u>\$ 1,114.0</u>	<u>\$ 1,112.4</u>

The Company tests goodwill for recoverability at the reporting unit level on an annual basis, or whenever events or circumstances indicate the fair value of a reporting unit may have declined below its carrying value. The Company performed a qualitative goodwill impairment assessment for all reporting units with goodwill as of October 1, 2019. The qualitative assessment takes into consideration changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy and changes in Kemper's stock price since the last quantitative assessment, which was performed on January 1, 2017. Based on its qualitative assessment, the Company concluded that the associated goodwill was recoverable for each reporting unit tested.

Definite and indefinite life intangible assets at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Definite Life Intangible Assets:		
Value of Business Acquired.....	\$ 24.1	\$ 30.2
Customer Relationships.....	4.3	6.7
Agent Relationships.....	62.5	68.0
Trade Names.....	—	7.0
Internal-Use Software.....	189.7	149.1
Total Definite Life Intangible Assets.....	<u>280.6</u>	<u>261.0</u>
Indefinite Life Intangible Assets:		
Trade Names.....	5.2	5.2
Insurance Licenses.....	42.6	42.6
Total Indefinite Life Intangible Assets.....	<u>47.8</u>	<u>47.8</u>
Total Intangible Assets.....	<u>\$ 328.4</u>	<u>\$ 308.8</u>

The Company records intangible assets acquired in business combinations and certain costs incurred developing and customizing internal-use software within Other Assets on the Consolidated Balance Sheets. Definite life intangible assets are amortized over the estimated profit emergence period or estimated useful life of the asset. Indefinite life intangible assets are not amortized, but rather tested annually for impairment. In 2019 and 2018, the Company recognized amortization expense on definite life intangible assets of \$37.8 million and \$166.4 million, respectively.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 5. GOODWILL AND INTANGIBLE ASSETS (Continued)**

The amount of amortization expense expected to be recorded in the next five years for definite life intangible assets is as follows:

<u>DOLLARS IN MILLIONS</u>	2020	2021	2022	2023	2024
Definite Life Intangible Assets:					
Value of Business Acquired	\$ 4.0	\$ 3.1	\$ 2.7	\$ 2.5	\$ 2.4
Customer Relationships	0.9	0.8	0.6	0.5	0.4
Agent Relationships	5.0	5.0	5.0	5.0	5.0
Internal-Use Software	24.1	19.1	17.9	16.5	14.0
Total	<u>\$ 34.0</u>	<u>\$ 28.0</u>	<u>\$ 26.2</u>	<u>\$ 24.5</u>	<u>\$ 21.8</u>

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES**

The Company's Property and Casualty Insurance Reserves are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid. Such estimates are based on individual case estimates for reported claims and estimates for IBNR losses, including expected development on reported claims.

The determination of individual case reserves differs by line of business. For specialty personal automobile insurance and commercial automobile insurance, case reserves are set primarily using statistical reserves that are based on studies of historical average paid amounts by state, coverage and product. However, when such reserves exceed certain thresholds they are set manually by adjusters. For preferred personal automobile insurance, homeowners insurance and other personal insurance, case reserves are set by adjusters and are based on the adjusters' estimates of the amount for which the claims will ultimately be paid.

The Company's actuaries generally estimate ultimate losses and LAE and, therefore, reserves at least quarterly for most product lines and/or coverage levels using accident quarters or years spanning 10 or more years, depending on the size of the product line and/or coverage level or emerging issues relating to them. The Company's actuaries use a variety of generally accepted actuarial loss reserving estimation methodologies to estimate the ultimate losses and LAE for the current accident quarter or year and re-estimate the ultimate losses and LAE for previous accident quarters or years to determine if changes in the previous estimates of the ultimate losses and LAE are indicated by the most recent data.

The key assumption in these estimation methodologies is that patterns observed in prior periods are indicative of how losses and LAE are expected to develop in the future and that such historical data can be used to predict and estimate ultimate losses and LAE. However, changes in the Company's business processes, by their very nature, are likely to affect the development patterns, which generally results in the historical development factors becoming less reliable over time in predicting how losses and LAE will ultimately develop. The Company's actuaries use professional judgment in determining how much weight to place on the development patterns based on the older historical data and how much weight to place on the development patterns based on more recent data. In some cases, the Company's actuaries make adjustments to the loss reserving estimation methodologies to estimate ultimate losses and LAE.

The Company's actuaries' quarterly or yearly selections are summed by product and/or coverage levels to create the actuarial indication of the ultimate losses and LAE. Paid amounts are then subtracted from the ultimates to compute the reserves for property and casualty insurance losses and LAE. These results are reviewed by the Company's corporate actuary and corporate management who apply their collective judgment and determine the appropriate estimated level of reserves to record. Numerous factors are considered in this determination process, including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, changes in claim handling practices or other changes that affect the timing of payment or development patterns, changes in the mix of business, the maturity of the accident year, pertinent trends observed over the recent past, the level of volatility within a particular line of business, the improvement or deterioration of actuarial indications in the current period as compared to prior periods, and the amount of reserves related to third party pools for which the Company has limited access to the underlying data and, accordingly, relies on calculations provided by such pools.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

The Company’s goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while sustaining minimal variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company’s estimates of these losses and LAE over time, also referred to as “development,” will occur and may be material.

The following tables contain information about incurred and paid claims development as of and for the year ended December 31, 2019, net of reinsurance and indemnification, as well as cumulative claim frequency and the total of IBNR liabilities, including expected development on reported claims included within the net incurred losses and allocated LAE amounts. The tables are grouped by major product line and, if relevant, coverage. The information about incurred and paid claims development for the years ended December 31, 2015 through 2018 is presented as supplementary information and is unaudited.

*Specialty Personal Automobile Insurance—Liability<sup>1</sup>*

***DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS***

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2015 .....	\$ 965.1	\$ 855.1	\$ 965.1	\$ 972.3	\$ 969.6	\$ 8.1
2016 .....		969.4	1,021.6	1,027.2	1,026.0	22.5	417,016
2017 .....			997.7	999.9	1,004.5	40.6	396,578
2018 .....				1,128.1	1,119.1	93.0	445,229
2019 .....					1,270.7	383.0	447,558
Total .....					5,389.9		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015 .....	\$ 450.5	\$ 794.9	\$ 898.9	\$ 934.7	\$ 954.0
2016 .....		459.7	831.1	943.4	987.7
2017 .....			441.9	808.6	926.7
2018 .....				467.5	903.8
2019 .....					497.2
Total .....					4,269.4
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance .....					20.4
Loss and Allocated LAE Reserves, Net of Reinsurance .....					\$ 1,140.9

<sup>1</sup> Table retrospectively includes Alliance United and Infinity’s historical incurred and paid accident year claim information for all periods presented.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

*Specialty Personal Automobile Insurance—Physical Damage<sup>1</sup>*

*DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS*

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2015 .....	\$ 403.8	\$ 407.1	\$ 406.7	\$ 406.5	\$ 406.6	\$ 0.9
2016 .....		462.2	456.9	456.9	457.0	(0.1)	246,183
2017 .....			475.6	465.6	465.1	—	251,872
2018 .....				504.9	496.9	(1.6)	269,782
2019 .....					574.7	47.5	276,797
Total .....					<u>2,400.3</u>		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015 .....	\$ 382.4	\$ 408.8	\$ 406.7	\$ 406.4	\$ 406.1
2016 .....		436.4	460.2	458.0	457.5
2017 .....			443.0	468.7	466.0
2018 .....				463.6	501.5
2019 .....					525.8
Total .....					<u>2,356.9</u>
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance .....					<u>(1.2)</u>
Loss and Allocated LAE Reserves, Net of Reinsurance .....					<u>\$ 42.2</u>

<sup>1</sup> Table retrospectively includes Alliance United and Infinity's historical incurred and paid accident year claim information for all periods presented.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

**Commercial Automobile Insurance—Liability<sup>1</sup>**

***DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS***

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2015.....	\$ 102.5	\$ 106.9	\$ 112.9	\$ 112.3	\$ 110.7	\$ 0.6	19,292
2016.....		120.5	112.4	115.6	117.7	3.5	20,417
2017.....			120.5	120.0	118.3	9.1	19,925
2018.....				123.2	116.5	19.8	19,969
2019.....					128.4	59.2	17,772
Total.....					<u>591.6</u>		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance and Indemnification For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015.....	\$ 34.8	\$ 70.2	\$ 88.6	\$ 100.3	\$ 107.6
2016.....		36.2	71.6	89.7	102.3
2017.....			36.3	72.3	90.7
2018.....				36.8	68.8
2019.....					32.4
Total.....					<u>401.8</u>
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance.....					<u>1.4</u>
Loss and Allocated LAE Reserves, Net of Reinsurance.....					<u>\$ 191.2</u>

<sup>1</sup> Table retrospectively includes Infinity's historical incurred and paid accident year claim information for all periods presented.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

**Commercial Automobile Insurance—Physical Damage<sup>1</sup>**

*DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS*

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2015.....	\$ 21.5	\$ 21.6	\$ 21.7	\$ 21.7	\$ 21.7	\$ —	9,643
2016.....		24.2	24.2	24.1	24.2	—	10,560
2017.....			24.2	23.5	23.5	0.2	9,788
2018.....				23.6	23.5	0.3	9,558
2019.....					26.0	3.5	8,803
Total.....					<u>118.9</u>		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance and Indemnification For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015.....	\$ 20.2	\$ 21.6	\$ 21.7	\$ 21.7	\$ 21.7
2016.....		22.4	24.2	24.1	24.2
2017.....			22.2	23.5	23.4
2018.....				21.7	23.6
2019.....					23.0
Total.....					<u>115.9</u>
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance.....					—
Loss and Allocated LAE Reserves, Net of Reinsurance.....					<u>\$ 3.0</u>

<sup>1</sup> Table retrospectively includes Infinity's historical incurred and paid accident year claim information for all periods presented.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

*Preferred Personal Automobile Insurance—Liability*

*DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS*

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2015 .....	\$ 168.3	\$ 171.8	\$ 176.5	\$ 177.6	\$ 177.1	\$ 0.9
2016 .....		162.1	174.5	179.1	176.8	2.1	36,721
2017 .....			164.4	157.8	155.8	4.5	33,663
2018 .....				157.6	156.3	15.6	32,020
2019 .....					172.2	51.3	32,848
Total .....					<u>838.2</u>		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015 .....	\$ 73.1	\$ 122.4	\$ 147.5	\$ 163.1	\$ 169.3
2016 .....		61.2	114.6	145.6	161.1
2017 .....			59.2	108.9	134.1
2018 .....				55.5	107.6
2019 .....					62.7
Total .....					<u>634.8</u>
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance .....					9.5
Loss and Allocated LAE Reserves, Net of Reinsurance .....					<u>\$ 212.9</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

*Preferred Personal Automobile Insurance—Physical Damage*

DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2015 .....	\$ 101.2	\$ 100.7	\$ 100.6	\$ 100.6	\$ 100.6	\$ —	68,409
2016 .....		106.6	106.6	106.3	106.2	(0.1)	65,348
2017 .....			109.2	105.8	105.2	(0.1)	62,553
2018 .....				113.9	111.0	(0.5)	60,749
2019 .....					126.4	(0.9)	60,548
Total .....					549.4		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015 .....	\$ 100.1	\$ 101.0	\$ 100.7	\$ 100.6	\$ 100.6
2016 .....		105.2	106.9	106.3	106.3
2017 .....			104.4	106.1	105.2
2018 .....				107.2	111.4
2019 .....					120.7
Total .....					544.2
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance .....					(0.1)
Loss and Allocated LAE Reserves, Net of Reinsurance.....					\$ 5.1

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

*Homeowners Insurance*

*DOLLARS IN MILLIONS, EXCEPT CUMULATIVE INCURRED CLAIMS*

Accident Year	Incurred Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2019	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2015 .....	\$ 178.9	\$ 164.9	\$ 163.2	\$ 164.3	\$ 164.4	\$ 0.5
2016 .....		200.3	201.7	204.2	202.2	1.4	20,380
2017 .....			261.2	259.5	245.2	0.9	20,982
2018 .....				185.9	183.0	1.2	17,122
2019 .....					162.9	19.2	13,931
Total .....					<u>957.7</u>		

Accident Year	Cumulative Paid Losses and Allocated LAE, Net of Reinsurance For the Years Ended December 31,				
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015 .....	\$ 116.9	\$ 154.4	\$ 158.0	\$ 161.3	\$ 162.7
2016 .....		141.2	190.1	195.8	198.9
2017 .....			165.8	242.5	235.7
2018 .....				127.4	180.2
2019 .....					111.1
Total .....					<u>888.6</u>
Outstanding Loss and Allocated LAE Reserves on Accident Years before 2015, Net of Reinsurance .....					<u>3.2</u>
Loss and Allocated LAE Reserves, Net of Reinsurance .....					<u>\$ 72.3</u>

The claim counts in the preceding tables are cumulative reported claim counts as of December 31, 2019 and are equal to the sum of cumulative open and cumulative closed claims, including claims closed without payment. Certain product lines, particularly the Company's specialty personal automobile insurance, tend to have a higher percentage of claims closed without payment.

The Company's claims associated with automobile insurance are counted at the feature level. As such, each claimant and each coverage is counted separately. For example, if for one occurrence, the Company's policyholder is at fault for damage to his/her own vehicle, another party's vehicle and three injured parties, there may be five features—three for bodily injury liability, one for property damage liability and one for first-party collision coverage. There may also be another feature for first-party medical payments.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

The following table reconciles the net incurred and paid claims development tables presented above to the Company's liability for Property and Casualty Insurance Reserves included in the Consolidated Balance Sheet at December 31, 2019.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Property and Casualty Insurance Reserves, Net of Reinsurance:	
Specialty Personal Automobile Insurance—Liability .....	1,140.9
Specialty Personal Automobile Insurance—Physical Damage.....	42.2
Commercial Automobile Insurance—Liability.....	191.2
Commercial Automobile Insurance—Physical Damage.....	3.0
Preferred Personal Automobile Insurance—Liability.....	212.9
Preferred Personal Automobile Insurance—Physical Damage.....	5.1
Homeowners Insurance .....	72.3
Other.....	57.5
Total.....	<u>1,725.1</u>
Reinsurance Recoverables on Unpaid Losses and Allocated LAE:	
Specialty Personal Automobile Insurance—Liability.....	8.7
Commercial Automobile Insurance—Liability.....	9.4
Preferred Personal Automobile Insurance—Liability.....	25.2
Homeowners Insurance .....	15.5
Other.....	6.8
Total.....	<u>65.6</u>
Unallocated LAE.....	179.1
Property and Casualty Insurance Reserves, Gross of Reinsurance.....	<u><u>\$ 1,969.8</u></u>

The following is supplementary information about average historical claims duration as of December 31, 2019.

<u>Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)</u>					
<u>Years</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Specialty Personal Automobile Insurance—Liability.....	43.2%	81.1%	92.3%	96.3%	98.4%
Specialty Personal Automobile Insurance—Physical Damage.....	93.9%	100.7%	100.1%	100.0%	99.9%
Commercial Automobile Insurance—Liability.....	29.9%	61.1%	77.6%	88.8%	97.2%
Commercial Automobile Insurance—Physical Damage .....	92.2%	100.0%	99.7%	100.0%	100.0%
Preferred Personal Automobile Insurance—Liability.....	37.2%	68.2%	83.9%	91.6%	95.6%
Preferred Personal Automobile Insurance—Physical Damage.....	98.0%	100.6%	100.1%	100.0%	100.0%
Homeowners Insurance.....	69.3%	96.3%	96.4%	98.2%	99.0%

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

Property and Casualty Insurance Reserve activity for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Property and Casualty Insurance Reserves:			
Gross of Reinsurance at Beginning of Year .....	<b>\$ 1,874.9</b>	\$ 1,016.8	\$ 931.4
Less Reinsurance Recoverables at Beginning of Year .....	<b>101.9</b>	53.1	50.2
Property and Casualty Insurance Reserves, Net of Reinsurance at Beginning of Year .....	<b>1,773.0</b>	963.7	881.2
Property and Casualty Insurance Reserves Acquired, Net of Reinsurance .....	<b>3.6</b>	695.1	—
Incurred Losses and LAE related to:			
Current Year .....	<b>2,879.5</b>	2,093.4	1,454.1
Prior Years .....	<b>(71.1)</b>	(7.4)	18.9
Total Incurred Losses and LAE .....	<b>2,808.4</b>	2,086.0	1,473.0
Paid Losses and LAE related to:			
Current Year: .....	<b>1,682.1</b>	1,300.8	868.1
Prior Years .....	<b>998.7</b>	671.0	522.4
Total Paid Losses and LAE .....	<b>2,680.8</b>	1,971.8	1,390.5
Property and Casualty Insurance Reserves, Net of Reinsurance at End of Year .....	<b>1,904.2</b>	1,773.0	963.7
Plus Reinsurance Recoverables at End of Year .....	<b>65.6</b>	101.9	53.1
Property and Casualty Insurance Reserves, Gross of Reinsurance at End of Year .....	<b>\$ 1,969.8</b>	\$ 1,874.9	\$ 1,016.8

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 Consolidated Statements of Income in the period of change.

In 2019, the Company decreased its property and casualty insurance reserves by \$71.1 million to recognize favorable development of loss and LAE reserves from prior accident years. Specialty Personal Automobile insurance loss and LAE reserves developed favorably by \$23.8 million due primarily to the emergence of more favorable loss patterns than expected for both liability and physical damage insurance for the 2018 accident year. Commercial lines insurance loss and LAE reserves included favorable development of \$12.9 million due primarily to the emergence of more favorable loss patterns than expected for commercial automobile liability insurance for 2018 and 2017 accident years. Preferred Personal Automobile insurance loss and LAE reserves developed favorably by \$8.2 million due primarily to the emergence of more favorable loss patterns than expected for liability insurance for several prior accident years and for physical damage insurance for 2018 accident year. Homeowners insurance loss and LAE reserves developed favorably by \$19.7 million due primarily to the net reinsurance impact from the sale of subrogation rights related to the 2017 and 2018 California Wildfires. Other personal lines loss and LAE reserves developed favorably by \$6.5 million due primarily to the emergence of more favorable loss patterns than expected for prior accident years.

In 2018, the Company decreased its property and casualty insurance reserves by \$7.4 million to recognize favorable development of loss and LAE reserves from prior accident years. Specialty Personal Automobile insurance loss and LAE reserves developed adversely by \$5.5 million due primarily to the emergence of loss patterns that were worse than expected for both physical damage and liability insurance for the 2017 accident year, partially offset by the emergence of loss patterns that were better than expected for 2016 and prior accident years. Commercial lines insurance loss and LAE reserves developed favorably by \$6.1 million. Preferred Personal Automobile insurance loss and LAE reserves developed favorably by \$5.8 million due primarily to the emergence of loss patterns that were better than expected for both physical damage and liability insurance for the 2017 accident year and, to a lesser extent, for liability insurance for the 2015 and prior accident years, partially offset by the emergence of loss patterns that were worse than expected for the 2016 accident year. Homeowners insurance loss and LAE reserves developed adversely by \$3.2 million due primarily to 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 \$4.3 million due primarily to the emergence of more favorable loss patterns than expected for prior accident years.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)**

In 2017, the Company increased its property and casualty insurance reserves by \$18.9 million to recognize adverse development of loss and LAE reserves from prior accident years. Specialty Personal automobile insurance loss and LAE reserves developed adversely by \$2.9 million. Commercial lines insurance loss and LAE reserves included favorable development of \$0.6 million. Preferred Personal automobile insurance loss and LAE reserves developed adversely by \$19.3 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 and, to a lesser extent, for liability insurance for the 2015 and 2014 accident years, partially offset by the emergence of more favorable loss patterns than expected for the 2013 and prior accident years. Homeowners insurance loss and LAE reserves developed adversely by \$1.0 million due primarily to the emergence of non-catastrophe loss patterns that were worse than expected for the 2016 accident year, and to a lesser extent, the 2013 and prior accident years, partially offset by \$3.7 million of favorable development on catastrophes primarily for the 2016 accident year and, to a lesser extent, the 2015 accident year. Other personal lines loss and LAE reserves developed favorably by \$3.7 million due primarily to the emergence of more favorable loss patterns than expected for the 2015, 2014, 2013 and prior accident years partially offset by the emergence of loss patterns that were worse than expected for the 2016 accident year.

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

Reinsurance recoverables on property and casualty insurance reserves were \$65.6 million and \$101.9 million at December 31, 2019 and 2018, respectively. These recoverables are concentrated with several reinsurers, the vast majority of which are highly rated by one or more of the principal investor and/or insurance company rating agencies. While most of these recoverables were unsecured at December 31, 2019 and 2018, the agreements with the reinsurers generally provide for some form of collateralization upon the occurrence of certain events.

**NOTE 7. POLICYHOLDER CONTRACT LIABILITIES**

Policyholder Contract Liabilities at December 31, 2019 and 2018 were as follows:

<u>DOLLARS IN MILLIONS</u>	December 31,	
	2019	2018
FHLB Funding Agreements.....	\$ 243.4	\$ 10.0
Other .....	<b>66.4</b>	66.8
Total .....	<b>\$ 309.8</b>	<b>\$ 76.8</b>

United Insurance has entered into funding agreements with the FHLB of Chicago in exchange for cash, which it uses for spread lending purposes. United Insurance received advances of \$614.5 million from the FHLB of Chicago and made repayments of \$381.1 million under the spread lending program in 2019. United Insurance received advances of \$10.0 million from the FHLB of Chicago in 2018 under the spread lending program.

When a funding agreement is issued, United Insurance is then required to post collateral in the form of eligible securities including mortgage-backed, government, and agency debt instruments for each of the advances that are entered. The fair value of the collateral pledged must be maintained at certain specified levels above the borrowed amount, which can vary depending on the assets pledged. If the fair value of the collateral declines below these specified levels of the amount borrowed, United Insurance would be required to pledge additional collateral or repay outstanding borrowings. Upon any event of default by United Insurance, the FHLB's recovery on the collateral is limited to the amount of United Insurance's liability under the funding agreements to the FHLB of Chicago.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 7. POLICYHOLDER CONTRACT LIABILITIES (Continued)**

United Insurance’s liability under the funding agreements with the FHLB of Chicago, the amount of collateral pledged under such agreements and FHLB of Chicago common stock owned by United Insurance at December 31, 2019 and 2018 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Liability under Funding Agreements.....	\$ 243.4	\$ 10.0
Fair Value of Collateral Pledged.....	\$ 287.8	\$ 15.7
FHLB of Chicago Common Stock Owned at Cost .....	\$ 4.9	\$ 0.8

**NOTE 8. DEBT**

*Amended and Extended Credit Agreement and Term Loan Facility*

On June 8, 2018, the Company entered into an amended and extended credit agreement and term loan facility. The amended and extended credit agreement increased the borrowing capacity of the existing unsecured credit agreement to \$300.0 million and extended the maturity date to June 8, 2023. The term loan facility included a delayed-draw feature with borrowing capacity of \$250.0 million and a maturity date two years from the borrowing date (see discussion below under heading, “Term Loan Due 2020,” for additional information). On June 4, 2019, the Company utilized the accordion feature under the credit agreement to increase its credit borrowing capacity by \$100.0 million, resulting in the available credit commitments increasing from \$300.0 million to \$400.0 million. The Company incurred \$0.1 million in additional debt issuance costs in connection with the utilization of the accordion feature which, in addition to the \$1.1 million of remaining unamortized costs under the credit agreement, will be amortized under the remaining term of the credit agreement. There were no outstanding borrowings under the credit agreement at either December 31, 2019 or December 31, 2018.

*Long-term Debt*

The Company designates debt obligations as either short-term or long-term based on maturity date at issuance, or in the case of the 2022 Senior Notes, based on the date of assumption. Total amortized cost of Long-term Debt outstanding at December 31, 2019 and 2018 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Term Loan due June 29, 2020 .....	\$ —	\$ 34.9
Term Loan due July 5, 2023 .....	49.9	—
5.0% Senior Notes due September 19, 2022 .....	279.9	281.5
4.35% Senior Notes due February 15, 2025 .....	448.6	448.4
7.375% Subordinated Debentures due February 27, 2054 .....	—	144.2
Total Long-term Debt Outstanding.....	<u>\$ 778.4</u>	<u>\$ 909.0</u>

*Term Loan Due 2020*

On June 29, 2018, the Company borrowed \$250.0 million under its delayed-draw term loan facility dated June 8, 2018, to facilitate the funding of the acquisition of Infinity. The proceeds from the term loan facility, net of debt issuance costs, were \$249.4 million. On December 28, 2018, the Company repaid \$215.0 million of the outstanding term loan. On May 31, 2019, remaining outstanding balance of \$35.0 million was repaid.

*Term Loan Due 2023*

On June 4, 2019, the Company entered into a delayed-draw term loan facility with a borrowing capacity of \$50.0 million and a maturity date four years from the borrowing date (the “2023 Term Loan”). On July 5, 2019, the Company borrowed \$49.9 million, net of debt issuance costs, under the 2023 Term Loan, with a final maturity date of July 5, 2023. The agreement includes a mutual option to extend the maturity date by one year.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 8. DEBT (Continued)**

*5.0% Senior Notes Due 2022*

Infinity’s liabilities at the acquisition date included \$275.0 million principal amount, 5.0% Senior Notes due September 19, 2022 (“2022 Senior Notes”). The 2022 Senior Notes were recorded at fair value as of the acquisition date, \$282.1 million, with the \$7.1 million premium being amortized as a reduction to interest expense over the remaining term, resulting in an effective interest rate of 4.36%. On November 30, 2018, Kemper executed a guarantee to fully and unconditionally guarantee the payment and performance obligations of the 2022 Senior Notes.

*4.35% Senior Notes Due 2025*

Kemper has \$450.0 million aggregate principal of 4.35% senior notes due February 15, 2025 (the “2025 Senior Notes”) outstanding as of December 31, 2019. Kemper initially issued \$250.0 million of the notes in February of 2015 and issued an additional \$200.0 million of the notes in June of 2017. The additional notes are fungible with the initial notes issued in 2015, 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.

*Redemption of 7.375% Subordinated Debentures Due 2054*

On June 7, 2019, Kemper issued a notice of redemption for the entire \$150.0 million aggregate principal outstanding of its 7.375% Subordinated Debentures due 2054 (the “7.375% Subordinated Debentures”) at a redemption price equal to 100% of their principal, plus accrued and unpaid interest on the redemption date. On July 8, 2019, Kemper completed the redemption, and the 7.375% Subordinated Debentures were repaid in full. The Company recognized a loss on early extinguishment of debt of \$5.8 million in its December 31, 2019 Consolidated Statement of Income.

The Company used the proceeds received from Kemper’s common stock offering on June 7, 2019, as well as a portion of the proceeds from its July 5, 2019 borrowing under the 2023 Term Loan, to repay the 7.375% Subordinated Debentures. See Note 10, “Shareholders’ Equity,” for additional information regarding the common stock offering.

*Interest Expense and Interest Paid*

Interest Expense, including facility fees, accretion of discount, amortization of premium and amortization of issuance costs, was \$42.5 million, \$43.3 million and \$34.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Interest paid, including facility fees, was \$44.0 million, \$37.9 million and \$34.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

**NOTE 9. LEASES**

The Company leases certain office space under non-cancelable operating leases, with initial terms typically ranging from one to fifteen years, along with options that permit renewals for additional periods. The Company also leases certain equipment under non-cancelable operating leases, with initial terms typically ranging from one to five years. Minimum rent is expensed on a straight-line basis over the term of the lease. See Note 2, “Summary of Accounting Policies and Accounting Changes” under sub-caption “Adoption of New Accounting of New Accounting Guidance - Guidance Adopted in 2019” for additional information regarding the accounting for leases.

The following table presents operating lease ROU assets and lease liabilities.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Operating Lease Right-of-Use Assets.....	\$ 75.6
Operating Lease Liabilities.....	93.2

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 9. LEASES (Continued)**

Lease expenses are primarily included in insurance expenses in the Consolidated Statements of Income. Additional information regarding the Company's operating leases is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Lease Cost:	
Amortization of Right-of-Use Assets - Finance Leases.....	\$ 0.7
Operating Lease Cost.....	20.7
Short-Term Lease Cost (1).....	0.1
Total Expense.....	<u>21.5</u>
Less: Sublease Income (2).....	0.1
Total Lease Cost.....	<u>\$ 21.4</u>

(1) - Leases with an initial term of twelve months of less are not recorded on the balance sheet.

(2) - Sublease income consists of rent from third parties of office space and is recognized as part of other income in the Consolidated Statements of Income.

*Other Information on Operating Leases*

Supplemental cash flow information related to the Company's operating leases for the year-ended December 31, 2019 is as follows:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Operating Cash Flows from Operating Leases (Fixed Payments).....	\$ 20.0
Operating Cash Flows from Operating Leases (Liability Reduction).....	17.6
Financing Cash Flows from Finance Leases.....	0.7
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities.....	25.9

Significant judgments and assumptions for determining lease asset and liability as December 31, 2019 are presented below.

Weighted-average Remaining Lease Term - Finance Leases.....	1.7 years
Weighted-average Remaining Lease Term - Operating Leases.....	7.0 years
Weighted-average Discount Rate - Finance Leases.....	4.0%
Weighted-average Discount Rate - Operating Leases.....	3.9%

Most of the Company's leases do not provide an implicit rate. Accordingly, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of its lease payments.

Future minimum lease payments under finance and operating leases at December 31, 2019 were:

<u>DOLLARS IN MILLIONS</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2020.....	\$ 0.3	\$ 20.5
2021.....	0.2	19.3
2022.....	—	17.0
2023.....	—	14.7
2024.....	—	8.3
2025 and Thereafter.....	—	28.1
Total Future Payments.....	<u>\$ 0.5</u>	<u>\$ 107.9</u>
Less Discount.....	—	14.7
Present Value of Minimum Lease Payments.....	<u>\$ 0.5</u>	<u>\$ 93.2</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 9. LEASES (Continued)**

Future minimum lease payments under finance and operating leases at December 31, 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2019.....	\$ 0.7	\$ 20.5
2020.....	0.7	18.4
2021.....	0.3	16.9
2022.....	0.2	15.0
2023.....	—	12.5
2024 and Thereafter.....	—	27.1
Total Future Payments.....	<u>\$ 1.9</u>	<u>\$ 110.4</u>
Less Imputed Interest.....	—	
Present Value of Minimum Lease Payments.....	<u>\$ 1.9</u>	

The total of minimum rentals to be received in the future under non-cancelable subleases was \$0.8 million and \$0.0 million at December 31, 2019 and 2018, respectively.

**NOTE 10. SHAREHOLDERS' EQUITY**

*Common Stock Issuance*

Kemper is authorized to issue 20 million shares of \$0.10 par value preferred stock and 100 million shares of \$0.10 par value common stock. No preferred shares were issued or outstanding at December 31, 2019 and 2018. There were 66,665,888 shares and 64,756,833 shares of common stock outstanding at December 31, 2019 and 2018, respectively.

On June 7, 2019, the Company completed a public offering of its common stock and issued 1,552,500 shares of common stock, at \$83.00 per share. Gross proceeds from the offering were \$128.9 million. Transaction costs, including the underwriting discount, were \$1.7 million, of which \$0.1 million was accrued for and included in Accrued Expenses and Other Liabilities on the Company's Consolidated Balance Sheet at December 31, 2019. In July 2019, the Company used the net proceeds of \$127.2 million from the offering, together with a portion of the proceeds from the 2023 Term Loan (see Note 8, "Debt") to redeem all \$150.0 million in aggregate outstanding principal of its 7.375% Subordinated Debentures due 2054.

In conjunction with the closing of the Infinity acquisition, Kemper issued 13,184,107 shares of common stock on July 2, 2018, at \$74.53 per share. See Note 3, "Acquisition of Business," to the Consolidated Financial Statements for additional information.

Kemper did not repurchase any of its common stock in open market transactions in 2019, 2018 or 2017.

*Employee Stock Purchase Plan*

During the second quarter of 2019, the Company's stockholders approved the adoption of the Kemper Employee Stock Purchase Plan ("ESPP") and the reservation of 1,300,000 shares for issuance under the ESPP. The purpose of the ESPP is to provide eligible employees of the Company and its subsidiaries with the opportunity to purchase shares of common stock at a discounted price through payroll deductions with the goal of enhancing employees' sense of participation in the Company and further align employee interests with those of the Company's shareholders.

Under the ESPP, eligible employees may purchase shares of Company common stock through payroll deductions of between 1% and 10% of after-tax compensation each pay period, with a maximum participation of \$25,000 annually. The shares are purchased at the end of each three-month offering period at a 15% discount from the closing market price as reported on the New York Stock Exchange on the last trading day of the offering period. The Company issued 24,080 shares under the plan in 2019 at an average discounted price of \$66.08 per share. Compensation costs charged against income were \$0.3 million for the year ended December 31, 2019.

*Dividends*

Various state insurance laws restrict the amount that an insurance subsidiary may pay in the form of dividends, loans or advances without the prior approval of regulatory authorities. Also, that portion of an insurance subsidiary's net equity which results from differences between statutory insurance accounting practices and GAAP would not be available for cash dividends, loans or advances. Kemper's insurance subsidiaries paid dividends of \$239.0 million to Kemper in 2019. In 2020, Kemper's

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 10. SHAREHOLDERS' EQUITY (Continued)**

insurance subsidiaries would be able to pay \$435.4 million in dividends to Kemper without prior regulatory approval. Kemper's insurance subsidiaries had net assets of \$3.9 billion, determined in accordance with GAAP, that were restricted from payment to Kemper without prior regulatory approval at December 31, 2019.

Kemper's insurance subsidiaries are required to file financial statements prepared on the basis of statutory insurance accounting practices, a comprehensive basis of accounting other than GAAP. Statutory capital and surplus for the Company's life and health insurance subsidiaries was \$408.0 million and \$454.7 million at December 31, 2019 and 2018, respectively. Statutory net income for the Company's life and health insurance subsidiaries was \$90.4 million, \$143.9 million and \$84.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. Statutory capital and surplus for the Company's property and casualty insurance subsidiaries was \$1.6 billion and \$1.4 billion at December 31, 2019 and 2018, respectively. Statutory net income for the Company's property and casualty insurance subsidiaries was \$347.6 million, \$236.4 million and \$56.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Statutory capital and surplus and statutory net income exclude parent company operations.

Kemper's insurance subsidiaries are also required to hold minimum levels of statutory capital and surplus to satisfy regulatory requirements. The minimum statutory capital and surplus, or company action level risk-based capital ("RBC"), necessary to satisfy regulatory requirements for the Company's life and health insurance subsidiaries collectively was \$122.0 million at December 31, 2019. The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company's property and casualty insurance subsidiaries collectively was \$641.9 million at December 31, 2019. Company action level RBC is the level at which a company is required to file a corrective action plan with its regulators and is equal to 200% of the authorized control level RBC.

In 2019, Kemper paid dividends of \$67.8 million to its shareholders. Except for certain financial covenants under Kemper's credit agreement or during any period in which Kemper elects to defer interest payments, there are no restrictions on Kemper's ability to pay dividends to its shareholders. Certain financial covenants, namely minimum net worth and a maximum debt to total capitalization ratio, under Kemper's credit agreement could limit the amount of dividends that Kemper may pay to shareholders at December 31, 2019. Kemper had the ability to pay without restrictions \$1.3 billion in dividends to its shareholders and still be in compliance with all financial covenants under its credit agreement at December 31, 2019.

**NOTE 11. LONG-TERM EQUITY-BASED COMPENSATION**

On May 4, 2011, Kemper's shareholders approved the 2011 Omnibus Equity Plan ("2011 Omnibus Plan"). The 2011 Omnibus Plan replaced the Company's previous employee stock option plans, director stock option plan and restricted stock plan (collectively, the "Prior Plans"). Awards previously granted under the Prior Plans remain outstanding in accordance with their original terms, but no new equity-based compensation awards can be granted under the Prior Plans. A maximum number of 10,000,000 shares of Kemper common stock may be issued under the 2011 Omnibus Plan (the "Share Authorization"). As of December 31, 2019, there were 3,254,822 common shares available for future grants under the 2011 Omnibus Plan, of which 1,082,460 shares were reserved for future grants based on the performance results under the terms of outstanding performance share units ("PSUs").

The design of the 2011 Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to "full value awards" will reduce the number of shares available for future grant under the Share Authorization by three shares. "Full value awards" are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include time-based restricted stock units (collectively "RSUs"), PSUs and deferred stock units ("DSUs").

Outstanding equity-based compensation awards at December 31, 2019 consisted of tandem stock option and stock appreciation rights ("Tandem Awards"), RSUs, PSUs and DSUs. RSUs, PSUs and DSUs give the recipient the right to receive one share of Kemper common stock for each RSU, PSU or DSU issued. Recipients of DSUs receive full dividend equivalents on the same basis as all other outstanding shares of Kemper common stock, but do not receive voting rights until such shares are issued. For grants beginning in November 2017, recipients of RSUs and PSUs receive dividend equivalents on the same basis as all other outstanding shares of Kemper common stock only if, to the extent, and at the time that they vest and on subsequent dividend payment dates after they vest until the awards are settled, and do not receive voting rights until such shares are issued.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 11. LONG-TERM EQUITY-BASED COMPENSATION (Continued)**

For grants prior to November 2017, recipients of RSUs and PSUs receive full dividend equivalents on the same basis as all other outstanding shares of Kemper common stock, but do not receive voting rights until such shares are issued. Except as described below for certain equity-based compensation awards granted to each member of the Board of Directors who is not employed by the Company (“Non-employee Directors”), all outstanding awards are subject to forfeiture until certain restrictions have lapsed.

For awards subject to a performance condition, the Company recognizes compensation expense based upon the probable outcome of the performance condition, which on the grant date reflects an estimate of attaining 100% of the performance units granted. The estimate is revised if the actual number of PSUs expected to vest is likely to differ from the previous estimate. Compensation expense for awards is recognized on a straight-line basis over the requisite service period. For equity-based compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately-vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company’s historical experience and future expectations. Equity-based compensation expense was \$25.3 million, \$18.6 million and \$9.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total unamortized compensation expense related to unvested awards at December 31, 2019 was \$20.4 million, which is expected to be recognized over the next three years ending December 31, 2020, 2021 and 2022.

The Compensation Committee of the Board of Directors, or the Board’s authorized designee, has sole discretion to determine the persons to whom awards under the 2011 Omnibus Plan are granted, and the material terms of the awards. For Tandem Awards, material terms include the number of shares covered by such awards and the exercise price, vesting and expiration dates of such awards. Tandem Awards are non-transferable. The exercise price of Tandem Awards is the fair value of Kemper’s common stock on the date of grant. Tandem Awards and RSU awards granted to employees generally vest in three equal annual installments over a period of three years, with the Tandem Awards expiring ten years from the date of grant. Employee PSU awards generally vest over a period of three years, subject to performance results and other restrictions.

Under the Non-employee Director compensation program in effect for 2019, each non-employee director received an annual RSU award with an aggregate grant date fair value of \$130,000 (“Director RSUs”) at the conclusion of the 2019 annual shareholder meeting. The Director RSUs vest over a period of one year, enable the award holder to make an election to defer the conversion to shares of common stock in accordance with applicable deferral rules, and include the right to receive dividend equivalents on the same basis as all other outstanding shares of Kemper common stock only if, to the extent, and at the time that they vest and on subsequent dividend payment dates after they vest until the awards are settled. Under the Non-employee Director compensation program in effect for 2018 and 2017, each non-employee director received an annual DSU award with an aggregate grant date fair value of \$110,000 at the conclusion of each annual shareholder meeting. The DSUs granted to Non-employee Directors are fully vested on the date of grant and include the right to receive full dividend equivalents on the same basis as all other outstanding shares of Kemper common stock. Conversion of the DSUs into shares of Kemper’s common stock is deferred until the date a director’s board service terminates.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each Tandem Award on the date of grant. The expected terms of Tandem Awards are developed by considering the Company’s historical Tandem Award exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. The dividend yield in 2019, 2018 and 2017 was calculated by taking the natural logarithm of the annualized yield divided by the Kemper common stock price on the date of grant. The risk-free interest rate was the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 11. LONG-TERM EQUITY-BASED COMPENSATION (Continued)**

The assumptions used in the Black-Scholes pricing model for Tandem Awards granted during the years ended December 31, 2019, 2018 and 2017 are presented below.

	2019	2018	2017
<b><u>RANGE OF VALUATION ASSUMPTIONS</u></b>			
Expected Volatility .....	28.97% - 33.78%	27.31% - 32.15%	26.17% - 30.39%
Risk-free Interest Rate.....	1.35 - 2.60	2.44 - 3.00	1.59 - 2.25
Expected Dividend Yield.....	1.05 - 1.38	1.16 - 1.72	1.39 - 2.43
<b><u>WEIGHTED-AVERAGE EXPECTED LIFE IN YEARS</u></b>			
Employee Grants .....	4 - 6	4 - 6	4 - 6.5

Tandem Award activity for the year ended December 31, 2019 is presented below.

	Shares Subject to Awards	Weighted- average Exercise Price Per Share (\$)	Weighted- average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (\$ In Millions)
Outstanding at Beginning of the Year .....	1,434,273	\$ 46.48		
Granted.....	578,375	76.96		
Exercised.....	(159,630)	36.92		
Forfeited or Expired.....	(44,203)	68.43		
Outstanding at December 31, 2019.....	<u>1,808,815</u>	<u>56.53</u>	<u>7.65</u>	<u>\$ 38.3</u>
Vested and Expected to Vest at December 31, 2019.....	<u>1,718,559</u>	<u>\$ 56.03</u>	<u>7.61</u>	<u>\$ 37.2</u>
Exercisable at December 31, 2019.....	<u>803,769</u>	<u>\$ 42.15</u>	<u>6.50</u>	<u>\$ 28.4</u>

The weighted-average grant-date fair values of Tandem Awards granted during 2019, 2018 and 2017 were \$20.99, \$15.14 and \$8.89, respectively. Total intrinsic value of Tandem Awards exercised was \$7.7 million, \$3.9 million and \$4.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Cash received from exercises of Tandem Awards was \$2.4 million, \$0.9 million and \$4.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total tax benefit realized for tax deductions from exercises of Tandem Awards was \$1.6 million, \$0.8 million and \$1.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Information pertaining to Tandem Awards outstanding at December 31, 2019 is presented below.

Range of Exercise Prices (\$)	Outstanding			Exercisable	
	Shares Subject to Awards	Weighted- average Exercise Price Per Share (\$)	Weighted- average Remaining Contractual Life (in Years)	Shares Subject to Awards	Weighted- average Exercise Price Per Share (\$)
\$ 20.01 - 30.00	150,627	\$ 27.77	5.63	150,627	\$ 27.77
30.01 - 40.00	173,895	34.83	5.36	165,086	34.58
40.01 - 50.00	401,385	42.56	6.79	313,459	42.41
50.01 - 60.00	461,459	59.90	8.07	147,944	59.89
60.01 - 70.00	57,395	67.04	8.14	22,289	66.85
70.01 - 80.00	518,820	76.27	9.09	3,435	77.76
80.01 - 90.00	45,234	85.44	9.30	929	82.10
<u>20.01 - 90.00</u>	<u>1,808,815</u>	<u>56.53</u>	<u>7.65</u>	<u>803,769</u>	<u>42.15</u>

The grant-date fair values of RSUs are determined using the closing price of Kemper common stock on the date of grant.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 11. LONG-TERM EQUITY-BASED COMPENSATION (Continued)**

Activity related to nonvested RSUs for the year ended December 31, 2019 is presented below.

	Time-based Restricted Stock Unit Awards	
	Number of Restricted Stock Units	Weighted-average Grant-date Fair Value Per Unit
Nonvested Balance at Beginning of the Year .....	316,241	\$ 65.36
Granted .....	23,383	82.56
Vested .....	(135,909)	61.59
Forfeited .....	(21,527)	69.48
Nonvested Balance at December 31, 2019.....	<u>182,188</u>	<u>\$ 71.12</u>

The initial number of PSUs awarded to each participant represents the number of Kemper common shares that would vest and be issued if the performance level attained were to be at the “target” performance level. For performance above the target level, each participant would receive a grant of additional shares of stock up to a maximum of 100% of the initial number of PSUs awarded to the participant. The final payout of these awards, and any forfeitures of PSUs for performance below the “target” performance level, will be determined based on the Company’s performance. If, at the end of the applicable performance period, the Company’s performance:

- exceeds the “target” performance level, all of the PSUs will vest and additional shares of stock will be issued to the award recipient;
- is below the “target” performance level, but at or above a “minimum” performance level, only a portion of the PSUs originally issued to the award recipient will vest; or
- is below a “minimum” performance level, none of the PSUs originally issued to the award recipient will vest.

Activity related to nonvested PSU awards for the year ended December 31, 2019 is presented below.

	PSU Awards	
	Number of PSUs	Weighted-average Grant-date Fair Value Per PSU
Nonvested Balance at Beginning of the Year .....	327,300	\$ 47.14
Granted .....	254,535	61.22
Vested .....	(204,542)	29.20
Forfeited .....	(16,473)	65.55
Nonvested Balance at December 31, 2019.....	<u>360,820</u>	<u>\$ 66.42</u>

The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding PSU awards for the 2019, 2018 and 2017 three-year performance periods was 146,134 common shares, 137,343 common shares and 77,343 common shares, respectively, (as “full value awards,” the equivalent of 438,402 shares, 412,029 shares, and 232,029 shares, respectively, under the Share Authorization) at December 31, 2019.

The grant date fair values of the PSU awards with a market performance condition are determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Kemper and each of the other companies included in the peer group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Kemper’s simulated ranking is converted to a payout percentage based on the terms of the PSU awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 11. LONG-TERM EQUITY-BASED COMPENSATION (Continued)**

discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant date fair value is equal to the average of the results from these trials.

Fifty percent of the PSU awards granted to employees and officers in 2019, 2018 and 2017 are measured using a market performance condition. Fair value for these awards was estimated using the Monte Carlo simulation method described above. Final payout for these awards, and any forfeitures of units for performance below the “target” performance level, will be based on Kemper’s total shareholder return, relative to a peer group comprised of all the companies in the S&P Supercomposite Insurance Index, over a three-year performance period. The three-year performance periods for the 2019, 2018 and 2017 awards end on January 31, 2022, January 31, 2021 and January 31, 2020, respectively. Compensation cost for these awards is recognized ratably over the requisite service period. In the event that the market performance condition is not satisfied, previously recognized compensation cost would not reverse, but it would reverse if the requisite service period is not met.

Fifty percent of the PSU awards granted to employees and officers in 2019, 2018 and 2017 are measured solely using a Company-specific metric. Final payout for these awards, and any forfeitures of shares for performance below the “target” performance level, will be determined based on Kemper’s adjusted return on equity over a three-year performance period. The three-year performance periods for the 2019, 2018 and 2017 awards end on December 31, 2021, December 31, 2020 and December 31, 2019, respectively. Fair value for these awards was determined using the closing price of Kemper common stock on the date of grant. Accruals of compensation cost for these awards are estimated based on the probable outcome of the performance condition.

The total fair value of RSUs and PSUs that vested during the year ended December 31, 2019 was \$24.8 million. The tax benefits for tax deductions realized from such awards was \$5.2 million. The total fair value of RSUs and PSUs that vested during the year ended December 31, 2018 was \$8.7 million. The tax benefits for tax deductions realized from such awards was \$1.8 million. The total fair value of RSUs and PSUs that vested during the year ended December 31, 2017 was \$3.2 million. The tax benefits for tax deductions realized from such awards was \$1.1 million.

The grant-date fair values of DSU awards granted to Non-employee Directors are determined using the closing price of Kemper common stock on the date of grant. The total fair value of DSUs that vested during the years ended December 31, 2018 and 2017 was \$1.0 million and \$0.9 million, respectively.

Activity related to DSU awards for the year ended December 31, 2019 is presented below.

	Number of DSUs	Weighted- average Grant-date Fair Value Per DSU
Vested Balance at Beginning of the Year .....	57,340	\$ 44.89
Reduction for Shares Issued on Conversion .....	(12,520)	45.44
Vested Balance at December 31, 2019 .....	<u>44,820</u>	<u>\$ 44.74</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 12. INCOME FROM CONTINUING OPERATIONS PER UNRESTRICTED SHARE**

The Company's awards of deferred stock units contain rights to receive non-forfeitable dividend equivalents and participate in the undistributed earnings with common shareholders, as did the Company's awards of restricted stock units and performance share units prior to 2018. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the years ended December 31, 2019, 2018 and 2017 is presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><u>DOLLARS IN MILLIONS</u></b>			
Income from Continuing Operations .....	\$ 531.1	\$ 188.4	\$ 119.9
Less Income from Continuing Operations Attributed to Participating Awards .....	1.7	1.0	0.8
Income from Continuing Operations Attributed to Unrestricted Shares .....	<u>529.4</u>	187.4	119.1
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares .....	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares .....	<u>\$ 529.4</u>	<u>\$ 187.4</u>	<u>\$ 119.1</u>
<b><u>SHARES IN THOUSANDS</u></b>			
Weighted-average Unrestricted Shares Outstanding .....	65,880.9	58,149.4	51,345.6
Equity-based Compensation Equivalent Shares .....	<u>667.2</u>	602.5	232.3
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution .....	<u>66,548.1</u>	<u>58,751.9</u>	<u>51,577.9</u>
<b><u>PER UNRESTRICTED SHARE IN WHOLE DOLLARS</u></b>			
Basic Income from Continuing Operations Per Unrestricted Share .....	<u>\$ 8.04</u>	<u>\$ 3.22</u>	<u>\$ 2.32</u>
Diluted Income from Continuing Operations Per Unrestricted Share .....	<u>\$ 7.96</u>	<u>\$ 3.19</u>	<u>\$ 2.31</u>

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 years ended December 31, 2019, 2018 and 2017, because the effect of inclusion would be anti-dilutive, is presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><u>SHARES IN THOUSANDS</u></b>			
Equity-based Compensation Equivalent Shares .....	556.4	231.3	346.6
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution .....	556.4	231.3	346.6

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 13. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of Other Comprehensive Income (Loss) Before Income Taxes for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Other Comprehensive Income (Loss) Before Income Taxes:			
Unrealized Holding Gains (Losses) Arising During the Year Before Reclassification Adjustment .....	\$ 433.4	\$ (214.2)	\$ 119.1
Reclassification Adjustment for Amounts Included in Net Income .....	<u>(28.1)</u>	<u>(21.9)</u>	<u>(35.3)</u>
Unrealized Holding Gains (Losses) .....	<u>405.3</u>	<u>(236.1)</u>	<u>83.8</u>
Foreign Currency Translation Adjustments Arising During the Year Before Reclassification Adjustment .....	—	—	1.7
Reclassification Adjustment for Amounts Included in Net Income .....	—	0.3	—
Foreign Currency Translation Adjustments .....	<u>—</u>	<u>0.3</u>	<u>1.7</u>
Net Unrecognized Postretirement Benefit Costs Arising During the Year .....	<u>(4.8)</u>	<u>(8.0)</u>	<u>3.9</u>
Reclassification Adjustments for Amounts Included in Net Income:			
Amortization of Net Unrecognized Postretirement Benefit Costs .....	<u>(3.0)</u>	<u>1.1</u>	<u>(0.6)</u>
Total Reclassification Adjustments for Amounts Included in Net Income .....	<u>(3.0)</u>	<u>1.1</u>	<u>(0.6)</u>
Net Unrecognized Postretirement Benefit Costs .....	<u>(7.8)</u>	<u>(6.9)</u>	<u>3.3</u>
Gains (Losses) on Cash Flow Hedges During the Year Before Reclassification Adjustment .....	—	0.9	(8.0)
Reclassification Adjustment for Amounts Included in Net Income .....	<u>0.4</u>	<u>0.3</u>	<u>1.3</u>
Gains (Losses) on Cash Flow Hedges .....	<u>0.4</u>	<u>1.2</u>	<u>(6.7)</u>
Other Comprehensive Income (Loss) Before Income Taxes .....	<u>\$ 397.9</u>	<u>\$ (241.5)</u>	<u>\$ 82.1</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 13. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)**

The components of Other Comprehensive Income Tax Benefit (Expense) for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income Tax Benefit (Expense):			
Unrealized Holding Gains (Losses) Arising During the Year Before Reclassification Adjustment .....	\$ (91.0)	\$ 45.0	\$ (38.2)
Reclassification Adjustment for Amounts Included in Net Income.....	5.8	4.6	12.3
Unrealized Holding Gains (Losses) .....	<u>(85.2)</u>	<u>49.6</u>	<u>(25.9)</u>
Foreign Currency Translation Adjustments Arising During the Year Before Reclassification Adjustment .....	—	—	(0.6)
Reclassification Adjustment for Amounts Included in Net Income.....	—	(0.1)	—
Foreign Currency Translation Adjustment.....	<u>—</u>	<u>(0.1)</u>	<u>(0.6)</u>
Net Unrecognized Postretirement Benefit Costs Arising During the Year .....	1.0	1.7	(0.8)
Reclassification Adjustments for Amounts Included in Net Income:			
Amortization of Net Unrecognized Postretirement Benefit Costs .....	0.7	(0.2)	0.2
Total Reclassification Adjustments for Amounts Included in Net Income.....	<u>0.7</u>	<u>(0.2)</u>	<u>0.2</u>
Net Unrecognized Postretirement Benefit Costs .....	<u>1.7</u>	<u>1.5</u>	<u>(0.6)</u>
Gains (Losses) on Cash Flow Hedges During the Year Before Reclassification Adjustment .....	—	(0.2)	2.8
Reclassification Adjustment for Amounts Included in Net Income.....	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.4)</u>
Gains (Losses) on Cash Flow Hedges.....	<u>(0.1)</u>	<u>(0.3)</u>	<u>2.4</u>
Other Comprehensive Income Tax Benefit (Expense) .....	<u>\$ (83.6)</u>	<u>\$ 50.7</u>	<u>\$ (24.7)</u>

The components of AOCI at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Net Unrealized Gains on Investments, Net of Income Taxes:		
Other Net Unrealized Gains on Investments.....	\$ 439.4	\$ 119.3
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes .....	<u>(100.6)</u>	<u>(94.5)</u>
Losses on Cash Flow Hedges, Net of Income Taxes .....	<u>(2.7)</u>	<u>(3.0)</u>
Accumulated Other Comprehensive Income .....	<u>\$ 336.1</u>	<u>\$ 21.8</u>



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**Notes to the Consolidated Financial Statements**

**NOTE 13. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)**

Components of AOCI were reclassified to the following lines of the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reclassification of AOCI from Net Unrealized Gains and Losses on Investments to:			
Net Realized Gains on Sales of Investments.....	\$ 41.9	\$ 26.4	\$ 49.6
Net Impairment Losses Recognized in Earnings .....	(13.8)	(4.5)	(14.3)
Total Before Income Taxes.....	28.1	21.9	35.3
Income Tax Expense .....	(5.8)	(4.6)	(12.3)
Reclassification from AOCI, Net of Income Taxes.....	22.3	17.3	23.0
Reclassification of AOCI from Unrecognized Postretirement Benefit Costs to:			
Interest and Other Expenses (Income) .....	3.0	(1.1)	0.6
Income Tax Benefit (Expense).....	(0.7)	0.2	(0.2)
Reclassification from AOCI, Net of Income Taxes.....	2.3	(0.9)	0.4
Reclassification of AOCI from Loss on Cash Flow Hedges to:			
Interest and Other Expenses .....	(0.4)	(0.3)	(1.3)
Income Tax Benefit .....	0.1	0.1	0.4
Reclassification from AOCI, Net of Income Taxes.....	(0.3)	(0.2)	(0.9)
Total Reclassification from AOCI to Net Income.....	<u>\$ 24.3</u>	<u>\$ 16.2</u>	<u>\$ 22.5</u>

**NOTE 14. INCOME FROM INVESTMENTS**

Net Investment Income for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment Income:			
Interest on Fixed Income Securities .....	\$ 299.4	\$ 268.9	\$ 246.6
Dividends on Equity Securities Excluding Alternative Investments .....	22.9	13.6	9.3
Alternative Investments:			
Equity Method Limited Liability Investments .....	1.0	11.0	24.8
Fair Value Option Investments.....	—	—	1.3
Limited Liability Investments Included in Equity Securities.....	18.0	26.4	28.6
Total Alternative Investments.....	19.0	37.4	54.7
Short-term Investments .....	8.2	7.0	1.6
Loans to Policyholders.....	22.6	22.5	21.6
Real Estate.....	9.8	9.6	10.7
Other.....	1.5	0.9	0.5
Total Investment Income .....	<u>383.4</u>	<u>359.9</u>	<u>345.0</u>
Investment Expenses:			
Real Estate.....	9.6	9.7	10.5
Other Investment Expenses .....	9.5	9.3	7.3
Total Investment Expenses.....	<u>19.1</u>	<u>19.0</u>	<u>17.8</u>
Net Investment Income.....	<u>\$ 364.3</u>	<u>\$ 340.9</u>	<u>\$ 327.2</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 14. INCOME FROM INVESTMENTS (Continued)**

Other Receivables includes accrued investment income of \$78.7 million and \$77.9 million at December 31, 2019 and 2018, respectively.

The components of Net Realized Gains on Sales of Investments for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Fixed Maturities:			
Gains on Sales.....	\$ 41.1	\$ 25.3	\$ 8.4
Losses on Sales.....	(4.8)	(11.1)	(0.9)
Equity Securities:			
Gains on Sales.....	5.8	12.3	42.0
Losses on Sales.....	(0.2)	—	—
Real Estate:			
Gains on Sales.....	—	—	6.4
Other Investments:			
Gains on Other Sales.....	—	—	0.1
Losses on Sales.....	—	(0.1)	(0.1)
Net Gains on Trading Securities.....	—	—	0.6
Net Realized Gains on Sales of Investments.....	<u>\$ 41.9</u>	<u>\$ 26.4</u>	<u>\$ 56.5</u>
Gross Gains on Sales.....	\$ 46.9	\$ 37.6	\$ 56.9
Gross Losses on Sales.....	(5.0)	(11.2)	(1.0)
Net Gains on Trading Securities.....	—	—	0.6
Net Realized Gains on Sales of Investments.....	<u>\$ 41.9</u>	<u>\$ 26.4</u>	<u>\$ 56.5</u>

The components of Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Fixed Maturities.....	\$ (13.3)	\$ (2.0)	\$ (12.1)
Equity Securities.....	(0.5)	(2.5)	(2.2)
Net Impairment Losses Recognized in Earnings.....	<u>\$ (13.8)</u>	<u>\$ (4.5)</u>	<u>\$ (14.3)</u>

**NOTE 15. INSURANCE EXPENSES**

Insurance Expenses for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Commissions.....	\$ 708.8	\$ 558.7	\$ 425.6
General Expenses.....	278.0	231.9	196.2
Premium Tax Expense.....	93.5	71.0	50.7
Total Costs Incurred.....	<u>1,080.3</u>	<u>861.6</u>	<u>672.5</u>
Policy Acquisition Costs:			
Deferred.....	(475.2)	(481.5)	(351.6)
Amortized.....	408.3	377.1	318.3
Net Policy Acquisition Costs Amortized.....	<u>(66.9)</u>	<u>(104.4)</u>	<u>(33.3)</u>
Amortization of VOBA.....	6.3	143.3	5.1
Insurance Expenses.....	<u>\$ 1,019.7</u>	<u>\$ 900.5</u>	<u>\$ 644.3</u>

Commissions for servicing policies are expensed as incurred, rather than deferred and amortized.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 16. INCOME TAXES**

The tax effects of temporary differences that give rise to significant portions of the Company's Net Deferred Income Tax Assets and Deferred Income Tax Liabilities at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Deferred Income Tax Assets:		
Insurance Reserves .....	\$ 16.2	\$ 17.0
Unearned Premium Reserves .....	64.5	59.1
Tax Capitalization of Policy Acquisition Costs.....	44.6	44.0
Payroll and Employee Benefit Accruals.....	35.0	49.6
Net Operating Loss Carryforwards .....	3.3	5.5
Other .....	12.5	11.2
Total Deferred Income Tax Assets .....	<u>176.1</u>	<u>186.4</u>
Deferred Income Tax Liabilities:		
Investments.....	155.6	33.2
Deferred Policy Acquisition Costs .....	112.9	98.7
Life VIF and P&C Customer Relationships.....	5.3	6.0
Goodwill and Other Intangible Assets Acquired.....	39.3	45.2
Depreciable Assets .....	37.6	27.1
Other .....	3.6	2.4
Total Deferred Income Tax Liabilities .....	<u>354.3</u>	<u>212.6</u>
Net Deferred Income Tax Liabilities.....	<u>\$ 178.2</u>	<u>\$ 26.2</u>

The expiration of federal net operating loss ("NOL") carryforwards and their related deferred income tax assets at December 31, 2019 is presented below by year of expiration.

<u>DOLLARS IN MILLIONS</u>	<u>NOL Carry- forwards</u>	<u>Deferred Tax Asset</u>
Expiring in:		
2027 .....	11.2	2.4
2028 .....	4.4	0.9
Total All Years .....	<u>\$ 15.6</u>	<u>\$ 3.3</u>

The NOL carryforwards were acquired in connection with business acquisitions made in prior years and are subject to annual usage limitations under the Internal Revenue Code. The Company expects to fully utilize these federal NOL carryforwards.

A reconciliation of the beginning and ending amount of Unrecognized Tax Benefits for the years ended December 31, 2019, 2018 and 2017 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Liabilities for Unrecognized Tax Benefits at Beginning of Year .....	\$ 4.4	\$ 8.1	\$ 5.1
Additions for Tax Positions of Current Year .....	—	0.7	3.1
Reductions for Tax Positions of Prior Years.....	(4.4)	(4.4)	—
Reduction for Expiration of Federal Statute of Limitations.....	—	—	(0.1)
Liabilities for Unrecognized Tax Benefits at End of Year.....	<u>\$ —</u>	<u>\$ 4.4</u>	<u>\$ 8.1</u>

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 2011. As a result of the Company filing amended federal income tax returns resulting from an election to update interest rates used to compute the tax basis of reserves on life insurance contracts issued prior to 2018, tax years 2012 and 2013 are under limited examination with respect to carryback adjustments associated with the amended returns. The statute of limitations related to tax years 2014 and 2015 has been extended to June 30, 2020.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 16. INCOME TAXES (Continued)**

The expiration of the statute of limitations related to the various state income tax returns that Kemper and its subsidiaries file varies by state.

There were no Unrecognized Tax Benefits at December 31, 2019. Unrecognized Tax Benefits at December 31, 2018 and 2017 include \$3.7 million and \$7.6 million, respectively, for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for Unrecognized Tax Benefits included accrued interest of \$0.7 million and \$0.5 million at December 31, 2018 and 2017, respectively. Net interest related to unrecognized tax benefits for the years ended December 31, 2018 and 2017 were insignificant.

The components of Income Tax Expense from Continuing Operations for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Income Tax Benefit (Expense).....	\$ (66.4)	\$ 32.2	\$ (23.1)
Deferred Income Tax Expense .....	(68.5)	(46.5)	(15.1)
(Increase) Decrease Unrecognized Tax Benefits.....	4.4	3.6	(3.0)
Income Tax Expense.....	<u>\$ (130.5)</u>	<u>\$ (10.7)</u>	<u>\$ (41.2)</u>

Income taxes paid, net of income tax refunds received, were \$68.1 million, \$0.2 million, and \$13.0 million in 2019, 2018, and 2017, respectively.

A reconciliation of the Statutory Federal Income Tax Expense and Rate to the Company's Effective Income Tax Expense and Rate from Continuing Operations for the years ended December 31, 2019, 2018 and 2017 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Statutory Federal Income Tax Expense .....	\$ (138.9)	21.0%	\$ (41.8)	21.0%	\$ (56.4)	35.0%
Tax-exempt Income and Dividends Received						
Deduction .....	4.3	(0.7)	4.8	(2.4)	9.8	(6.0)
Stock-Based Compensation .....	4.4	(0.7)	1.4	(0.7)	0.4	(0.2)
Nondeductible Executive Compensation.....	(2.5)	0.4	(1.4)	0.7	—	—
Tax Reform .....	—	—	26.4	(13.3)	7.4	(4.6)
Other, Net .....	2.2	(0.3)	(0.1)	0.1	(2.4)	1.4
Effective Income Tax Benefit (Expense) from						
Continuing Operations .....	<u>\$ (130.5)</u>	<u>19.7%</u>	<u>\$ (10.7)</u>	<u>5.4%</u>	<u>\$ (41.2)</u>	<u>25.6%</u>

Comprehensive Income Tax (Expense) Benefit included in the Consolidated Financial Statements for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income Tax Benefit (Expense):			
Continuing Operations.....	\$ (130.5)	\$ (10.7)	\$ (41.2)
Discontinued Operations .....	—	(0.6)	(0.5)
Unrealized Depreciation (Appreciation) on Securities.....	(85.2)	49.6	(25.9)
Foreign Currency Translation Adjustments on Investments .....	—	(0.1)	(0.6)
Tax Effects from Postretirement Benefit Plans .....	1.7	1.5	(0.6)
Tax Effects from Cash Flow Hedge .....	(0.1)	(0.3)	2.4
Comprehensive Income Tax (Expense) Benefit .....	<u>\$ (214.1)</u>	<u>\$ 39.4</u>	<u>\$ (66.4)</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 17. PENSION BENEFITS**

Kemper sponsors a qualified defined benefit pension plan (the “Pension Plan”). The Pension Plan covers approximately 8,650 participants and beneficiaries, of which 1,250 are active employees. Effective January 1, 2006 the Pension Plan was closed to new hires, and effective June 30, 2016, benefit accruals were frozen for substantially all of the participants under the Pension Plan. The Pension Plan is generally non-contributory, but participation requires or required some employees to contribute 3% of pay, as defined, per year. Benefits for participants who are or were required to contribute to the Pension Plan are based on compensation during plan participation and the number of years of participation. Benefits for the vast majority of participants who are not required to contribute to the Pension Plan are based on years of service and final average pay, as defined. The Company funds the Pension Plan in accordance with the requirements of ERISA.

Changes in Fair Value of Plan Assets and Changes in Projected Benefit Obligation for the Pension Plan for the years ended December 31, 2019 and 2018 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Fair Value of Plan Assets at Beginning of Year .....	\$ 525.3	\$ 579.8
Actual Return on Plan Assets.....	113.2	(32.1)
Employer Contributions.....	55.3	5.1
Benefits Paid .....	(29.2)	(27.5)
Fair Value of Plan Assets at End of Year.....	<u>664.6</u>	<u>525.3</u>
Projected Benefit Obligation at Beginning of Year.....	<u>580.5</u>	637.2
Interest Cost .....	22.3	20.3
Benefits Paid .....	(29.2)	(27.5)
Actuarial (Gains) Losses.....	86.9	(49.5)
Projected Benefit Obligation at End of Year.....	<u>660.5</u>	<u>580.5</u>
Funded Status—Plan Assets in Excess (Deficit) of Projected Benefit Obligation .....	<u>\$ 4.1</u>	<u>\$ (55.2)</u>
Unamortized Amount Reported in AOCI at End of Year.....	<u>\$ (145.7)</u>	<u>\$ (144.4)</u>
Accumulated Benefit Obligation at End of Year.....	<u>\$ 660.4</u>	<u>\$ 580.3</u>

The measurement dates of the assets and liabilities at end of year presented in the preceding table under the headings, “2019” and “2018” were December 31, 2019 and December 31, 2018, respectively.

The weighted-average discount rate and rate of increase in future compensation levels used to estimate the components of the Projected Benefit Obligation for the Pension Plan at December 31, 2019 and 2018 were:

	<u>2019</u>	<u>2018</u>
Discount Rate.....	3.21%	4.28%
Rate of Increase in Future Compensation Levels .....	3.40	3.40

Asset allocations for the Pension Plan at December 31, 2019 and 2018 by asset category were:

<u>ASSET CATEGORY</u>	<u>2019</u>	<u>2018</u>
Cash and Short-term Investments .....	2%	1%
Corporate Bonds and Notes .....	40	41
Common and Preferred Stocks .....	35	37
Bond Exchange Traded Funds .....	14	6
Other Assets .....	9	15
Total.....	<u>100%</u>	<u>100%</u>

The investment objective of the Pension Plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions and any required employee contributions, is adequate to provide for the payment of the benefit obligations of the Pension Plan. The assets of the Pension Plan may be invested in fixed income and equity investments or any other investment vehicle or financial instrument deemed

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 17. PENSION BENEFITS (Continued)**

appropriate. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. Equity investments may include various types of stock, such as large-cap, mid-cap and small-cap stocks, and may also include investments in investment companies, collective investment funds and Kemper common stock (subject to Section 407 and other requirements of ERISA). The Pension Plan has not invested in Kemper common stock.

The trust investment committee for the Pension Plan, along with its third party fiduciary advisor, periodically reviews the performance of the Pension Plan's investments and asset allocation. Several external investment managers, one of which is Faye Sarofim & Co. (see Note 24, "Related Parties," to the Consolidated Financial Statements), manage the equity investments of the trust for the Pension Plan. Each manager is allowed to exercise investment discretion, subject to limitations, if any, established by the trust investment committee for the Pension Plan. All other investment decisions are made by the Company, subject to general guidelines as set by the trust investment committee for the Pension Plan.

The Company determines its Expected Long Term Rate of Return on Plan Assets based primarily on the Company's expectations of future returns, with consideration to historical returns, for the Pension Plan's investments, based on target allocations of the Pension Plan's investments.

The fair values of pension plan assets are estimated using the same methodologies and inputs as those used to determine the fair values for the respective asset category of the Company. These methodologies and inputs are disclosed in Note 22, "Fair Value Measurements," to the Consolidated Financial Statements. Fair value measurements for the Pension Plan's assets at December 31, 2019 are summarized below.

<i><b>DOLLARS IN MILLIONS</b></i>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Measured at Net Asset Value</b>	<b>Fair Value</b>
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities .....	\$ 158.4	\$ —	\$ —	\$ —	\$ 158.4
States and Political Subdivisions .....	—	0.1	—	—	0.1
Corporate Bonds and Notes .....	—	107.3	—	—	107.3
Equity Securities:					
Common Stocks:					
Other Industries .....	140.0	21.5	—	—	161.5
Other Equity Interests:					
Collective Investment Funds .....	—	—	—	71.8	71.8
Bond Exchange Traded Funds .....	92.8	—	—	—	92.8
Limited Liability Companies and Limited Partnerships .....	—	—	—	63.7	63.7
Short-term Investments .....	10.0	—	—	—	10.0
Receivables and Other .....	(1.0)	—	—	—	(1.0)
Total .....	<u>\$ 400.2</u>	<u>\$ 128.9</u>	<u>\$ —</u>	<u>\$ 135.5</u>	<u>\$ 664.6</u>



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 17. PENSION BENEFITS (Continued)**

Fair value measurements for the Pension Plan's assets at December 31, 2018 are summarized below.

<u>DOLLARS IN MILLIONS</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Measured at Net Asset Value</u>	<u>Fair Value</u>
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities .....	\$ 110.9	\$ —	\$ —	—	\$ 110.9
States and Political Subdivisions .....	—	2.1	—	—	2.1
Corporate Bonds and Notes .....	—	103.4	—	—	103.4
Equity Securities:					
Preferred Stocks:					
Finance, Insurance and Real Estate .....	—	—	—	—	—
Common Stocks:					
Manufacturing .....	—	—	—	—	—
Other Industries .....	106.0	17.4	—	—	123.4
Other Equity Interests:					
Collective Investment Funds .....	—	—	—	68.6	68.6
Bond Exchange Traded Funds .....	34.1	—	—	—	34.1
Limited Liability Companies and Limited Partnerships .....	—	—	—	77.1	77.1
Short-term Investments .....	4.4	—	—	—	4.4
Receivables and Other .....	1.0	—	0.3	—	1.3
Total .....	<u>\$ 256.4</u>	<u>\$ 122.9</u>	<u>\$ 0.3</u>	<u>\$ 145.7</u>	<u>\$ 525.3</u>

Additional information pertaining to the changes in the fair value of the Pension Plan's assets classified as Level 3 in the two preceding tables for the years ended December 31, 2019 and 2018 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Balance at Beginning of Year .....	\$ 0.3	\$ 0.3
Purchases, Sales and Settlements, Net .....	(0.3)	—
Balance at End of Year .....	<u>\$ —</u>	<u>\$ 0.3</u>

The components of Comprehensive Pension Expense (Income) for the Pension Plan for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service Cost Earned During the Year .....	\$ —	\$ —	\$ —
Interest Cost on Projected Benefit Obligation .....	22.3	20.3	20.6
Expected Return on Plan Assets .....	(30.6)	(28.9)	(30.9)
Amortization of Actuarial Loss .....	2.9	4.3	2.6
Pension Income Recognized in Consolidated Statements of Income .....	(5.4)	(4.3)	(7.7)
Unrecognized Pension Gain (Loss) Arising During the Year .....	4.2	11.5	(4.9)
Amortization of Accumulated Unrecognized Pension Loss .....	(2.9)	(4.3)	(2.6)
Comprehensive Pension Expense (Income) .....	<u>\$ (4.1)</u>	<u>\$ 2.9</u>	<u>\$ (15.2)</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 17. PENSION BENEFITS (Continued)**

The actuarial loss included in AOCI at December 31, 2019 is being amortized over approximately 22 years, the remaining average estimated life expectancy of participants. The Company estimates that Pension Income for the Pension Plan for the year ended December 31, 2020 will include expense of \$5.9 million resulting from the amortization of the related accumulated actuarial loss included in AOCI at December 31, 2019.

The weighted-average discount rate, service cost discount rate, interest cost discount rate, rate of increase in future compensation levels and expected long-term rate of return on plan assets used to develop the components of Pension Expense for the Pension Plan for the years ended December 31, 2019, 2018 and 2017 were:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Weighted-average Discount Rate.....	<b>4.28%</b>	3.63%	4.19%
Service Cost Discount Rate.....	<b>4.26</b>	3.61	4.15
Interest Cost Discount Rate.....	<b>3.91</b>	3.26	3.52
Rate of Increase in Future Compensation Levels .....	<b>3.40</b>	3.40	2.56
Expected Long Term Rate of Return on Plan Assets .....	<b>5.70</b>	5.35	5.80

On August 22, 2019, the Company made a voluntary cash contribution of \$55.3 million to the Pension Plan. On July 13, 2018, the Company made a voluntary cash contribution of \$5.1 million to the Pension Plan. The Company did not contribute to the Pension Plan in 2017. The Company does not expect that it will be required to contribute to the Pension Plan in 2020, but could make a voluntary contribution pursuant to the maximum funding limits under ERISA.

The following benefit payments (net of participant contributions), which consider expected future service of certain participants that remain eligible for a benefit accrual, as appropriate, are expected to be paid from the Pension Plan:

<u>DOLLARS IN MILLIONS</u>	<u>Years Ending December 31,</u>					
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025-2029</u>
Estimated Pension Benefit Payments .....	<u>\$ 31.4</u>	<u>\$ 32.1</u>	<u>\$ 33.2</u>	<u>\$ 34.0</u>	<u>\$ 34.7</u>	<u>\$ 179.1</u>

The Company also sponsors a non-qualified supplemental defined benefit pension plan (the “Supplemental Plan”). Benefit accruals for all participants in the Supplemental Plan were frozen effective June 30, 2016. The unfunded liability related to the Supplemental Plan was \$28.9 million and \$24.2 million at December 31, 2019 and 2018, respectively. Pension expense for the Supplemental Plan was \$1.0 million, \$0.8 million, and \$0.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. An actuarial loss of \$5.6 million before taxes, an actuarial gain of \$1.3 million before taxes and an actuarial loss of \$1.6 million before taxes are included in Other Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company also sponsors several defined contribution benefit plans covering most of its employees. The Company made contributions to those plans of \$26.0 million, \$15.1 million and \$10.6 million in 2019, 2018 and 2017, respectively.

**NOTE 18. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

Kemper and Infinity sponsor other than pension postretirement employee benefit plans (“OPEB”) that together provide medical, dental and/or life insurance benefits to approximately 650 retired and 525 active employees.

Kemper has historically self-insured the benefits under the Kemper OPEB Plan. The Kemper medical plan generally provides for a limited number of years of medical insurance benefits at retirement based on the participant’s attained age at retirement and number of years of service until specified dates and generally has required participant contributions, with most contributions adjusted annually. On December 30, 2016, Kemper amended the Kemper OPEB Plan and, effective December 31, 2016, will no longer offer coverage to post-65 Medicare-eligible retirees and Medicare-eligible spouses under the self-insured portion of its coverage. Rather, beginning on January 1, 2017, the Kemper OPEB Plan offers access to a private, third-party Medicare exchange and provides varying levels of a Company-determined subsidy via health reimbursement accounts to certain Medicare-eligible retirees and spouses in order to help fund a portion of the participants’ cost. Further, the amendment eliminates the requirement for such participants to contribute to the Kemper OPEB Plan. In conjunction with the amendment,

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 18. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

the Company recorded a pre-tax reduction to its Accumulated Postretirement Benefit Obligation of \$11.0 million through Other Comprehensive Income. This prior service credit is being amortized into income over the remaining average life of the Kemper OPEB Plan's participants.

Changes in Fair Value of Plans' Assets and Changes in Accumulated Postretirement Benefit Obligation for the years ended December 31, 2019 and 2018 were:

<i><b>DOLLARS IN MILLIONS</b></i>	<b>2019</b>	<b>2018</b>
Fair Value of Plans' Assets at Beginning of Year.....	\$ —	\$ —
Employer Contributions.....	<b>1.1</b>	1.1
Plan Participants' Contributions.....	<b>0.3</b>	0.3
Benefits Paid.....	<b>(1.4)</b>	(1.4)
Fair Value of Plan Assets at End of Year.....	<u>—</u>	<u>—</u>
Accumulated Postretirement Benefit Obligation at Beginning of Year.....	<b>15.0</b>	14.4
Obligation from Acquisition of Infinity.....	—	3.9
Service Cost.....	<b>0.2</b>	0.2
Interest Cost.....	<b>0.4</b>	0.4
Plan Participants' Contributions.....	<b>0.3</b>	0.3
Benefits Paid.....	<b>(1.4)</b>	(1.4)
Medicare Part D Subsidy Received.....	—	0.2
Actuarial Gain.....	<b>(1.7)</b>	(3.0)
Accumulated Postretirement Benefit Obligation at End of Year.....	<b>12.8</b>	15.0
Funded Status—Accumulated Postretirement Benefit Obligation in Excess of Plans' Assets.....	<b>\$ (12.8)</b>	<b>\$ (15.0)</b>
Unamortized Actuarial Gain Reported in AOCI at End of Year.....	<b>\$ 23.8</b>	<b>\$ 24.9</b>

The measurement dates of the assets and liabilities at end of year in the preceding table under the headings "2019" and "2018" were December 31, 2019 and December 31, 2018, respectively.

The weighted-average discount rate and rate of increase in future compensation levels used to develop the components of the Accumulated Postretirement Benefit Obligation at December 31, 2019 and 2018 were:

	<b>2019</b>	<b>2018</b>
Discount Rate.....	<b>2.91%</b>	4.02%
Rate of Increase in Future Compensation Levels.....	<b>2.20</b>	2.20

The assumed health care cost trend rate used in measuring the Accumulated Postretirement Benefit Obligation at December 31, 2019 was 7.50% for 2020, gradually declining to 4.8% in the year 2025 and remaining at that level thereafter for medical benefits and 10.00% for 2020, gradually declining to 4.8% in the year 2026 and remaining at that level thereafter for prescription drug benefits. The assumed health care cost trend rate used in measuring the Accumulated Postretirement Benefit Obligation at December 31, 2018 was 7.5% for 2019, gradually declining to 4.8% in the year 2025 and remaining at that level thereafter for medical benefits and 10.0% for 2019, gradually declining to 4.8% in the year 2026 and remaining at that level thereafter for prescription drug benefits.

A one-percentage point increase in the assumed health care cost trend rate for each year would have increased the Accumulated Postretirement Benefit Obligation at December 31, 2019 by \$0.6 million and 2019 OPEB expense by an insignificant amount. A one-percentage point increase in the assumed health care cost trend rate for each year would have increased the Accumulated Postretirement Benefit Obligation at December 31, 2018 by \$0.8 million and 2018 OPEB expense by an insignificant amount.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 18. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The components of Comprehensive OPEB Expense (Income) for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	2019	2018	2017
Service Cost Earned During the Year.....	\$ 0.2	\$ 0.2	\$ 0.1
Interest Cost on Accumulated Postretirement Benefit Obligation .....	0.4	0.4	0.4
Amortization of Prior Service Credit .....	(1.3)	(1.3)	—
Amortization of Accumulated Unrecognized OPEB Gain.....	(2.4)	(1.8)	(1.8)
OPEB Income Recognized in Consolidated Statements of Income.....	(3.1)	(2.5)	(1.3)
Unrecognized OPEB Gain Arising During the Year .....	(1.7)	(3.0)	(0.5)
Prior Service Credit Arising During the Year from Plan Amendments.....	—	—	(1.3)
Amortization of Prior Service Credit .....	1.3	1.3	—
Amortization of Accumulated Unrecognized OPEB Gain.....	2.4	1.8	1.8
Comprehensive OPEB Income.....	<u>\$ (1.1)</u>	<u>\$ (2.4)</u>	<u>\$ (1.3)</u>

The Company estimates that OPEB Expense for the year ended December 31, 2020 will include income of \$3.3 million resulting from the amortization of the related accumulated actuarial gain and prior service credit included in AOCI at December 31, 2019.

The weighted-average discount rate and rate of increase in future compensation levels used to develop OPEB Expense for the years ended December 31, 2019, 2018 and 2017 were:

	2019	2018	2017
Weighted-average Discount Rate .....	4.08%	3.36%	3.61%
Service Cost Discount Rate.....	4.16	3.52	3.79
Interest Cost Discount Rate.....	3.69	2.96	2.92
Rate of Increase in Future Compensation Levels.....	2.20	2.20	2.60

The Company expects to contribute \$1.3 million, net of the expected Medicare Part D subsidy, to its OPEB Plan to fund benefit payments in 2020.

The following benefit payments (net of participant contributions), which consider expected future service, as appropriate, are expected to be paid:

<u>DOLLARS IN MILLIONS</u>	<u>Years Ending December 31,</u>					
	2020	2021	2022	2023	2024	2025-2029
Estimated Benefit Payments:						
Excluding Medicare Part D Subsidy.....	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.2	\$ 1.2	\$ 4.5
Expected Medicare Part D Subsidy .....	—	—	—	—	—	—
Net Estimated Benefit Payments .....	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 1.2</u>	<u>\$ 1.2</u>	<u>\$ 4.5</u>

**NOTE 19. 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 three operating segments: Specialty Property & Casualty Insurance, Preferred Property & Casualty Insurance and Life & Health Insurance.

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

The Company's earned premiums are derived in the United States. The accounting policies of the segments are the same as those described in Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements. Capital expenditures for long-lived assets by operating segment are immaterial.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 19. BUSINESS SEGMENTS (Continued)**

It is the Company's management practice to allocate certain corporate expenses, primarily compensation costs for corporate employees and related facility costs, included in Interest and Other Expenses in the Consolidated Statements of Income to its insurance operations. The amount of such allocated corporate expenses was \$103.9 million, \$68.0 million and \$50.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company does not allocate Income from Change in Fair Value of Equity and Convertible Securities, Net Realized Gains on Sales of Investments, Net Impairment Losses Recognized in Earnings, Acquisition Related Transaction, Integration and Other Costs, Loss from Early Extinguishment of Debt, interest expense on debt or postretirement benefit plans, and actuarial gains and losses on its postretirement benefit plans to its operating segments. Additionally, the Company did not allocate the 2018 and 2017 impacts of the Tax Act or the gains recognized in 2019 and 2018 on the partial satisfaction of a final judgment against Computer Sciences Corporation ("CSC") to its operating segments.

Segment Assets at December 31, 2019 and 2018 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>
Specialty Property & Casualty Insurance.....	\$ 4,435.2	\$ 3,541.0
Preferred Property & Casualty Insurance.....	1,549.8	1,567.7
Life & Health Insurance.....	5,847.9	5,117.2
Corporate and Other, Net.....	1,156.2	1,319.0
Total Assets.....	<u>\$ 12,989.1</u>	<u>\$ 11,544.9</u>

Earned Premiums by product line for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Specialty Property & Casualty Insurance:			
Specialty Automobile.....	<b>\$ 2,825.6</b>	\$ 1,889.5	\$ 954.3
Commercial Automobile.....	<b>252.8</b>	137.9	51.4
Preferred Property & Casualty Insurance:			
Preferred Automobile	<b>470.2</b>	440.2	422.8
Homeowners	<b>241.3</b>	250.1	264.8
Other Personal Lines	<b>38.8</b>	40.4	42.7
Life & Health Insurance:			
Life.....	<b>384.6</b>	378.4	379.7
Accident & Health.....	<b>190.9</b>	177.5	161.7
Property.....	<b>68.2</b>	70.4	72.6
Total Earned Premiums.....	<u><b>\$ 4,472.4</b></u>	<u>\$ 3,384.4</u>	<u>\$ 2,350.0</u>

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 19. BUSINESS SEGMENTS (Continued)**

Segment Revenues, including a reconciliation to Total Revenues, for the years ended December 31, 2019, 2018 and 2017 were:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Segment Revenues:			
Specialty Property & Casualty Insurance:			
Earned Premiums.....	\$ 3,078.4	\$ 2,027.4	\$ 1,005.7
Net Investment Income.....	107.5	63.4	39.2
Other Income .....	7.0	2.4	1.1
Total Specialty Property & Casualty Insurance.....	<u>3,192.9</u>	<u>2,093.2</u>	<u>1,046.0</u>
Preferred Property & Casualty Insurance:			
Earned Premiums	750.3	730.7	730.3
Net Investment Income	44.1	61.8	58.9
Total Preferred Property & Casualty Insurance	<u>794.4</u>	<u>792.5</u>	<u>789.2</u>
Life & Health Insurance:			
Earned Premiums.....	643.7	626.3	614.0
Net Investment Income.....	206.4	210.9	223.2
Other Income .....	8.5	4.0	2.6
Total Life & Health Insurance.....	<u>858.6</u>	<u>841.2</u>	<u>839.8</u>
Total Segment Revenues .....	<u>4,845.9</u>	<u>3,726.9</u>	<u>2,675.0</u>
Income (Loss) from Change in Fair Value of Equity and Convertible Securities.....	138.9	(64.3)	—
Net Realized Gains on the Sales of Investments.....	41.9	26.4	56.5
Net Impairment Losses Recognized in Earnings.....	(13.8)	(4.5)	(14.3)
Other .....	26.3	40.6	6.2
Total Revenues .....	<u>\$ 5,039.2</u>	<u>\$ 3,725.1</u>	<u>\$ 2,723.4</u>

Segment Operating Profit, including a reconciliation to Income from Continuing Operations before Income Taxes, for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Segment Operating Profit (Loss):			
Specialty Property & Casualty Insurance .....	\$ 355.9	\$ 145.6	\$ 80.5
Preferred Property & Casualty Insurance .....	52.3	28.6	(78.1)
Life & Health Insurance.....	121.9	115.9	140.2
Total Segment Operating Profit.....	<u>530.1</u>	<u>290.1</u>	<u>142.6</u>
Corporate and Other Operating Profit (Loss) From: .....			
Partial Satisfaction of Judgment .....	20.1	35.7	—
Other .....	(31.4)	(39.6)	(23.7)
Corporate and Other Operating Profit (Loss).....	<u>(11.3)</u>	<u>(3.9)</u>	<u>(23.7)</u>
Adjusted Consolidated Operating Profit (Loss) .....	518.8	286.2	118.9
Income (Loss) from Change in Fair Value of Equity and Convertible Securities.....	138.9	(64.3)	—
Net Realized Gains on Sales of Investments.....	41.9	26.4	56.5
Net Impairment Gains (Losses) Recognized in Earnings.....	(13.8)	(4.5)	(14.3)
Acquisition Related Transaction, Integration and Other Costs .....	(18.4)	(44.7)	—
Loss from Early Extinguishment of Debt.....	(5.8)	—	—
Income from Continuing Operations before Income Taxes .....	<u>\$ 661.6</u>	<u>\$ 199.1</u>	<u>\$ 161.1</u>



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 19. BUSINESS SEGMENTS (Continued)**

Segment Net Operating Income, including a reconciliation to Income from Continuing Operations, for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Segment Net Operating Income (Loss):			
Specialty Property & Casualty Insurance .....	\$ 283.1	\$ 115.8	\$ 56.3
Preferred Property & Casualty Insurance .....	41.9	25.7	(45.4)
Life & Health Insurance .....	98.7	91.5	91.9
Total Segment Net Operating Income (Loss).....	<u>423.7</u>	<u>233.0</u>	<u>102.8</u>
Corporate and Other Net Operating Income (Loss) From: .....			
Effects of Tax Law Changes .....	—	26.4	7.4
Partial Satisfaction of Judgment .....	15.9	28.2	—
Other.....	(21.3)	(29.2)	(17.7)
Total Corporate and Other Net Operating Income (Loss).....	<u>(5.4)</u>	<u>25.4</u>	<u>(10.3)</u>
Adjusted Consolidated Net Operating Income.....	<u>418.3</u>	<u>258.4</u>	<u>92.5</u>
Net Income (Loss) From:			
Change in Fair Value of Equity and Convertible Securities .....	109.7	(50.8)	—
Net Realized Gains on Sales of Investments .....	33.1	20.9	36.7
Net Impairment Losses Recognized in Earnings .....	(10.9)	(3.6)	(9.3)
Acquisition Related Transaction, Integration and Other Costs.....	(14.5)	(36.5)	—
Loss from Early Extinguishment of Debt .....	(4.6)	—	—
Income from Continuing Operations.....	<u>\$ 531.1</u>	<u>\$ 188.4</u>	<u>\$ 119.9</u>

Amortization of Deferred Policy Acquisition Costs by Operating Segment for the years ended December 31, 2019, 2018 and 2017 was:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Specialty Property & Casualty Insurance.....	\$ 224.9	\$ 202.0	\$ 150.2
Preferred Property & Casualty Insurance.....	120.1	117.2	114.6
Life & Health Insurance .....	63.3	57.9	53.5
Total Amortization.....	<u>\$ 408.3</u>	<u>\$ 377.1</u>	<u>\$ 318.3</u>

**NOTE 20. CATASTROPHE REINSURANCE**

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by the Insurance Services Office ("ISO") to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25.0 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions that follow utilize ISO's definition of catastrophes.

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains a catastrophe reinsurance program for the property and casualty insurance companies. Coverage for the catastrophe reinsurance program is provided in various layers through multiple excess of loss reinsurance contracts and in 2019 and 2018 an annual aggregate excess property catastrophe reinsurance contract.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 20. CATASTROPHE REINSURANCE (Continued)**

Coverage on individual catastrophes provided under the excess of loss reinsurance contracts effective January 1, 2019 to December 31, 2019 is provided in various layers as presented below.

<u>DOLLARS IN MILLIONS</u>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Retained.....	\$ —	\$ 50.0	—%
1st Layer of Coverage .....	50.0	150.0	95.0
2nd Layer of Coverage .....	150.0	250.0	95.0
3rd Layer of Coverage.....	250.0	275.0	95.0

Coverage on individual catastrophes provided under the excess of loss reinsurance contracts effective January 1, 2018 to December 31, 2018 is provided in various layers as presented below.

<u>DOLLARS IN MILLIONS</u>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Retained.....	\$ —	\$ 50.0	—%
1st Layer of Coverage .....	50.0	150.0	95.0
2nd Layer of Coverage (Tranche A).....	150.0	250.0	63.3
2nd Layer of Coverage (Tranche B).....	150.0	350.0	31.7

Coverage on individual catastrophes provided under the excess of loss reinsurance contracts effective January 1, 2017 to December 31, 2017 is provided in various layers as presented below.

<u>DOLLARS IN MILLIONS</u>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Retained.....	\$ —	\$ 50.0	—%
1st Layer of Coverage .....	50.0	150.0	95.0
2nd Layer of Coverage (Tranche A).....	150.0	250.0	31.7
2nd Layer of Coverage (Tranche B).....	150.0	350.0	63.3

In the event that the incurred catastrophe losses and LAE covered by the catastrophe reinsurance programs presented in the three preceding tables exceed the retention for that particular layer, each of the programs allow for one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer.

Coverage provided under the 2019 aggregate property catastrophe reinsurance contract is summarized below.

<u>DOLLARS IN MILLIONS</u>	Aggregate Catastrophe Losses and LAE	
	In Excess of	Up to
Retained.....	\$ —	\$ 60.0
Coverage.....	60.0	110.0

Coverage provided under the 2018 aggregate property catastrophe reinsurance contract is summarized below.

<u>DOLLARS IN MILLIONS</u>	Aggregate Catastrophe Losses and LAE	
	In Excess of	Up to
Retained.....	\$ —	\$ 60.0
Coverage.....	60.0	110.0

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 20. CATASTROPHE REINSURANCE (Continued)**

The catastrophe reinsurance in 2019, 2018 and 2017 for the property and casualty insurance companies also included reinsurance coverage from the Florida Hurricane Catastrophe Fund (the “FHCF”) for hurricane losses in Florida at retentions lower than those described above. The Life & Health Insurance segment also purchases reinsurance from the FHCF for hurricane losses in Florida. Except for the coverage provided by the FHCF, the Life & Health Insurance segment does not carry any other catastrophe reinsurance coverage in 2019, 2018 and 2017.

Reinsurance premiums for the Company’s catastrophe reinsurance programs and the FHCF Program reduced earned premiums for the years ended December 31, 2019, 2018 and 2017 by the following:

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Specialty Property & Casualty Insurance.....	\$ 0.2	\$ 2.6	\$ 0.1
Preferred Property & Casualty Insurance.....	20.2	17.8	10.8
Life & Health Insurance .....	0.1	0.1	0.1
Total Ceded Catastrophe Reinsurance Premiums.....	<u>\$ 20.5</u>	<u>\$ 20.5</u>	<u>\$ 11.0</u>

In 2019, 2018 and 2017 the Company paid \$0.0 million, \$0.4 million and \$0.8 million respectively, in reinstatement premium. In 2019, the Company received a \$0.9 million refund of reinstatement premiums related to the 2017 and 2018 wildfires.

Catastrophe losses and LAE (including reserve development), net of reinsurance recoveries, for the years ended December 31, 2019, 2018 and 2017 by business segment are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Specialty Property & Casualty Insurance.....	\$ 11.6	\$ 4.4	\$ 5.2
Preferred Property & Casualty Insurance.....	44.6	79.1	168.8
Life & Health Insurance .....	3.9	4.1	6.4
Total Catastrophe Losses and LAE .....	<u>\$ 60.1</u>	<u>\$ 87.6</u>	<u>\$ 180.4</u>

In 2019, 2018 and 2017 Kemper’s property and casualty subsidiaries had catastrophe reinsurance recoveries of \$15.5 million, \$31.8 million and \$11.9 million under the catastrophe reinsurance program. The property and casualty insurance companies did not have any recoveries from the FHCF. The Life & Health Insurance segment had reinsurance recoveries of \$1.6 million, \$1.6 million and \$0.2 million from the FHCF in 2019, 2018, and 2017, respectively.

Total catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by \$17.1 million, \$8.4 million and \$4.5 million in 2019, 2018 and 2017, respectively. The Specialty Property & Casualty Insurance segment reported adverse catastrophe reserve development of \$0.5 million in 2019 and favorable catastrophe reserve development of \$0.3 million and \$0.3 million in 2018 and 2017, respectively. The Preferred Property & Casualty Insurance segment reported favorable catastrophe reserve development of \$18.4 million, \$8.2 million and \$4.7 million in 2019, 2018 and 2017, respectively. The Life & Health Insurance segment reported adverse catastrophe reserve development of \$0.8 million, \$0.1 million, and \$0.5 million in 2019, 2018 and 2017, respectively.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of actual reinsurance recoveries, may vary materially from the estimated amount reserved. The Company’s estimates of direct catastrophe losses are generally based on inspections by claims adjusters and historical loss development experience for areas that have not been inspected or for claims that have not yet been reported. The Company’s estimates of direct catastrophe losses are based on the coverages provided by its insurance policies. The Company’s homeowners and dwelling insurance policies do not provide coverage for losses caused by floods, but generally provide coverage for physical damage caused by wind or wind-driven rain. Accordingly, the Company’s estimates of direct losses for homeowners and dwelling insurance do not include losses caused by flood. Depending on the policy, automobile insurance may provide coverage for losses caused by flood. Estimates of the number and severity of claims ultimately reported are influenced by many variables, including, but not limited to, repair or reconstruction costs and determination of cause of loss that are difficult to quantify and will influence the final amount of claim settlements. All these factors, coupled with the impact of the availability of labor and material on costs, require significant judgment in the reserve setting process. A change in any one or more of these factors is likely to result in an ultimate net claim cost different from the estimated reserve. The Company’s estimates of indirect

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 20. CATASTROPHE REINSURANCE (Continued)**

losses from wind pools and joint underwriting associations are based on a variety of factors, including, but not limited to, actual or estimated assessments provided by or received from such entities, insurance industry estimates of losses, and estimates of the Company's market share in the assessable states. Actual assessments may differ materially from these estimated amounts.

**NOTE 21. OTHER REINSURANCE**

In addition to the reinsurance programs described in Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements, Kemper's insurance subsidiaries utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and to minimize exposures on larger risks. The ceding of insurance does not discharge the primary liability of the original insurer. Accordingly, insurance reserve liabilities are reported gross of any estimated recovery from reinsurers in the Consolidated Balance Sheets. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance reserve liability and are included in Other Receivables in the Consolidated Balance Sheets.

Earned Premiums ceded on long-duration and short-duration policies were \$27.4 million, \$31.6 million and \$18.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, of which \$20.5 million, \$20.5 million and \$11.0 million, respectively, was related to catastrophe reinsurance. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for additional information regarding the Company's catastrophe reinsurance programs. Certain insurance subsidiaries assume business from other insurance companies and involuntary pools. Earned Premiums assumed on long-duration and short-duration policies were \$92.3 million, \$85.2 million and \$72.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Trinity and Capitol County Mutual Fire Insurance Company ("Capitol") are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by Capitol, subject to a cap, for ceded losses for dwelling coverage. Earned Premiums assumed by Trinity from Capitol were \$19.4 million, \$20.0 million and \$20.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. Trinity and Old Reliable Casualty Company ("ORCC"), a subsidiary of Capitol, are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by ORCC, subject to a cap, for ceded losses for dwelling coverage. Earned Premiums assumed by Trinity from ORCC were \$5.2 million, \$5.6 million and \$5.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Five employees of the Company serve as directors of Capitol's five member board of directors. Nine employees of the Company also serve as directors of ORCC's nine member board of directors. Kemper's subsidiary, United Insurance, provides claims and administrative services to Capitol and ORCC. In addition, agents appointed by Kemper's subsidiary, The Reliable Life Insurance Company, and who are employed by United Insurance, are also appointed by Capitol and ORCC to sell property insurance products for the Company's Life & Health Insurance segment. The Company also provides certain investment services to Capitol and ORCC.

**NOTE 22. FAIR VALUE MEASUREMENTS**

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

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 22. FAIR VALUE MEASUREMENTS (Continued)**

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2019 is summarized below. The Company has no material liabilities that are measured and reported at fair value.

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value Measurements				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities .....	\$ 144.3	\$ 671.6	\$ —	—	\$ 815.9
States and Political Subdivisions .....	—	1,515.8	—	—	1,515.8
Foreign Governments .....	—	16.8	—	—	16.8
Corporate Securities:					
Bonds and Notes .....	—	3,450.6	409.1	—	3,859.7
Redeemable Preferred Stocks .....	—	—	6.7	—	6.7
Collateralized Loan Obligations ...	—	—	618.2	—	618.2
Other Mortgage- and Asset- backed .....	—	78.8	10.2	—	89.0
Total Investments in Fixed Maturities....	144.3	5,733.6	1,044.2	—	6,922.1
Equity Securities at Fair Value:					
Preferred Stocks:					
Finance, Insurance and Real Estate .....	—	44.5	—	—	44.5
Other Industries .....	0.9	13.8	—	—	14.7
Common Stocks:					
Finance, Insurance and Real Estate .....	12.8	—	—	—	12.8
Other Industries .....	0.2	0.2	—	—	0.4
Other Equity Interests:					
Exchange Traded Funds .....	586.8	—	—	—	586.8
Limited Liability Companies and Limited Partnerships .....	—	—	—	248.1	248.1
Total Investments in Equity Securities at Fair Value .....	600.7	58.5	—	248.1	907.3
Convertible Securities at Fair Value	—	37.3	—	—	37.3
Total .....	\$ 745.0	\$ 5,829.4	\$ 1,044.2	\$ 248.1	\$ 7,866.7

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 22. FAIR VALUE MEASUREMENTS (Continued)**

At December 31, 2019, the Company had unfunded commitments to invest an additional \$248.1 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests when funded.

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2018 is summarized below.

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value Measurements				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	Total Fair Value
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities.....	\$ 156.5	\$ 709.2	\$ —	\$ —	\$ 865.7
States and Political Subdivisions .....	—	1,619.1	—	—	1,619.1
Foreign Governments.....	—	5.9	—	—	5.9
Corporate Securities:					
Bonds and Notes.....	—	3,011.2	382.6	—	3,393.8
Collateralized Loan Obligations...	—	19.1	504.9	—	524.0
Other Mortgage- and Asset- backed.....	—	5.8	9.9	—	15.7
Total Investments in Fixed Maturities ...	156.5	5,370.3	897.4	—	6,424.2
Equity Securities at Fair Value:					
Preferred Stocks:					
Finance, Insurance and Real Estate.....	—	41.2	—	—	41.2
Other Industries .....	—	13.0	—	—	13.0
Common Stocks:					
Finance, Insurance and Real Estate.....	10.2	—	—	—	10.2
Other Industries .....	0.2	0.5	—	—	0.7
Other Equity Interests:					
Exchange Traded Funds .....	427.3	—	—	—	427.3
Limited Liability Companies and Limited Partnerships.....	—	—	—	192.0	192.0
Total Investments in Equity Securities at Fair Value.....	437.7	54.7	—	192.0	684.4
Convertible Securities at Fair Value .....	—	31.5	—	—	31.5
Total .....	\$ 594.2	\$ 5,456.5	\$ 897.4	\$ 192.0	\$ 7,140.1

The Company's investments in Fixed Maturities that are classified as Level 1 in the two preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company's investments in Equity Securities at Fair Value that are classified as Level 1 in the two preceding tables consist of either investments in publicly-traded common stocks or exchange traded funds. The Company's investments in Fixed Maturities that are classified as Level 2 in the two preceding tables primarily consist of investments in corporate bonds, obligations of states and political subdivisions, and bonds and mortgage-backed securities of U.S. government agencies. The Company's investments in Equity Securities at Fair Value that are classified as Level 2 in the two preceding tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company's Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider's evaluated pricing applications apply available



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 22. FAIR VALUE MEASUREMENTS (Continued)**

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 are priced primarily using a market yield approach and primarily consist of collateralized loan obligations that are rated by a Nationally Recognized Statistical Rating Organization ("NRSRO") and privately placed securities that are not rated by a NRSRO. A market yield approach uses a risk-free rate plus a credit spread depending on the underlying credit profile of the security. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of its collateralized loan obligations. Some of the significant inputs used by such provider are unobservable. Accordingly, the Company classifies these investments as Level 3. For floating rate securities, the risk-free rate used in the market yield is the contractual floating rate of the security. For each other 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 December 31, 2019.

<u>DOLLARS IN MILLIONS</u>	Unobservable Input	Total Fair Value	Range of Unobservable Inputs		Weighted- average Yield	
Investment-grade .....	Market Yield	\$ 204.2	2.4%	-	8.5%	4.1%
Non-investment-grade:						
Senior Debt .....	Market Yield	123.7	2.4	-	21.5	9.1
Junior Debt.....	Market Yield	81.3	9.6	-	18.0	13.1
Collateralized Loan Obligations (investment-grade and non- investment-grade) .....	Market Yield	613.5	3.2	-	12.5	5.1
Other .....	Various	21.5				
Total Level 3 Fixed Maturity Investments in Corporate Securities.....		<u>\$ 1,044.2</u>				

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 22. 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, 2018.

<u>DOLLARS IN MILLIONS</u>	Unobservable Input	Total Fair Value	Range of Unobservable Inputs		Weighted- average Yield
Investment-grade .....	Market Yield	\$ 146.7	3.7%	- 10.9%	5.2%
Non-investment-grade:					
Senior Debt .....	Market Yield	142.3	4.8	- 30.0	11.5
Junior Debt.....	Market Yield	87.6	11.0	- 28.5	14.2
Collateralized Loan Obligations (investment-grade and non- investment-grade).....	Market Yield	504.9	4.1	- 13.4	6.1
Other .....	Various	15.9			
Total Level 3 Fixed Maturity Investments in Corporate Securities .....		<u>\$ 897.4</u>			

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

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the year ended December 31, 2019 is presented below.

<u>DOLLARS IN MILLIONS</u>	Fixed Maturities				Total
	Corporate Bonds and Notes	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage- and Asset- backed	
Balance at Beginning of Year.....	\$ 382.6	\$ —	\$ 504.9	\$ 9.9	\$ 897.4
Total Gains (Losses):					
Included in Consolidated Statement of Income .....	(6.8)	—	0.6	—	(6.2)
Included in Other Comprehensive Income (Loss) .....	10.6	(0.1)	5.3	1.0	16.8
Purchases.....	307.0	6.8	119.2	—	433.0
Settlements.....	(72.9)	—	(28.0)	(0.7)	(101.6)
Sales .....	(211.4)	—	(2.9)	—	(214.3)
Transfers into Level 3 .....	—	—	19.1	—	19.1
Transfers out of Level 3 .....	—	—	—	—	—
Balance at End of Year.....	<u>\$ 409.1</u>	<u>\$ 6.7</u>	<u>\$ 618.2</u>	<u>\$ 10.2</u>	<u>\$ 1,044.2</u>

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 year ended December 31, 2019. Transfers into Level 3 of \$19.1 million for the year ended December 31, 2019 were due to changes in the availability of market observable inputs. There were no transfers out of Level 3 for the year ended December 31, 2019.

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 22. 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 year ended December 31, 2018 is presented below.

<i>DOLLARS IN MILLIONS</i>	Fixed Maturities				Equity Securities		Total	
	Corporate Bonds and Notes	States and Political Sub-divisions	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage- and Asset-backed	Preferred and Common Stocks		Other Equity Interests
Balance at Beginning of Year.....	\$ 401.5	\$ —	\$ 0.1	\$ 93.2	\$ —	\$ 27.4	\$ 34.4	\$ 556.6
Total Gains (Losses):								
Included in Consolidated Statement of Income .....	4.4	—	(0.1)	2.7	—	—	—	7.0
Included in Other Comprehensive Income (Loss).....	(2.2)	—	—	(16.3)	0.1	—	—	(18.4)
Purchases.....	201.8	1.8	—	449.7	10.0	—	—	663.3
Settlements.....	(108.1)	—	—	(58.3)	(0.2)	—	—	(166.6)
Sales.....	(109.5)	—	—	—	—	—	—	(109.5)
Transfers into Level 3.....	2.4	—	—	33.9	—	—	—	36.3
Transfers out of Level 3.....	(7.7)	(1.8)	—	—	—	(27.4)	(34.4)	(71.3)
Balance at End of Year.....	<u>\$ 382.6</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 504.9</u>	<u>\$ 9.9</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 897.4</u>

There were no transfers between Levels 1 and 2 for the year ended December 31, 2018. Transfers into Level 3 for the year ended December 31, 2018 relate to transfers from Level 2 due to changes in the availability of market observable inputs. Transfers out of Level 3 were \$71.3 million for the year ended December 31, 2018, of which \$61.8 million was transferred into Equity Securities at Modified Cost due to the adoption of ASU 2016-01 and \$9.5 million was transferred into Level 2 due to changes in the availability of market observable inputs.

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

(Dollars in Millions)	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Loans to Policyholders.....	\$ 305.6	\$ 612.4	\$ 300.6	\$ 542.6
Short-term Investments.....	470.9	470.9	286.1	286.1
Mortgage Loans.....	27.5	27.5	—	—
Financial Liabilities:				
Debt.....	778.4	820.2	909.0	911.2
Policyholder Contract Liabilities.....	243.4	243.4	10.0	10.0

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

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 23. CONTINGENCIES**

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

Over the last decade there have been an array of initiatives that intend, 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, audits, regulatory examinations and related litigation, seek to alter the terms of life insurance contracts by imposing requirements that did not exist and were not contemplated at the time the issuing companies entered into such contracts.

In 2016, the Company voluntarily began implementing a comprehensive process to compare the life insurance records of its life insurance subsidiaries against one or more death verification databases to determine if any of its insureds may be deceased. The initial implementation of the process is continuing.

Attempts to estimate the ultimate outcomes of the aforementioned initiatives entail uncertainties including but not limited to (i) the scope and interpretation of pertinent statutes, including the matching criteria and methodologies to be used in comparing policy records against a death verification database, (ii) the universe of policies affected, (iii) the results of audits, examinations and other actions by regulators and (iv) related litigation.

*Gain Contingency*

In 2015, Kemper's subsidiary, Kemper Corporate Services, Inc. ("KCSI"), filed a demand for arbitration with the American Arbitration Association ("AAA"), claiming that CSC had breached the terms of a master software license and services agreement and related agreements (collectively, the "Agreements") by failing, among other things, to timely produce and deliver certain software to KCSI. CSC denied KCSI's claims and filed a counterclaim. In April 2017, CSC merged with a spin-off of the Enterprise Services business of Hewlett Packard Enterprise Company and is now known as DXC Technology Company ("DXC"). DXC stock is publicly traded on the New York Stock Exchange.

In April 2017, the parties participated in an evidentiary hearing in Texas before a AAA-appointed arbitrator. Subsequently, in October 2017, the arbitrator issued a Partial Final Award finding that CSC had breached the Agreements and awarded KCSI direct damages plus pre-judgment interest. KCSI then submitted to the arbitrator a supplemental petition providing pre-judgment interest calculations and seeking an award for certain costs and expenses. In November 2017, the arbitrator issued a Final Award awarding KCSI direct damages against CSC of \$84.3 million, prejudgment interest at the annual rate of 9% and costs and expenses in the amount of \$7.2 million.

KCSI pursued confirmation and enforcement of the Final Award in U.S. District Court in Texas. In September 2018, the Texas district court issued an Amended Final Judgment that (i) confirmed the Arbitration Award in favor of KCSI, (ii) denied CSC's motion to vacate, and (iii) entered judgment against CSC in the total amount of \$141.7 million.

CSC appealed the district court's ruling to the U.S. Court of Appeals for the Fifth Circuit, but in the meantime paid Kemper \$35.7 million in September 2018 and an additional \$20.1 million in April 2019 in partial satisfaction of the final judgment. The Company recognized such payments in Other Income in its Consolidated Statement of Income for the years ended December 31, 2018 and December 31, 2019, respectively. On January 10, 2020, the Court of Appeals for the Fifth Circuit issued a unanimous opinion affirming the ruling of the district court. On January 24, 2020, CSC filed a petition with the Fifth Circuit requesting a rehearing en banc.

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

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 24. 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 \$149.3 million, \$124.5 million and \$171.8 million in assets managed by FS&C at December 31, 2019, 2018 and 2017, respectively, 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 \$0.9 million for each year ended December 31, 2019, 2018 and 2017. 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.

As described in Note 21, “Other Reinsurance,” to the Consolidated Financial Statements, the Company also has certain relationships with Capitol, a mutual insurance company that is owned by its policyholders, and its subsidiary, ORCC.

**NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited)**

	Three Months Ended (Unaudited)				Year Ended
	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Dec 31, 2019
<b><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></b>					
Revenues:					
Earned Premiums.....	\$ 1,074.8	\$ 1,116.6	\$ 1,135.2	\$ 1,145.8	\$ 4,472.4
Net Investment Income.....	82.7	96.0	91.7	93.9	364.3
Other Income .....	1.9	22.7	7.2	3.7	35.5
Income (Loss) from Changes in Fair Value of Equity and Convertible Securities .....	64.4	25.5	9.8	39.2	138.9
Net Realized Gains on Sales of Investments.....	16.1	21.3	1.7	2.8	41.9
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses.....	(3.5)	(6.7)	(1.8)	(1.7)	(13.7)
Portion of Losses Recognized in Other Comprehensive Income.....	(0.1)	—	—	—	(0.1)
Net Impairment Losses Recognized in Earnings.....	(3.6)	(6.7)	(1.8)	(1.7)	(13.8)
Total Revenues .....	<u>1,236.3</u>	<u>1,275.4</u>	<u>1,243.8</u>	<u>1,283.7</u>	<u>5,039.2</u>
Expenses:					
Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses.....	765.4	825.4	782.6	814.9	3,188.3
Insurance Expenses .....	234.8	263.5	256.0	265.4	1,019.7
Loss from Early Extinguishment of Debt.....	—	—	5.8	—	5.8
Interest and Other Expenses .....	41.4	38.0	37.9	46.5	163.8
Total Expenses.....	<u>1,041.6</u>	<u>1,126.9</u>	<u>1,082.3</u>	<u>1,126.8</u>	<u>4,377.6</u>
Income from Continuing Operations before Income Taxes.....	194.7	148.5	161.5	156.9	661.6
Income Tax Expense .....	(39.4)	(26.4)	(32.5)	(32.2)	(130.5)
Net Income .....	<u>\$ 155.3</u>	<u>\$ 122.1</u>	<u>\$ 129.0</u>	<u>\$ 124.7</u>	<u>\$ 531.1</u>
Net Income (Loss) Per Unrestricted Share:					
Basic .....	<u>\$ 2.38</u>	<u>\$ 1.87</u>	<u>\$ 1.93</u>	<u>\$ 1.87</u>	<u>\$ 8.04</u>
Diluted .....	<u>\$ 2.35</u>	<u>\$ 1.84</u>	<u>\$ 1.91</u>	<u>\$ 1.85</u>	<u>\$ 7.96</u>
Dividends Paid to Shareholders Per Share.....	<u>\$ 0.25</u>	<u>\$ 0.25</u>	<u>\$ 0.25</u>	<u>\$ 0.28</u>	<u>\$ 1.03</u>

*The sum of quarterly per share amounts may not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.*

**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited) (Continued)**

	Three Months Ended (Unaudited)				Year Ended
	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Dec 31, 2018
<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>					
Revenues:					
Earned Premiums .....	\$ 609.8	\$ 658.1	\$ 1,052.9	\$ 1,063.6	\$ 3,384.4
Net Investment Income .....	79.2	78.4	92.0	91.3	340.9
Other Income .....	1.2	1.2	37.8	2.0	42.2
Income (Loss) from Changes in Fair Value of Equity and Convertible Securities .....	0.7	0.4	11.0	(76.4)	(64.3)
Net Realized Gains on Sales of Investments .....	2.6	3.8	3.6	16.4	26.4
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses .....	(0.5)	—	(1.8)	(2.2)	(4.5)
Portion of Losses Recognized in Other Comprehensive Income .....	—	—	—	—	—
Net Impairment Losses Recognized in Earnings .....	(0.5)	—	(1.8)	(2.2)	(4.5)
Total Revenues .....	<u>693.0</u>	<u>741.9</u>	<u>1,195.5</u>	<u>1,094.7</u>	<u>3,725.1</u>
Expenses:					
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses .....	436.9	499.5	757.3	772.8	2,466.5
Insurance Expenses .....	160.1	171.2	296.0	273.2	900.5
Interest and Other Expenses .....	29.0	25.7	61.7	42.6	159.0
Total Expenses .....	<u>626.0</u>	<u>696.4</u>	<u>1,115.0</u>	<u>1,088.6</u>	<u>3,526.0</u>
Income (Loss) from Continuing Operations before Income Taxes ..	67.0	45.5	80.5	6.1	199.1
Income Tax Benefit (Expense) .....	(13.4)	(8.0)	11.8	(1.1)	(10.7)
Income from Continuing Operations .....	<u>53.6</u>	<u>37.5</u>	<u>92.3</u>	<u>5.0</u>	<u>188.4</u>
Income (Loss) from Discontinued Operations .....	0.2	0.1	(0.1)	1.5	1.7
Net Income .....	<u>\$ 53.8</u>	<u>\$ 37.6</u>	<u>\$ 92.2</u>	<u>\$ 6.5</u>	<u>\$ 190.1</u>
Income from Continuing Operations Per Unrestricted Share:					
Basic .....	<u>\$ 1.03</u>	<u>\$ 0.73</u>	<u>\$ 1.42</u>	<u>\$ 0.08</u>	<u>\$ 3.22</u>
Diluted .....	<u>\$ 1.02</u>	<u>\$ 0.73</u>	<u>\$ 1.40</u>	<u>\$ 0.08</u>	<u>\$ 3.19</u>
Net Income Per Unrestricted Share:					
Basic .....	<u>\$ 1.03</u>	<u>\$ 0.73</u>	<u>\$ 1.42</u>	<u>\$ 0.10</u>	<u>\$ 3.25</u>
Diluted .....	<u>\$ 1.02</u>	<u>\$ 0.73</u>	<u>\$ 1.40</u>	<u>\$ 0.10</u>	<u>\$ 3.22</u>
Dividends Paid to Shareholders Per Share .....	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.96</u>

*The sum of quarterly per share amounts may not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.*



**Report of Independent Registered  
Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Kemper Corporation

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Kemper Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

**Change in Accounting Principle**

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for recognition and measurement of equity securities in 2018.

**Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

***Property and Casualty Insurance Reserves - Refer to Notes 2 and 6 to the consolidated financial statements***

*Critical Audit Matter Description*

The estimation of property and casualty insurance reserves for losses and loss adjustment expenses (“property and casualty insurance reserves”), including those claims that are incurred but not reported, requires significant judgment. Estimating property and casualty insurance reserves is inherently uncertain as estimates are generally derived using a variety of actuarial estimation techniques that are dependent on assumptions and expectations about future events, many of which are difficult to quantify. The estimation process, particularly for claims with longer-tailed exposures that may not be discovered or reported immediately, is an inherently subjective exercise and modest changes in judgments and assumptions can materially impact the valuation of these reserves.

Given the significant judgments made by management in estimating property and casualty insurance reserves, auditing property and casualty insurance reserves required a high degree of auditor judgment and an increased extent of effort, including the involvement of our actuarial specialists.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to property and casualty insurance reserves included the following, among others:

- We tested the effectiveness of controls related to property and casualty insurance reserves, including those controls related to the estimation of and management’s review of the property and casualty insurance reserves.
- We tested the underlying data, including historical claims, that served as the basis for the actuarial analyses to test that the inputs to the actuarial estimates were accurate and complete.
- With the assistance of our actuarial specialists:
  - We developed a range of independent estimates of the property and casualty insurance reserves and compared our estimates to the recorded reserves.
  - We compared our prior year estimates of expected incurred losses to actual experience during the most recent year to identify potential bias in the Company’s determination of property and casualty insurance reserves.

***Fixed Maturities at Fair Value - Refer to Notes 2, 4 and 22 to the consolidated financial statements***

*Critical Audit Matter Description*

Investments in fixed maturity securities classified as available-for-sale are reported at fair value in the financial statements. Fixed maturity securities without readily determinable market values are valued using significant unobservable inputs, such as credit profile, credit spread and resulting market yield, which involve considerable judgment by management.

Given management uses significant unobservable inputs to estimate the fair value of fixed maturity securities without readily determinable market values, performing audit procedures to evaluate these inputs required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

**Report of Independent Registered  
Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)**

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the unobservable inputs used by management to estimate the fair value of fixed maturity securities without readily determinable market values included the following, among others:

- We tested the effectiveness of controls related to fixed maturity securities, including those controls related to the determination of fair value.
- We evaluated management's ability to accurately estimate fair value by comparing management's historical estimates to recent or subsequent transactions, taking into account changes in market conditions.
- We evaluated the reasonableness of the models, methodologies, and unobservable inputs used by management to estimate fair value.
- With the assistance of our fair value specialists, we compared management's unobservable inputs to external sources, and for a sample of the investments, developed independent estimates of the fair value and compared our estimates to the Company's estimates.

/s/ Deloitte & Touche LLP  
Chicago, Illinois  
February 14, 2020

We have served as the Company's auditor since 2002.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not Applicable

**Item 9A. Controls and Procedures.**

**Disclosure Controls and Procedures**

The Company's management, with 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.

**Changes in Internal Controls Over Financial Reporting**

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 ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management Report on Internal Control Over Financial Reporting**

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2019, based on the control criteria established in a report entitled *Internal Control—Integrated Framework*, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2019.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated financial statements of Kemper and its subsidiaries, has issued an attestation report on the effectiveness of management's internal control over financial reporting based on criteria established in *Internal Control—Integrated Framework*, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

/S/ JOSEPH P. LACHER, JR.

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Joseph P. Lacher, Jr.  
President and Chief Executive Officer  
Kemper Corporation

/S/ JAMES J. MCKINNEY

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James J. McKinney  
Senior Vice President and Chief Financial Officer  
Kemper Corporation

February 14, 2020

### **Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting**

The attestation report of the independent registered public accounting firm, Deloitte & Touche LLP, on the Company's internal control over financial reporting is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm," and is incorporated herein by reference.

### **Item 9B. Other Information.**

None

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to the sections captioned “Meetings and Committees of the Board of Directors,” “Business Experience of Nominees,” “Executive Officers,” “Ownership of Kemper Common Stock” and “Corporate Governance” in the Proxy Statement for Kemper’s 2020 Annual Meeting of Shareholders. Kemper plans to file such proxy statement within 120 days after December 31, 2019, the end of Kemper’s fiscal year.

Kemper’s code of ethics applicable to its chief executive officer, chief financial officer and principal accounting officer (“Code of Ethics for Senior Financial Executives”) is posted in the “Governance” section of Kemper’s website, kemper.com. Kemper also intends to disclose any future amendments to, and any waivers from (though none are anticipated), the Code of Ethics for Senior Financial Executives in the “Governance” section of its website.

### Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the sections captioned “Executive Officer Compensation and Benefits,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Proxy Statement for Kemper’s 2020 Annual Meeting of Shareholders. The Compensation Committee Report to be included in such Proxy Statement shall be deemed to be furnished in this report and shall not be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act as a result of such furnishing in this Item 11.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is set forth in the table below and incorporated herein by reference to the section captioned “Ownership of Kemper Common Stock” in the Proxy Statement for Kemper’s 2020 Annual Meeting of Shareholders.

#### Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans or Programs (1)
Equity Compensation Plans Approved by Security Holders	1,808,815	\$ 56.53	3,254,822
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>1,808,815</b>	<b>\$ 56.53</b>	<b>3,254,822</b>

(1) Includes 1,082,460 shares reserved for future grants based on performance results under the terms of outstanding PSU awards.

Kemper’s 2011 Omnibus Plan permits various stock-based awards including, but not limited to, stock options, stock appreciation rights, DSUs, RSUs, and PSUs.

The design of the 2011 Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to “full value awards” will reduce the number of shares available for future grant under the Share Authorization by three shares. “Full value awards” are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include RSUs, PSUs and DSUs, if settled with stock.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to the sections captioned “Related Person Transactions” and “Director Independence” in the Proxy Statement for Kemper’s 2020 Annual Meeting of Shareholders.



**Kemper Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**Item 14. Principal Accounting Fees and Services.**

The information required by this Item is incorporated by reference to the section captioned “Independent Registered Public Accountant” in the Proxy Statement for Kemper’s 2020 Annual Meeting of Shareholders.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

#### *(a) Documents filed as part of this Report*

1. Financial Statements. The consolidated balance sheets of Kemper and subsidiaries as of December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income (loss), cash flows and shareholders' equity for the years ended December 31, 2019, 2018 and 2017, together with the notes thereto and the report of Deloitte & Touche LLP thereon appearing in Item 8 are included in this 2019 Annual Report.
2. Financial Statement Schedules. The following four financial statement schedules are included on the pages immediately following the signature pages hereof. Schedules not listed here have been omitted because they are not applicable or not material or the required information is included in the Consolidated Financial Statements.

Schedule I Investments Other Than Investments in Related Parties

Schedule II Parent Company Financial Statements

Schedule III Supplementary Insurance Information

Schedule IV Reinsurance Schedule

The Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with regards to the Financial Statement Schedules listed above, is incorporated by reference to the Report of Independent Registered Public Accountant included in Item 8.

3. Exhibits. An Exhibit Index has been filed as part of this report on pages 144 through 147.

#### *(b) Exhibits. Included in Item 15(a)3 above*

#### *(c) Financial Statement Schedules. Included in Item 15(a)2 above*

### Item 16. Form 10-K Summary

None

## Exhibit Index

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation	8-K	001-18298	3.2	August 8, 2014	
3.2	Amended and Restated Bylaws of Kemper Corporation	8-K	001-18298	3.1	August 8, 2019	
4.1	Indenture, dated as of February 27, 2014, by and between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee	8-K	001-18298	4.1	February 27, 2014	
4.2	Second Supplemental Indenture, dated as of February 24, 2015, to the Indenture, dated as of February 27, 2014, between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (including the form of 4.350% Senior Notes due 2025)	8-K	001-18298	4.2	February 24, 2015	
4.3	Form of Senior Indenture, dated as of August 6, 2010, by and between Infinity Property and Casualty Corporation and U.S. Bank National Association, as Trustee	S-3	333-168605	4.4	August 6, 2010	
4.4	First Supplemental Indenture, dated as of September 17, 2012, by and between Infinity Property and Casualty Corporation and U.S. Bank National Association, as Trustee	8-K	000-50167	4.1	September 17, 2012	
4.5	Guarantee by Kemper Corporation of the 5.000% Senior Notes due 2022 of Infinity Property and Casualty Corporation	8-K	001-18298	4.1	December 3, 2018	
4.6	Form of Certificate Representing Shares of Kemper Corporation Common Stock	10-K	001-18298	4.7	February 20, 2019	
4.7	Description of Capital Stock					X
10.1	Second Amended and Restated Credit Agreement, by and among Kemper Corporation, the lenders party thereto, JP Morgan Chase Bank, N.A., as administrative agent and syndication agent, and Bank of America, N.A. and Wells Fargo Bank, National Association as syndication agents	8-K	001-18298	10.1	June 12, 2018	
10.2	Advances and Security Agreement and Addendum to Advances and Security Agreement, effective as of December 31, 2013, between Trinity Universal Insurance Company and the Federal Home Loan Bank of Dallas	10-K	001-18298	10.2	February 14, 2014	
10.3	Advances, Collateral Pledge, and Security Agreement, dated as of March 18, 2014, between United Insurance Company of America and the Federal Home Loan Bank of Chicago	8-K	001-18298	10.1	March 21, 2014	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
10.4	Term Loan Credit Agreement, dated as of June 4, 2019, among Kemper Corporation, the lenders party thereto, PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Bookrunner and Joint Lead Arranger, and BMO Capital Markets Corp., as Joint Lead Arranger	8-K	001-18298	10.1	June 7, 2019	
10.5*	Kemper Pension Equalization Plan, as amended and restated effective August 25, 2011, as amended by Amendment No. 2 effective September 16, 2013	10-K	001-18298	10.3	February 14, 2014	
10.6*	Kemper Supplemental Retirement Plan, as amended and restated effective September 22, 2016	10-K	001-18298	10.5	February 13, 2017	
10.7*	Kemper Non-Qualified Deferred Compensation Plan, as amended and restated effective March 16, 2016	10-Q	001-18298	10.3	May 5, 2016	
10.8*	Kemper 1995 Non-employee Director Stock Option Plan, as amended and restated effective February 3, 2009	10-K	001-18298	10.2	February 4, 2009	
10.9*	Form of Stock Option Agreement, as of February 1, 2006, under the Kemper 1995 Non-employee Director Stock Option Plan	10-Q	001-18298	10.6	May 4, 2011	
10.10*	Form of Stock Option Agreement, as of February 3, 2009, under the Kemper 1995 Non-employee Director Stock Option Plan	10-K	001-18298	10.7	February 4, 2009	
10.11*	Kemper 2011 Omnibus Equity Plan, as amended and restated effective October 30, 2013	10-Q	001-18298	10.1	October 31, 2013	
10.12*	Kemper 2011 Omnibus Equity Plan, as amended and restated effective February 8, 2017	10-K	001-18298	10.17	February 13, 2017	
10.13*	Form of Stock Option and SAR Agreement for Non-employee Directors, as of August 25, 2011, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.13	February 17, 2012	
10.14*	Form of Stock Option and SAR Agreement for Non-employee Directors, as of May 1, 2013, under the Kemper 2011 Omnibus Equity Plan	10-Q	001-18298	10.1	May 2, 2013	
10.15*	Form of Deferred Stock Unit Agreement for Non-employee Directors, as of May 1, 2013, under the Kemper 2011 Omnibus Equity Plan	10-Q	001-18298	10.2	May 2, 2013	
10.16*	Form of Stock Option and SAR Agreement - Installment-Vesting Form, as of February 4, 2014, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.24	February 14, 2014	
10.17*	Form of Stock Option and SAR Agreement - Cliff-Vesting Form, as of February 4, 2014, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.25	February 14, 2014	
10.18*	Form of Time-Vested Restricted Stock Unit Award Agreement - Installment-Vesting Form, as of February 4, 2014, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.26	February 14, 2014	
10.19*	Form of Performance-Based Restricted Stock Unit Award Agreement (Relative TSR), as of February 7, 2017, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.29	February 13, 2017	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
10.20*	Form of Performance-Based Restricted Stock Unit Award Agreement (Adjusted ROE), as of February 7, 2017, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.30	February 13, 2017	
10.21*	Form of Stock Option and SAR Agreement - Installment-Vesting Form, as of February 7, 2017, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.31	February 13, 2017	
10.22*	Form of Time-Vested Restricted Stock Unit Award Agreement - Installment-Vesting Form, as of February 7, 2017, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.33	February 13, 2017	
10.23*	Form of Performance Share Unit Award Agreement (Adjusted ROE), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.34	February 13, 2018	
10.24*	Form of Performance Share Unit Award Agreement (Relative TSR), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.35	February 13, 2018	
10.25*	Form of Restricted Stock Unit Award Agreement (Cliff Vesting), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.36	February 13, 2018	
10.26*	Form of Restricted Stock Unit Award Agreement (Installment Vesting), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.37	February 13, 2018	
10.27*	Form of Non-Qualified Stock Option and SAR Award Agreement (Cliff Vesting), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.38	February 13, 2018	
10.28*	Form of Non-Qualified Stock Option and SAR Award Agreement (Installment Vesting), as of February 6, 2018, under the Kemper 2011 Omnibus Equity Plan	10-K	001-18298	10.39	February 13, 2018	
10.29*	Kemper Executive Performance Plan, amended and restated as of May 1, 2018	10-Q	001-18298	10.2	July 30, 2018	
10.30*	Form of Non-Employee Director Restricted Stock Unit Award Agreement, as of April 30, 2019, under the Kemper 2011 Omnibus Equity Plan	8-K	001-18298	10.1	May 1, 2019	
10.31*	Form of individual Indemnification Agreements between Kemper and its directors and executive officers	8-K	001-18298	10.1	February 11, 2020	
10.32*	Form of individual change in control severance agreements between Kemper and its executive officers	10-K	001-18298	10.42	February 13, 2017	
	Each of the agreements is identical except that the multipliers for benefits related to bonus, severance, life insurance and health insurance are 150%, 3 years, 3 years and 36 months, respectively, for the Chief Executive Officer and 110%, 2 years, 2 years and 24 months, respectively, for the other officers.					

**Incorporated by Reference**

Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
21	Subsidiaries of Kemper Corporation					X
23	Consent of Deloitte & Touche LLP					X
24	Power of Attorney (included on the signature page hereof)					X
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)					X
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)					X
32.1	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)					X
32.2	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)					X
101.1	XBRL Instance					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



## POWER OF ATTORNEY

Each person whose signature appears below on the following page hereby appoints each of Joseph P. Lacher, Jr., President and Chief Executive Officer, James J. McKinney, Senior Vice President and Chief Financial Officer, Anastasios Omiridis, Senior Vice President and Deputy Chief Financial Officer, and Richard Roeske, Vice President and Chief Accounting Officer, so long as such individual remains an executive officer of Kemper Corporation, his true and lawful attorney-in-fact with authority together or individually to execute in the name of each such signatory, and with authority to file with the SEC, any and all amendments to this 2019 Annual Report of Kemper Corporation, together with any and all exhibits thereto and other documents therewith, necessary or advisable to enable Kemper Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, and requirements of the SEC in respect thereof, which amendments may make such other changes in the 2019 Annual Report as the aforesaid attorney-in-fact executing the same deems appropriate.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Kemper Corporation has duly caused this 2019 Annual Report on Form 10-K for the fiscal year ended December 31, 2019 to be signed on its behalf by the undersigned, thereunto duly authorized, on February 14, 2020.

**KEMPER CORPORATION**  
(Registrant)

By: /S/ JOSEPH P. LACHER, JR.

\_\_\_\_\_  
**Joseph P. Lacher, Jr.**

**President, Chief Executive Officer and Director**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Kemper Corporation in the capacities indicated on February 14, 2020.

<u>Signature</u>	<u>Title</u>
<u>/S/ ROBERT J. JOYCE</u> Robert J. Joyce	Chairman of the Board and Director
<u>/S/ JOSEPH P. LACHER, JR.</u> Joseph P. Lacher, Jr.	President and Chief Executive Officer (Principal Executive Officer)
<u>/S/ JAMES J. MCKINNEY</u> James J. McKinney	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/S/ ANASTASIOS OMIRIDIS</u> Anastasios Omiridis	Senior Vice President and Deputy Chief Financial Officer (Principal Accounting Officer)
<u>/S/ TERESA A. CANIDA</u> Teresa A. Canida	Director
<u>/S/ GEORGE N. COCHRAN</u> George N. Cochran	Director
<u>/S/ KATHLEEN M. CRONIN</u> Kathleen M. Cronin	Director
<u>/S/ LACY M. JOHNSON</u> Lacy M. Johnson	Director
<u>/S/ CHRISTOPHER B. SAROFIM</u> Christopher B. Sarofim	Director
<u>/S/ DAVID P. STORCH</u> David P. Storch	Director
<u>/S/ SUSAN D. WHITING</u> Susan D. Whiting	Director

KEMPER CORPORATION AND SUBSIDIARIES  
 INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES  
 DECEMBER 31, 2019  
 (Dollars in Millions)

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amount Carried in Balance Sheet</u>
Fixed Maturities:			
Bonds and Notes:			
United States Government and Government Agencies and Authorities .....	\$ 784.7	\$ 815.9	\$ 815.9
States and Political Subdivisions .....	1,386.4	1,515.8	1,515.8
Foreign Governments .....	17.2	16.8	16.8
Corporate Securities:			
Other Bonds and Notes .....	3,465.0	3,859.7	3,859.7
Redeemable Preferred Stocks .....	6.8	6.7	6.7
Collateralized Loan Obligations .....	624.6	618.2	618.2
Other Mortgage- and Asset-backed .....	88.0	89.0	89.0
Total Investments in Fixed Maturities .....	<u>6,372.7</u>	<u>6,922.1</u>	<u>6,922.1</u>
Equity Securities at Fair Value:			
Preferred Stocks .....	59.2	59.2	59.2
Common Stocks .....	13.2	13.2	13.2
Other Equity Interests .....	834.9	834.9	834.9
Total Investments in Equity Securities .....	<u>907.3</u>	<u>907.3</u>	<u>907.3</u>
Equity Securities at Modified Cost .....	41.9	XXX.X	41.9
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings .....	220.4	XXX.X	220.4
Convertible Securities at Fair Value .....	37.3	37.3	37.3
Loans, Real Estate and Other Investments .....	444.5	XXX.X	444.5
Short-term Investments .....	470.9	XXX.X	470.9
Total Investments .....	<u>\$ 8,495.0</u>		<u>\$ 9,044.4</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION  
PARENT COMPANY BALANCE SHEETS  
(Dollars in Millions)

	December 31,	
	2019	2018
<b>ASSETS</b>		
Investments in Subsidiaries .....	\$ 4,383.7	\$ 3,736.0
Fixed Maturities at Fair Value (Amortized Cost: 2018 – \$12.6).....	—	12.6
Equity Securities at Fair Value .....	55.7	20.4
Short-term Investments .....	89.3	64.6
Cash .....	61.8	2.9
Other Receivables.....	21.9	5.7
Other Assets.....	21.9	14.4
Right-of-Use Assets.....	18.6	—
Total Assets.....	<u>\$ 4,652.9</u>	<u>\$ 3,856.6</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Term Loan due June 29, 2020 (Fair Value: 2018 – \$35.0).....	—	34.9
Term Loan due July 5, 2023 (Fair Value: 2019 – \$50.0).....	49.9	—
Senior Notes Payable, 4.35% due 2025 (Fair Value: 2019 – \$478.6; 2018 – \$444.2).....	448.6	448.4
Subordinated Debentures due 2054 (Fair Value: 2018 – \$151.1).....	—	144.2
Current Income Tax Liability .....	55.3	40.5
Deferred Income Tax Liability .....	32.2	20.2
Liabilities for Benefit Plans.....	44.3	98.2
Right-of-Use Liabilities.....	31.3	—
Accrued Expenses and Other Liabilities .....	19.0	20.1
Total Liabilities.....	<u>680.6</u>	<u>806.5</u>
Shareholders' Equity:		
Common Stock .....	6.7	6.5
Additional Paid-in Capital .....	1,819.2	1,666.3
Retained Earnings.....	1,810.3	1,355.5
Accumulated Other Comprehensive Income.....	336.1	21.8
Total Shareholders' Equity .....	<u>3,972.3</u>	<u>3,050.1</u>
Total Liabilities and Shareholders' Equity .....	<u>\$ 4,652.9</u>	<u>\$ 3,856.6</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION  
PARENT COMPANY STATEMENTS OF INCOME  
(Dollars in Millions)

	For the Year Ended December 31,		
	2019	2018	2017
Net Investment Income.....	\$ 2.1	\$ 2.5	\$ 3.0
Income from Change in Fair Value of Equity Securities.....	1.6	1.4	—
Net Realized Gains (Losses) on Sales of Investments .....	0.3	(0.7)	0.6
Total Revenues .....	<u>4.0</u>	<u>3.2</u>	<u>3.6</u>
Interest Expense.....	28.5	37.6	36.6
Loss from Early Extinguishment of Debt.....	5.8	—	—
Other Operating (Benefits) Expenses.....	4.0	26.3	(5.1)
Total Operating Expenses.....	<u>38.3</u>	<u>63.9</u>	<u>31.5</u>
Loss before Income Taxes and Equity in Net Income of Subsidiaries.....	(34.3)	(60.7)	(27.9)
Income Tax Benefit .....	9.4	12.2	21.2
Loss before Equity in Net Income of Subsidiaries.....	(24.9)	(48.5)	(6.7)
Equity in Net Income of Subsidiaries.....	556.0	238.6	127.6
Net Income .....	<u>\$ 531.1</u>	<u>\$ 190.1</u>	<u>\$ 120.9</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION  
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME  
(Dollars in Millions)

	For the Year Ended December 31,		
	2019	2018	2017
Net Income .....	\$ 531.1	\$ 190.1	\$ 120.9
Other Comprehensive Income (Loss):			
Unrealized Holding Gains (Losses) Arising During the Year:			
Securities Held by Subsidiaries .....	433.2	(214.1)	119.5
Securities Held by Parent.....	0.2	(0.1)	(0.4)
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries .....	(27.9)	(21.9)	(35.3)
Securities Held by Parent.....	(0.2)	—	—
Unrealized Holding Gains (Losses).....	405.3	(236.1)	83.8
Unrecognized Postretirement Benefit Costs Arising During the Year:			
Securities Held by Subsidiaries .....	(0.6)	—	—
Securities Held by Parent.....	(4.2)	(8.0)	3.9
Reclassification Adjustments for Amounts Included in Net Income:			
Amortization of Unrecognized Postretirement Benefits (Costs) .....	(3.0)	1.1	(0.6)
Total Reclassification Adjustments for Amounts Included in Net Income.....	(3.0)	1.1	(0.6)
Net Unrecognized Postretirement Benefit Costs .....	(7.8)	(6.9)	3.3
Foreign Currency Translation Adjustments on Investments Held by Subsidiaries .....	—	0.3	1.7
Gains (Losses) on Cash Flow Hedge.....	0.4	1.2	(6.7)
Other Comprehensive Income (Loss) before Income Taxes .....	397.9	(241.5)	82.1
Income Tax Benefit (Expense):			
Unrealized Holding Gains and Losses Arising During the Year:			
Securities Held by Subsidiaries .....	(91.0)	45.0	(38.3)
Securities Held by Parent.....	—	—	0.1
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries .....	5.8	4.6	12.3
Unrealized Holding Gains and Losses.....	(85.2)	49.6	(25.9)
Unrecognized Postretirement Benefit Costs Arising During the Year.....	1.0	1.7	(0.8)
Reclassification Adjustments for Amounts Included in Net Income:			
Amortization of Unrecognized Postretirement Benefit Costs .....	0.7	(0.2)	0.2
Total Reclassification Adjustments for Amounts Included in Net Income.....	0.7	(0.2)	0.2
Net Unrecognized Postretirement Benefit Costs .....	1.7	1.5	(0.6)
Foreign Currency Translation Adjustments on Investments Held by Subsidiaries .....	—	(0.1)	(0.6)
Gains (Losses) on Cash Flow Hedge.....	(0.1)	(0.3)	2.4
Income Tax Benefit (Expense).....	(83.6)	50.7	(24.7)
Other Comprehensive Income (Loss).....	314.3	(190.8)	57.4
Total Comprehensive Income (Loss).....	\$ 845.4	\$ (0.7)	\$ 178.3

See Accompanying Report of Independent Registered Public Accounting Firm.



KEMPER CORPORATION  
PARENT COMPANY STATEMENTS OF CASH FLOWS  
(Dollars in Millions)

	For the Year Ended December 31,		
	2019	2018	2017
Operating Activities:			
Net Income.....	\$ 531.1	\$ 190.1	\$ 120.9
Adjustment Required to Reconcile Net Income to Net Cash Provided by Operations:			
Equity in Net Income of Subsidiaries .....	(556.0)	(238.6)	(127.6)
Cash Dividends from Subsidiaries.....	239.0	130.4	108.1
Cash Contribution to Defined Benefit Plan .....	(55.3)	(5.0)	—
Increase in Value of Equity Securities at Fair Value.....	(1.6)	(1.4)	—
Net Realized (Gains) Losses on Sales of Investments.....	(0.3)	0.7	(0.6)
Loss from Early Extinguishment of Debt .....	5.8	—	—
Other, Net.....	9.8	29.6	0.7
Net Cash Provided by Operating Activities.....	<u>172.5</u>	<u>105.8</u>	<u>101.5</u>
Investing Activities:			
Capital Contributed to Subsidiaries .....	(83.0)	(20.0)	—
Capital Distribution from Subsidiary.....	85.0	176.0	—
Sales, Paydowns and Maturities of Fixed Maturities .....	12.7	(0.2)	45.7
Purchases of Equity Securities.....	(48.9)	(2.3)	—
Sales of Equity Securities .....	15.3	67.5	—
Sales of Fair Value Option Investments.....	—	—	42.2
Purchases of Fair Value Option Investments.....	—	—	(7.0)
Acquisition of Business .....	—	(564.6)	—
Change in Short-term Investments .....	(23.3)	253.4	15.6
Net Cash Provided (Used) by Investing Activities.....	<u>(42.2)</u>	<u>(90.2)</u>	<u>96.5</u>
Financing Activities:			
Notes Payable Proceeds:			
Net Proceeds from Issuance of Debt .....	49.9	249.4	200.2
Repayments of Debt .....	(185.0)	(215.0)	(360.0)
Proceeds from Issuance of Common Stock, Net of Transaction Costs .....	127.5	—	—
Cash Dividends Paid.....	(67.8)	(56.4)	(49.5)
Proceeds from Shares Issued under Employee Stock Purchase Plan .....	1.6	—	—
Cash Exercise of Stock Options .....	2.4	0.9	4.0
Net Cash Used by Financing Activities.....	<u>(71.4)</u>	<u>(21.1)</u>	<u>(205.3)</u>
Increase (Decrease) in Cash .....	<u>58.9</u>	<u>(5.5)</u>	<u>(7.3)</u>
Cash, Beginning of Year.....	2.9	8.4	15.7
Cash, End of Year .....	<u>\$ 61.8</u>	<u>\$ 2.9</u>	<u>\$ 8.4</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION  
Schedule II (Continued) - Financial Information of Kemper Corporation  
Notes to Financial Information  
(Dollars in Millions)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial information of Kemper Corporation (“Kemper” or the “Parent Company”) should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 of this Form 10-K. Kemper’s subsidiaries are accounted for using the equity method of accounting. Equity in net income of these subsidiaries is presented on the Statements of Operations as Equity in Net Income of Subsidiaries.

**NOTE 2. GUARANTEES**

On November 30, 2018 Kemper executed a guarantee to fully and unconditionally guarantee the payment and performance obligations of the 5.0% Senior Notes due September 19, 2022 of Infinity Property and Casualty Corporation, a wholly owned subsidiary of Kemper.

**NOTE 3. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Kemper did not receive any non-cash dividends from subsidiaries nor make any non-cash capital contributions in 2019.

Kemper received non-cash dividends from subsidiaries, in the form of invested assets, of \$574 million in 2018. Kemper made non-cash capital contributions, in the form of invested assets, of \$350 million in 2018.

**NOTE 4. LEASES**

Kemper leases certain office space for its current and former corporate headquarters under non-cancelable operating leases.

The following table presents operating lease ROU assets and lease liabilities at December 31, 2019.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Operating Lease Right-of-Use Assets.....	\$ 18.6
Operating Lease Liabilities.....	31.3

Supplemental cash flow information related to Kemper’s operating leases for the year-ended December 31, 2019 follows.

<u>DOLLARS IN MILLIONS</u>	<u>2019</u>
Operating Cash Flows from Operating Leases (Fixed Payments).....	\$ 1.2
Operating Cash Flows from Operating Leases (Liability Reduction) .....	1.0
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities .....	7.9

Significant judgments and assumptions for determining lease asset and liability as December 31, 2019 are presented below.

Weighted-average Remaining Lease Term - Operating Leases.....	<b>13.0 years</b>
Weighted-average Discount Rate - Operating Leases .....	<b>4.0%</b>

**NOTE 4. LEASES (Continued)**

Kemper's leases do not provide an implicit rate. Accordingly, Kemper uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of its lease payments.

Future minimum operating lease payments at December 31, 2019 were:

<u>DOLLARS IN MILLIONS</u>	<u>Operating Leases</u>
2020.....	\$ 2.1
2021.....	3.5
2022.....	3.7
2023.....	3.5
2024.....	2.5
2025 and Thereafter .....	25.6
Total Future Payments.....	\$ 40.9
Less Discount.....	9.6
Present Value of Minimum Lease Payments.....	<u>\$ 31.3</u>

KEMPER CORPORATION AND SUBSIDIARIES  
 SUPPLEMENTARY INSURANCE INFORMATION  
 (Dollars in Millions)

	Year Ended Dec 31,							At December 31		
	Insurance Claims and Policyholders' Benefits	Amortization of Deferred Policy Acquisition Costs	Other Insurance Expenses	Deferred Policy Acquisition Costs	Insurance Reserves	Unearned Premiums				
<b>2019</b>										
Specialty Property & Casualty Insurance.....	\$ 3,078.4	\$ 3,211.3	\$ 7.0	\$ 107.5	\$ 2,278.9	\$ 224.9	\$ 330.7	\$ 161.6	\$ 1,551.0	\$ 1,158.0
Preferred Property & Casualty Insurance.....	750.3	739.3	—	44.1	508.8	120.1	113.2	57.7	388.5	363.4
Life & Health Insurance (1) .....	643.7	N/A	8.5	206.4	402.7	63.3	270.7	318.4	3,505.3	24.1
Other.....	—	N/A	20.0	6.3	(2.1)	—	(103.2)	—	27.0	—
<b>Total.....</b>	<b>\$ 4,472.4</b>	<b>N/A</b>	<b>\$ 35.5</b>	<b>\$ 364.3</b>	<b>\$ 3,188.3</b>	<b>\$ 408.3</b>	<b>\$ 611.4</b>	<b>\$ 537.7</b>	<b>\$ 5,471.8</b>	<b>\$ 1,545.5</b>
<b>2018</b>										
Specialty Property & Casualty Insurance.....	\$ 2,027.4	\$ 2,067.4	\$ 2.4	\$ 63.4	\$ 1,523.8	\$ 202.0	\$ 219.7	\$ 121.4	\$ 1,387.0	\$ 1,025.0
Preferred Property & Casualty Insurance.....	730.7	748.8	—	61.8	538.4	117.2	108.3	58.4	452.9	374.3
Life & Health Insurance (1) .....	626.3	N/A	4.0	210.9	404.2	57.9	263.2	290.2	3,496.3	25.0
Other.....	—	N/A	35.8	4.8	0.1	—	(67.8)	—	30.6	—
<b>Total.....</b>	<b>\$ 3,384.4</b>	<b>N/A</b>	<b>\$ 42.2</b>	<b>\$ 340.9</b>	<b>\$ 2,466.5</b>	<b>\$ 377.1</b>	<b>\$ 523.4</b>	<b>\$ 470.0</b>	<b>\$ 5,366.8</b>	<b>\$ 1,424.3</b>
<b>2017</b>										
Specialty Property & Casualty Insurance.....	\$ 1,005.7	\$ 1,043.5	\$ 1.1	\$ 39.2	\$ 800.5	\$ 150.2	\$ 14.8			
Preferred Property & Casualty Insurance.....	730.3	726.1	—	58.9	649.5	114.6	103.2			
Life & Health Insurance (1) .....	614.0	N/A	2.6	223.2	387.4	53.5	258.7			
Other.....	—	N/A	0.3	5.9	—	—	(50.7)			
<b>Total.....</b>	<b>\$ 2,350.0</b>	<b>N/A</b>	<b>\$ 4.0</b>	<b>\$ 327.2</b>	<b>\$ 1,837.4</b>	<b>\$ 318.3</b>	<b>\$ 326.0</b>			

(1) The Company's Life & Health Insurance employee-agents also market certain property and casualty insurance products under common management. Accordingly, the Company includes the results of these property and casualty insurance products in its Life & Health Insurance segment.

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION  
REINSURANCE SCHEDULE  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017  
(Dollars in Millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
<b>Year Ended December 31, 2019</b>					
Life Insurance in Force .....	<u>\$ 19,479.9</u>	<u>\$ 411.6</u>	<u>\$ 162.8</u>	<u>\$ 19,231.1</u>	<u>0.8%</u>
Premiums:					
Life Insurance .....	\$ 383.6	\$ 1.2	\$ 0.9	\$ 383.3	0.2%
Accident and Health Insurance .....	188.5	1.7	5.3	192.1	2.8%
Property and Liability Insurance .....	3,835.4	24.5	86.1	3,897.0	2.2%
Total Premiums .....	<u>\$ 4,407.5</u>	<u>\$ 27.4</u>	<u>\$ 92.3</u>	<u>\$ 4,472.4</u>	<u>2.1%</u>
<b>Year Ended December 31, 2018</b>					
Life Insurance in Force .....	<u>\$ 19,435.1</u>	<u>\$ 436.4</u>	<u>\$ 172.7</u>	<u>\$ 19,171.4</u>	<u>0.9%</u>
Premiums:					
Life Insurance .....	\$ 378.2	\$ 1.2	\$ 1.0	\$ 378.0	0.3%
Accident and Health Insurance .....	174.3	1.7	5.3	177.9	3.0%
Property and Liability Insurance .....	2,778.3	28.7	78.9	2,828.5	2.8%
Total Premiums .....	<u>\$ 3,330.8</u>	<u>\$ 31.6</u>	<u>\$ 85.2</u>	<u>\$ 3,384.4</u>	<u>2.5%</u>
<b>Year Ended December 31, 2017</b>					
Life Insurance in Force .....	<u>\$ 19,208.7</u>	<u>\$ 455.2</u>	<u>\$ 184.0</u>	<u>\$ 18,937.5</u>	<u>1.0%</u>
Premiums:					
Life Insurance .....	\$ 366.8	\$ 1.4	\$ 1.1	\$ 366.5	0.3%
Accident and Health Insurance .....	171.0	1.5	5.4	174.9	3.1%
Property and Liability Insurance .....	1,757.5	15.3	66.4	1,808.6	3.7%
Total Premiums .....	<u>\$ 2,295.3</u>	<u>\$ 18.2</u>	<u>\$ 72.9</u>	<u>\$ 2,350.0</u>	<u>3.1%</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

**Kemper Corporation****Description of Capital Stock**

The following is a summary of the material terms and provisions of the capital stock of Kemper Corporation (“we,” “us,” “our,” “Kemper” or “Company”) and does not purport to be complete. It is qualified by reference to our amended and restated Certificate of Incorporation (“Certificate of Incorporation”) and our amended and restated bylaws (“Bylaws”), each of which is incorporated by reference as an exhibit to our Annual Report on Form 10-K of which this Exhibit is a part (“Annual Report”), and by certain provisions of the General Corporation Law of the State of Delaware (“DGCL”).

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$.10 per share, and 20,000,000 shares of preferred stock, par value \$.10 per share. No preferred stock is outstanding as of the date of the filing of the Annual Report. As of December 31, 2019, there were 66,665,888 shares of our common stock outstanding, and 3,254,822 shares reserved for issuance pursuant to our 2011 Omnibus Equity Plan.

**Common Stock**

*Voting Rights.* Each holder of shares of our common stock is entitled to attend all special and annual meetings of our shareholders. The holders of our common stock have one vote for each share held on all matters voted upon by our shareholders, including the election of directors to our Board of Directors (“Board of Directors”). Other than the election of directors, if an action is to be taken by vote of our shareholders at a meeting of shareholders at which a quorum is present, it will be decided by a majority of the votes cast with respect to such matter, unless a different vote is required under our Certificate of Incorporation or the DGCL. In an election of directors at a meeting of shareholders at which a quorum is present, a nominee for director shall be elected to the Board of Directors if the votes cast for such nominee’s election exceed the votes cast against such nominee’s election, provided, however, in the event the number of nominees for director is greater than the number of directors to be elected, directors shall be elected by a plurality of the votes cast.

*Dividends.* Except for any preferential rights of holders of any preferred stock that may then be issued and outstanding and any other class or series of stock having a preference over the common stock, holders of our common stock are entitled to receive dividends as and when declared by our Board of Directors, from legally available funds.

*Liquidation and Dissolution.* In the event of our liquidation or dissolution, the holders of our common stock are entitled to receive ratably all assets available for distribution to shareholders after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock.

*Other Rights.* Holders of our common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of our common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

*Listing.* Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol “KMPR.”

*Transfer Agent and Registrar.* The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

**Preferred Stock**

Our Certificate of Incorporation authorizes our Board of Directors to issue up to 20,000,000 shares of preferred stock in one or more series, with such distinctive designation or title and in such number of shares as may be authorized by our Board of Directors. Our Board of Directors is authorized to prescribe the relative rights and preferences of each series, and the limitations applicable thereto, including but not limited to the following: (i) the voting powers, full, special, or limited, or no voting powers, of each such series; (ii) the rate, terms and conditions on which dividends will be paid, whether such dividends will be cumulative, and what preference such dividends shall have in relation to the dividends on other series or classes of stock; (iii) the rights, terms and conditions, if any, for conversion of such series of preferred stock into shares of other series or classes of stock; (iv) any right of the Company to redeem the shares of such series of preferred stock, and the price, time, and conditions of such redemption, including the provisions for any sinking fund; and (v) the rights of holders of such series of preferred stock in relation to the rights of other series and classes of stock upon the liquidation, dissolution or distribution of our assets. Unless otherwise provided by our Board of Directors, upon redemption or conversion, shares of preferred stock will revert to authorized but unissued shares and may be reissued as shares of any series of preferred stock.



## Certain Statutory, Certificate of Incorporation and Bylaw Provisions Affecting Shareholders

Various provisions of our Certificate of Incorporation and Bylaws, the DGCL and state insurance laws could have the effect of delaying, deferring or discouraging another party from acquiring control of Kemper. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage, or could have the effect of encouraging, persons seeking to acquire control of Kemper to first negotiate with our Board of Directors.

The portions of the summary set forth below describing certain provisions of our Certificate of Incorporation and Bylaws is qualified in its entirety by reference to the provisions of our Certificate of Incorporation and Bylaws.

### *Certificate of Incorporation and Bylaw Provisions*

Special Meetings of Shareholders. Our Certificate of Incorporation and Bylaws do not grant the shareholders the right to call a special meeting of shareholders. Under our Certificate of Incorporation and Bylaws, special meetings of shareholders may be called only by the Chairman of the Board of Directors or by a majority of the Board of Directors then in office.

No Shareholder Action by Written Consent. Our Certificate of Incorporation also provides that shareholders may not take any action by written consent.

Advance Notice Requirements. Our Bylaws set forth advance notice procedures with regard to shareholder proposals relating to the nomination of candidates for election as directors or other business to be presented at meetings of shareholders. These procedures provide that notice of such shareholder proposals must be timely given in writing to the Secretary of Kemper prior to the meeting at which the action is to be taken. Generally, to be timely, notice must be delivered to the Secretary at the principal executive offices of Kemper not less than 60 nor more than 90 days prior to the anniversary of the preceding year's annual meeting. The notice must contain specified information concerning the person to be nominated or the business to be brought before the meeting and concerning the shareholder submitting the proposal. The advance notice requirement does not give the Board of Directors any power to approve or disapprove shareholder director nominations or proposals but may have the effect of precluding the consideration of such nominations or proposals at a meeting if the proper notice procedures are not followed.

Blank Check Preferred Stock. Our preferred stock could be deemed to have an anti-takeover effect in that, if a hostile takeover situation should arise, shares of preferred stock could be issued to purchasers sympathetic with our management or others in such a way as to render more difficult or to discourage a merger, tender offer, proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management.

The effects of the issuance of one or more series of the preferred stock on the holders of our common stock could include:

- reduction of the amount otherwise available for payments of dividends on common stock if dividends are payable on the series of preferred stock;
- restrictions on dividends on our common stock if dividends on the series of preferred stock are in arrears;
- dilution of the voting power of our common stock if the series of preferred stock has voting rights, including a possible "veto" power if the series of preferred stock has class voting rights;
- dilution of the equity interest of holders of our common stock if the series of preferred stock is convertible, and is converted, into our common stock; and
- restrictions on the rights of holders of our common stock to share in our assets upon liquidation until satisfaction of any liquidation preference granted to the holders of the series of preferred stock.

Business Combinations. Article Seven of our Certificate of Incorporation places certain restrictions on the following transactions with a direct or indirect beneficial owner (including certain former beneficial owners and successors to such beneficial owners) of more than 15% of the voting power of Kemper's outstanding voting stock (an "Interested Shareholder"):

- any merger or consolidation of Kemper or any subsidiary with any Interested Shareholder or any other person (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an affiliate of an Interested Shareholder; or
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any affiliate of any Interested Shareholder of any assets of Kemper or any subsidiary having an aggregate fair market value of \$10,000,000 or more; or

- the issuance or transfer by Kemper or any subsidiary (in one transaction or a series of transactions) of any securities of Kemper or any subsidiary to any Interested Shareholder or any affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate fair market value of \$10,000,000 or more; or
- the adoption of any plan or proposal for the liquidation or dissolution of Kemper proposed by or on behalf of any Interested Shareholder or any affiliate of any Interested Shareholder; or
- any reclassification of securities (including any reverse stock split or recapitalization of Kemper) or any merger or consolidation of Kemper with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving any Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of Kemper or any subsidiary beneficially owned by any Interested Shareholder or any affiliate of any Interested Shareholder.

We may only enter into one of the transactions described above if:

- the transaction has been approved by a majority of our “continuing directors,” being (A) members of our original Board of Directors, (B) persons unaffiliated with an Interested Shareholder who were members of the Board of Directors prior to such person or entity becoming an Interested Shareholder, or (C) successors of continuing directors who were recommended to succeed continuing directors by a majority of continuing directors then on the Board of Directors; or
- the transaction has been approved by the affirmative vote of 75% of the voting power of our outstanding voting stock, voting together as a single class, and (A) the consideration to be received by the holders of each class or series of our capital stock is (i) not less than the highest price paid by the Interested Shareholder for any shares of such class or series during the preceding 24 months, and (ii) is either in cash or in the form of consideration previously used by the Interested Shareholder to acquire the largest number of shares of such class or series previously acquired by such Interested Shareholder, and (B) certain other conditions have been met.

Exclusive Forum Provision. Our Bylaws provide that, unless we consent to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers or other employees or agents, (iii) any action asserting a claim against us or any of our directors or officers or other employees or agents arising pursuant to any provision of the DGCL or our Certificate of Incorporation or Bylaws, or (iv) any action asserting a claim against us or any of our directors or officers or other employees or agents governed by the internal affairs doctrine, shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another court of the State of Delaware or, if no court of the State of Delaware has jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having personal jurisdiction over the indispensable parties named as defendants.

#### *Business Combination Statute*

We are a Delaware corporation and consequently are also subject to certain anti-takeover provisions of the DGCL. Subject to certain exceptions, Section 203 of the DGCL prevents a publicly held Delaware corporation from engaging in a “business combination” with any “interested stockholder” for three years following the date that the person became an interested stockholder, unless the interested stockholder attained such status with the approval of the corporation’s board of directors or unless the business combination is approved in a prescribed manner. A “business combination,” in reference to Kemper, includes, among other things, a merger or consolidation of Kemper or one of its subsidiaries and an interested stockholder or the sale by Kemper or any of its subsidiaries to an interested stockholder of assets having an aggregate market value equal to 10% or more of either the aggregate market value of Kemper’s consolidated assets or the aggregate market value of Kemper’s outstanding stock. In general, in relation to Kemper, an “interested stockholder” is any person that is the owner of 15% or more of Kemper’s outstanding voting stock and the affiliates and associates of such person. Section 203 makes it more difficult for an interested stockholder to effect various business combinations with a corporation for a three-year period. This statute could prohibit or delay mergers or other takeover or change in control attempts not approved in advance by our Board of Directors, and as a result could discourage attempts to acquire Kemper, which could depress the market price of our common stock.

#### *Change in Control Requirements Under Insurance Laws*

State insurance laws impose requirements that must be met prior to a change of control of an insurance company or insurance holding company based on the insurer’s state of domicile and, in some cases, additional states in which it is deemed commercially domiciled due to the substantial amount of business it conducts therein. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and

approval of the change of control by such regulators. Kemper has insurance subsidiaries domiciled or deemed commercially domiciled in Alabama, California, Florida, Georgia, Illinois, Indiana, Louisiana, Missouri, New York, Ohio, Oregon, Texas and Wisconsin. In these states, except Alabama, “control” generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Kemper’s shares that would result in the purchaser owning Kemper’s voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of Kemper’s insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of insurance regulators in each state in which the Company’s insurance subsidiaries are domiciled or deemed commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulators. Similarly, several of the states in which the Company’s insurance subsidiaries are domiciled have enacted legislation that requires either the divesting and/or acquiring company to notify regulators of, and in some cases to receive regulatory approval for, a change in control.

Many state statutes also require pre-acquisition notification to state insurance regulators of a change of control of an insurance company licensed in the state if specific market concentration thresholds would be triggered by the acquisition. Such statutes authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition.

These regulatory requirements may deter, delay or prevent transactions affecting control of Kemper or its insurance subsidiaries, or the ownership of Kemper’s voting securities, including transactions that could be advantageous to Kemper’s shareholders.

**Subsidiaries of KEMPER CORPORATION**

Subsidiaries of Kemper Corporation, with their states of incorporation in parentheses, are as follows:

1. Alliance United Insurance Company (California)
2. Alliance United Insurance Services, LLC (California)
3. Alpha Property & Casualty Insurance Company (Wisconsin)
4. Casualty Underwriters, Inc. (Georgia)
5. Capitol County Mutual Fire Insurance Company (Texas)\*
6. Charter Indemnity Company (Texas)
7. Direct Response Corporation (Delaware)
8. Family Security Funerals Company (Texas)
9. Financial Indemnity Company (Illinois)
10. Infinity Assurance Insurance Company (Ohio)
11. Infinity Auto Insurance Company (Ohio)
12. Infinity Casualty Insurance Company (Ohio)
13. Infinity County Mutual Insurance Company (Texas)
14. Infinity Financial Centers, LLC (Delaware)
15. Infinity Indemnity Insurance Company (Indiana)
16. Infinity Insurance Agency, Inc. (Alabama)
17. Infinity Insurance Company (Indiana)
18. Infinity Preferred Insurance Company (Ohio)
19. Infinity Property and Casualty Corporation (Ohio)
20. Infinity Property and Casualty Services, Inc. (Georgia)
21. Infinity Safeguard Insurance Company (Ohio)
22. Infinity Security Insurance Company (Indiana)
23. Infinity Select Insurance Company (Indiana)
24. Infinity Standard Insurance Company (Indiana)
25. KAHG LLC (Illinois)
26. Kemper Corporate Services, Inc. (Illinois)
27. Kemper Financial Indemnity Company (Illinois)
28. Kemper General Agency, Inc. (Texas)
29. Kemper Independence Insurance Company (Illinois)
30. Kemper Personal Insurance General Agency, Inc. (Texas)
31. Leader Group, Inc. (Ohio)
32. Leader Managing General Agency, Inc. (Texas)
33. Merastar Industries LLC (Delaware)
34. Merastar Insurance Company (Illinois)
35. Mutual Savings Fire Insurance Company (Alabama)
36. Mutual Savings Life Insurance Company (Alabama)
37. National Association of Self-Employed Business Owners (Oklahoma)
38. NCM Management Corporation (Delaware)
39. Old Reliable Casualty Company (Missouri)\*
41. The Reliable Life Insurance Company (Missouri)
42. Reserve National Insurance Company (Illinois)
43. Response Insurance Company (Illinois)
44. Response Worldwide Direct Auto Insurance Company (Illinois)
45. Response Worldwide Insurance Company (Illinois)
46. Rural American Consumers A National Association (Oklahoma)
47. Security One Agency LLC (Illinois)
48. Summerset Marketing Company (Oklahoma)
49. Trinity Universal Insurance Company (Texas)
50. Union National Fire Insurance Company (Louisiana)
51. Union National Life Insurance Company (Louisiana)
52. United Casualty Insurance Company of America (Illinois)
53. United Insurance Company of America (Illinois)
54. Unitrin Advantage Insurance Company (New York)
55. Unitrin Auto and Home Insurance Company (New York)
56. Unitrin County Mutual Insurance Company (Texas)\*
57. Unitrin Direct Insurance Company (Illinois)
58. Unitrin Direct Property & Casualty Company (Illinois)
59. Unitrin Preferred Insurance Company (New York)
60. Unitrin Safeguard Insurance Company (Wisconsin)
61. Valley Property & Casualty Insurance Company (Oregon)
62. Warner Insurance Company (Illinois)

\* May be deemed to be an affiliate pursuant to Rule 1-02 of SEC Regulation S-X.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-217781 on Form S-3 and Registration Statement Nos. 33-58300, 333-4530, 333-86935, 333-76076, 333-173877 and 333-231180 on Form S-8 of our report dated February 14, 2020, relating to the financial statements of Kemper Corporation and the effectiveness of Kemper Corporation's internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP  
Chicago, Illinois  
February 14, 2020

## CERTIFICATIONS

I, Joseph P. Lacher, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Kemper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/S/ JOSEPH P. LACHER, JR.

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Joseph P. Lacher, Jr.

President and Chief Executive Officer



## CERTIFICATIONS

I, James J. McKinney, certify that:

1. I have reviewed this annual report on Form 10-K of Kemper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/S/ JAMES J. MCKINNEY

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James J. McKinney

Executive Vice President and Chief Financial Officer

**Certification of CEO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Kemper Corporation (the “Company”) for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Joseph P. Lacher, Jr., as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOSEPH P. LACHER, JR.

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Name: Joseph P. Lacher, Jr.  
Title: President and Chief Executive Officer  
Date: February 14, 2020

**Certification of CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Kemper Corporation (the “Company”) for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), James J. McKinney, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JAMES J. MCKINNEY

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Name: James J. McKinney  
Title: Executive Vice President and Chief Financial Officer  
Date: February 14, 2020

## Kemper Corporation

### Definitions of Non-GAAP Financial Measures Used on Inside Front Cover and Letter to Shareholders

The Company believes that investors' understanding of Kemper's performance is enhanced by the disclosure of the following non-GAAP financial measures. The methods for calculating these measures may differ from those used by other companies and therefore comparability may be limited.

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

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

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations. The Company believes that Adjusted Consolidated Net Operating Income provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Net Realized Gains on Sales of Investments, Net Impairment Losses Recognized in Earnings related to investments, and Income (Loss) from Change in Fair Value of Equity and Convertible Securities 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. Acquisition Related Transaction, Integration and Other Costs may vary significantly between periods and are generally driven by the timing of acquisitions and business decisions which are unrelated to the insurance underwriting process. 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.

A reconciliation of Income from Continuing Operations to Adjusted Consolidated Net Operating Income is presented on page 27 of the company's Annual Report on Form 10-K.

**Adjusted Consolidated Net Operating Income Per Unrestricted Share—Diluted** is a non-GAAP financial measure. It is computed by dividing Adjusted Consolidated Net Operating Income by the weighted average unrestricted shares and common stock equivalents outstanding. The most directly comparable GAAP financial

measure is Income from Continuing Operations Per Unrestricted Share—Diluted. A reconciliation of Income from Continuing Operations Per Unrestricted Share—Diluted to Adjusted Consolidated Net Operating Income Per Unrestricted Share—Diluted is presented below.

	<u>Year Ended Dec. 31.,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Income from Continuing Operations Per Unrestricted Share— Diluted . . . . .	\$ 2.31	\$ 3.19	\$ 7.96
Less Net (Income) Loss Per Unrestricted Share—Diluted			
From:			
Change in Fair Value of Equity and Convertible			
Securities . . . . .	—	0.86	(1.64)
Net Realized Gains on Sales of Investments . . . . .	(0.71)	(0.35)	(0.50)
Net Impairment Losses Recognized in Earnings . . . . .	0.18	0.06	0.16
Acquisition Related Transaction, Integration and Other			
Costs . . . . .	—	0.61	0.22
Loss from Early Extinguishment of Debt . . . . .	—	—	0.07
Adjusted Consolidated Net Operating Income Per Unrestricted Share—Diluted . . . . .	<u>\$ 1.78</u>	<u>\$ 4.37</u>	<u>\$ 6.27</u>

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# Kemper Corporation Board of Directors



**Robert J. Joyce**  
Chairman of the Board,  
Kemper Corporation  
Retired Chairman and  
Chief Executive Officer  
Westfield Group



**Joseph P. Lacher, Jr.**  
President and  
Chief Executive Officer  
Kemper Corporation



**Teresa A. Canida**  
Principal and Portfolio Manager  
Cito Capital Group, LLC



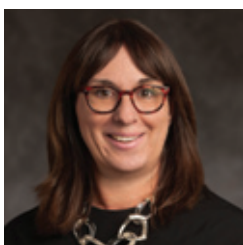
**Gerald Laderman**  
Executive Vice President and  
Chief Financial Officer  
United Airlines Holdings Inc.



**George N. Cochran**  
Retired Chairman  
Global Financial Institutions Group  
Macquarie Capital



**Christopher B. Sarofim**  
Vice Chairman  
Fayez Sarofim & Co.



**Kathleen M. Cronin**  
Senior Managing Director,  
General Counsel and  
Corporate Secretary  
CME Group Inc.



**David P. Storch**  
Non-Executive Chairman of the Board  
AAR Corp.



**Lacy M. Johnson**  
Partner  
Ice Miller LLC



**Susan D. Whiting**  
Retired Vice Chairman  
Nielsen Holdings plc  
Director and Trustee

# Kemper Corporation Senior Executives



**Joseph P. Lacher, Jr.**  
President  
Chief Executive Officer



**Kimberly A. Holmes**  
Executive Vice President  
Chief Actuary  
Strategic Analytics Officer



**John M. Boschelli**  
Executive Vice President  
Chief Investment Officer



**James J. McKinney**  
Executive Vice President  
Chief Financial Officer



**Charles T. Brooks**  
Executive Vice President  
Operations and Systems



**Christine F. Mullins**  
Executive Vice President  
Chief Human Resources Officer



**C. Thomas Evans, Jr.**  
Executive Vice President  
Secretary and General Counsel



**Duane A. Sanders**  
Executive Vice President  
President,  
Property & Casualty Division



**Mark A. Green**  
Executive Vice President  
Business Development and Reinsurance



**Erich Sternberg**  
Executive Vice President  
President,  
Life & Health Division

# Kemper Corporation Information

## Stock Listing

Kemper Corporation is traded on the New York Stock Exchange under the symbol KMPR.

## Common Stock Transfer Agent/Registrar

Please direct questions regarding stock registration, change of address, change of name or transfer to:

Computershare Trust Company, N.A.  
P.O. Box 505000  
Louisville, KY 40233

877.282.1168 (in the United States)  
[computershare.com/investor](https://computershare.com/investor)

## Independent Registered Public Accounting Firm

Deloitte & Touche LLP  
111 South Wacker Drive  
Chicago, IL 60606

## 2020 Annual Meeting\*

May 6, 2020  
8:00 a.m. Central Time

200 East Randolph Street  
80th Floor  
Chicago, IL 60601

## Investor Relations

Christine Patrick  
Kemper Corporation  
200 East Randolph Street  
Suite 3300  
Chicago, IL 60601

312.661.4930  
[investors@kemper.com](mailto:investors@kemper.com)

\* Please check for announcements on [kemper.com](https://kemper.com) and in the Company's SEC filings in the event that a change to the meeting location and/or date is determined necessary in connection with developments related to COVID-19.



