KEMPER Corp
Form 10-K
February 13, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
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)

Delaware	95-4255452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One East Wacker Drive, Chicago, Illinois	60601
(Address of principal executive offices)	(Zip Code)

(312) 661-4600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value per share	New York Stock Exchange
7.375% Subordinated Debentures due 2054	New York Stock Exchange

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 x 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 x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of June 30, 2017, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $2.0 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 51,463,199 shares of common stock outstanding as of January 31, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 2, 2018 are incorporated by reference into Part III.

Table of Contents

Caution Regarding Forward-Looking Statements

This 2017 Annual Report on Form 10-K (the "2017 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
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 2017 Annual Report. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that may be important in determining the Company's actual future results and financial condition.

In addition to the factors discussed below under Item 1A., "Risk Factors," in this 2017 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 practices and interpretations by regulators and courts that increase operating costs and potential liabilities, particularly any that involve retroactive application of new requirements, including, but not limited to, state initiatives related to unclaimed property laws or claims handling practices with respect to life insurance policies and the proactive use of death verification databases;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Governmental actions, including, but not limited to, implementation of new federal and state laws and regulations, and court decisions interpreting existing laws and regulations or policy provisions;
- Uncertainties related to regulatory approval of insurance rates, policy forms, insurance products, license applications, dividends from insurance subsidiaries, acquisitions of businesses and other matters within the purview of state insurance regulators;

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

- The incidence, frequency and severity of catastrophes occurring in any particular reporting period or geographic area, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The number and severity of insurance claims (including those associated with catastrophe losses);
- Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses ("LAE") reserves, including, but not limited to, the number and severity of insurance claims, changes in claims handling procedures and closure patterns and development patterns;
- The impact of inflation on insurance claims, including, but not limited to, the effects on personal injury claims of increasing medical costs and the effects on property claims attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence losses incurred in connection with hurricanes and other

catastrophes;

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

1

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

Factors related to the Company's ability to compete

- Changes in the ratings by rating agencies of Kemper and/or its insurance company subsidiaries with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;
- The level of success and costs incurred in realizing or maintaining economies of scale, integrating acquired businesses and implementing significant business initiatives, including, but not limited to, those related to expense and claims savings, consolidations, reorganizations and technology;
- Absolute and relative performance of the Company's products and services, including, but not limited to, the level of success achieved in designing and introducing new insurance products;
- The ability of the Company to maintain the availability of critical systems and manage technology initiatives cost-effectively to address insurance industry developments and regulatory requirements;
- Heightened competition, including, with respect to pricing, consolidations of existing competitors or entry of new competitors and alternate distribution channels, introduction of new technologies, emergence of telematics, refinements of existing products and development of new products by current or future competitors;
- Expected benefits and synergies from mergers, acquisitions and/or divestitures that may not be realized to the extent anticipated, within expected time frames or at all, due to a number of factors including, but not limited to, the loss of key agents/brokers, customers or employees, increased costs, fees, expenses and related charges and delays caused by factors outside of the Company's control;

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

- Changes in general economic conditions, including, but not limited to, performance of financial markets, interest rates, inflation, unemployment rates and fluctuating values of particular investments held by the Company;
- Absolute and relative performance of investments held by the Company;
- Changes in insurance industry trends and significant industry developments;
- Changes in consumer trends and significant consumer or product developments;
- Changes in capital requirements, including the calculations thereof, used by regulators and rating agencies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services or after-tax returns from the Company's investments;
- The impact of required participation in windpools and joint underwriting associations, residual market assessments and assessments for insurance industry insolvencies;
- Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;
- Increased costs and risks related to cybersecurity and information technology, including, but not limited to, identity theft, data breaches and system disruptions affecting services and actions taken to minimize the risks thereof; and

Factors Relating to the Proposed Acquisition of Infinity Property and Casualty Corporation ("Infinity")

- The satisfaction of the conditions precedent to the consummation of the Merger, including, without limitation, the receipt of shareholder and regulatory approvals (including approvals, authorizations and clearance by antitrust authorities and insurance regulators necessary to complete such proposed merger transaction) on the terms desired or anticipated (and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of such proposed merger transaction);
- Unanticipated difficulties or expenditures relating to such proposed merger transaction;
- Risks relating to the value of Kemper common stock to be issued in the proposed transaction;
- Disruptions of Kemper's and Infinity's current plans, operations and relationships with third persons caused by the announcement and pendency of such proposed merger transaction, including, without limitation, the ability of the combined company to hire and retain any personnel; and
- Legal proceedings that may be instituted against Kemper and Infinity following announcement of such proposed merger transaction.

2

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 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 2017 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.

(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.

Pending Acquisition of Infinity

On February 13, 2018, Kemper and Infinity announced that they had entered into an Agreement and Plan of Merger (the "Infinity Merger Agreement"), by and among Kemper, Vulcan Sub, Inc., an Ohio corporation and a wholly owned subsidiary of Kemper ("Kemper Merger Sub"), and Infinity, under which Kemper will acquire Infinity in a cash and stock transaction. Pursuant to the Infinity Merger Agreement, Kemper Merger Sub will merge with and into Infinity, with Infinity surviving as a wholly owned subsidiary of Kemper (the "Infinity Merger"). The Infinity Merger is expected to close in the third quarter of 2018, subject to the satisfaction or waiver of applicable closing conditions, including the approval of shareholders of both companies and receipt of required regulatory clearances and approvals. Additional information pertaining to the Infinity Merger and the Infinity Merger Agreement is contained in Item 1A., "Risk Factors" and Note 26, "Subsequent Events," to the Consolidated Financial Statements appearing in Item 8 of Part II of this 2017 Annual Report and our current report on Form 8-K filed with the SEC on the date hereof and subsequent filings with the SEC.

(b) BUSINESS SEGMENT FINANCIAL DATA

Financial information about Kemper's business segments for the years ended December 31, 2017, 2016 and 2015 is contained in the following sections of this 2017 Annual Report and is incorporated herein by reference: (i) Note 18, "Business Segments," to the Consolidated Financial Statements and (ii) MD&A.

(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 two operating segments: Property & Casualty Insurance and Life & Health Insurance. The Company conducts its operations solely in the United States.

Kemper's subsidiaries employ approximately 5,550 full-time associates supporting their operations, of which approximately 1,850 are employed in the Property & Casualty Insurance segment, approximately 3,200 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 Property & Casualty Insurance segment provides automobile, homeowners, renters, fire, umbrella 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.

The Property & Casualty Insurance segment distributes its products primarily through independent agents and brokers who are paid commissions for their services. In addition, the Life & Health Insurance segment's career agents also sell contents coverage for personal property to its customers.

Earned premiums from automobile insurance accounted for 61%, 58% and 54% of the Company's consolidated insurance premiums earned in 2017, 2016 and 2015, respectively. Revenues from automobile insurance accounted for 55%, 53% and 48% of Kemper's consolidated revenues from continuing operations in 2017, 2016 and 2015, respectively. Automobile insurance products include personal automobile insurance, ranging from preferred to nonstandard risks, and commercial automobile insurance. Nonstandard personal automobile insurance policyholders tend to have difficulty obtaining standard or preferred risk insurance, usually because of their driving records, claims experience or premium payment history. Homeowners insurance accounted for 11%, 12% and 14% of the Company's consolidated insurance premiums earned in 2017, 2016 and 2015, respectively. Homeowners insurance accounted for 11%, 12% and 13% of the Company's consolidated revenues from continuing operations in 2017, 2016 and 2015, respectively.

The Property & Casualty Insurance segment is headquartered in Chicago, Illinois, and conducts business in more than 40 states and the District of Columbia. The segment's insurance products are offered by approximately 16,500 independent insurance agents and brokers. As shown in the following table, five states provided 80% of the segment's premium revenues in 2017.

State	Percentage of Total Premiums	
California	55	%
Texas	11	
New York	8	
North Carolina	4	
Oregon	2	

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, 2017 and 2016 were:

DOLLARS IN MILLIONS	2017	2016
Business Segments:		
Property & Casualty Insurance	$976.3	$884.1
Life & Health Insurance	4.1	4.5
Total Business Segments	980.4	888.6
Discontinued Operations	33.1	38.6
Unallocated Reserves	3.3	4.2
Total Property and Casualty Insurance Reserves	$1,016.8	$931.4

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

5

ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures that may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company's Discontinued Operations are predominantly long-tailed exposures, of which $16.3 million was related to asbestos, environmental matters and construction defect exposures at December 31, 2017. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 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 developed. 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.

Development of property and casualty insurance losses and LAE from prior accident years for each of the Company's continuing business segments and discontinued operations in 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	Favorable (Adverse) Development		
	2017	2016	2015
Continuing Operations:			
Property & Casualty Insurance	$ (19.5)	$ 14.3	$ 12.9
Life & Health Insurance	(0.9)	0.1	(1.4)
Total Favorable (Adverse) Development from Continuing Operations, Net	(20.4)	14.4	11.5
Discontinued Operations	1.5	6.3	8.6
Total Favorable (Adverse) Development, Net	$ (18.9)	$ 20.7	$ 20.1

See MD&A, "Loss and LAE Reserve Development," "Property & Casualty Insurance," and "Life & Health Insurance," for the impact of development on the results reported by the Company's business segments. Also see MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 for additional information about the Company's reserving practices.

See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for information about incurred and paid claims development for the 2013-2016 accident years as of December 31, 2017, 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, 2017. 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 2017 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 & Casualty Insurance segment. Coverage for the catastrophe reinsurance program is provided in various layers and reinsurance contracts. Additionally, for 2018, the Company has entered into an aggregate excess property catastrophe reinsurance contract (the “2018 Aggregate Catastrophe Reinsurance Contract”) for the Property & Casualty Insurance segment. The Property & Casualty Insurance segment and the Life & Health Insurance segment 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.
Coverage for the Property & Casualty Insurance segment’s catastrophe reinsurance program for 2018 is provided by three multi-year excess of loss reinsurance contracts and an annual aggregate excess of loss reinsurance contract. The first reinsurance contract provides coverage over the three-year period of January 1, 2016 through December 31, 2018 (the “2016 Reinsurance Contract”). The 2016 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $300 million in excess of $50 million. Under the 2016 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 2016 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of $300 million in excess of $50 million in 2018. The second reinsurance contract provides coverage over the three-year period of January 1, 2017 through December 31, 2019 (the “2017 Reinsurance Contract”). The 2017 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $200 million in excess of $50 million, a $100 million reduction in the coverage for losses on individual catastrophes in excess of $50 million provided under the 2016 Reinsurance Contract. Under the 2017 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 2017 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of $200 million in excess of $50 million in 2018. The third 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, which is consistent with the coverage provided under the 2017 Reinsurance Contract. 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 2018.

Coverage on individual catastrophes provided under the three multi-year excess of loss reinsurance contracts for 2018 (January 1, 2018 to December 31, 2018) is provided in various layers as summarized below.

DOLLARS IN MILLIONS	Catastrophe Losses and LAE In Excess of	Up to	Combined Percentage of Coverage
Retained	$ —	$ 50.0	— %
1st Layer of Coverage (Combination of 2018, 2017 and 2016 Reinsurance Contracts)	50.0	150.0	95.0
2nd Layer of Coverage (Combination of 2018 and 2017 Reinsurance Contracts)	150.0	250.0	63.3
2nd Layer of Coverage (2016 Reinsurance Contract)	150.0	350.0	31.7

The estimated annual premium in 2018 for the three multi-year excess of loss reinsurance contracts presented in the preceding table is $10.7 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 2018 Aggregate Catastrophe Reinsurance Contract is effective for the period of January 1, 2018 through December 31, 2018 and provides coverage for accumulated catastrophe losses of $50 million in excess of $60 million on 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 2018 Aggregate Catastrophe Reinsurance Contract (January 1, 2018 to December 31, 2018) is summarized below.

DOLLARS IN MILLIONS	Aggregate Catastrophe Losses and LAE In Excess of	Up to
Retained	$ —	$ 60.0
Coverage	60.0	110.0

The estimated annual premium for the 2018 Aggregate Catastrophe Reinsurance Contract is $9.0 million.

The coverage presented in the preceding tables differs from the coverage provided in 2017. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for information pertaining to the catastrophe reinsurance program for the Property & Casualty Insurance segment for 2017. To maintain the same level and percentage of coverage in subsequent years as provided by the catastrophe reinsurance program in 2018, the Property & Casualty Insurance segment will need to purchase additional reinsurance in the future for the portion of coverage expiring at the end of 2018, 2019 and 2020.

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 Kemper's Property & Casualty Insurance segment. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the reinsurance coverage for non-certified events.

In addition to the catastrophe reinsurance programs described above, Kemper's property and casualty insurance companies utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks.

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. See MD&A under the caption "Property & Casualty Insurance."

Competition

Based on the most recent annual data published by A.M. Best, as of the end of 2016, there were 1,186 property and casualty insurance groups in the United States. Kemper's property and casualty group was among the top 9% of property and casualty insurance groups in the United States as measured by net written premiums, policyholders' surplus and admitted assets in 2016. Among all personal lines automobile insurance writers, Kemper's property and casualty group was the 21st largest writer as measured by net written premiums in 2016.

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

Measurement	Ordinal Rank	Percentile Rank	
Net Admitted Assets	85	92	%
Net Written Premiums	51	95	
Capital and Surplus	97	91	

In 2016, the U.S. property and casualty insurance industry's estimated net premiums written were $538 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 wrote less than 1% of the industry's 2016 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 16%, 17% and 19% of the Company's consolidated insurance premiums earned in 2017, 2016 and 2015, respectively. Revenues from life insurance accounted for 22%, 23% and 25% of the Company's consolidated revenues from continuing operations in 2017, 2016 and 2015, respectively.

9

As shown in the following table, five states provided 51% of the premium revenues in this segment in 2017.

State	Percentage of Total Premiums
Texas	22 %
Louisiana	11
Alabama	7
Mississippi	6
Florida	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 75% of the Life & Health Insurance segment's premium revenues are generated by the Kemper Home Service Companies.

The Kemper Home Service Companies employ nearly 2,200 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 $22 per policy per month with an average face value of $5,700. 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 has traditionally specialized in the sale of individual Medicare Supplement insurance and limited health insurance coverages, such as fixed indemnity, specified disease, and accident-only plans, primarily to individuals in rural areas who often do not have access to a broad array of accident and health insurance products. The Company's insurance products can be tailored to meet individual and family needs. Reserve National's traditional distribution channel consists of approximately 500 independent agents.

Reserve National began expanding its distribution channels during 2013 by launching two marketing channel initiatives —Kemper Senior Solutions and Kemper Benefits. Kemper Senior Solutions markets life insurance and home health care products focusing on the individual, senior-age demographic of the market place. Kemper Benefits sells voluntary products in the employer market place. Brokers and non-exclusive independent agents are utilized to market and distribute products in these new distribution channels. Reserve National currently has approximately 4,300 independent agents appointed in connection with these initiatives.

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. Accordingly, except for reinsurance provided by the FHCF for catastrophe losses in Florida, the Kemper Home Service Companies do not carry any other catastrophe reinsurance coverage.

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 2017, 2016 and 2015.

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 high volume of new policies.

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 2016, there were 428 life and health insurance company groups in the United States. The Company's Life & Health Insurance segment ranked in the top 23% of life and health insurance company groups, as measured by admitted assets, net premiums written and capital and surplus. Rankings by admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank
Net Admitted Assets	89	79 %
Net Written Premiums	87	79
Capital and Surplus	96	77

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 and amount 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 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 13, "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, 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 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 respond to market developments or increased costs can be adversely impacted by lengthy delays in the approval process or by 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 a particular market. Laws that limit an insurer's ability to cancel or non-renew a block of policies by line of business, or that subject their 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 operation 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 or regulations require minimum capital and surplus levels and incorporate risk-based capital ("RBC") standards promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company's business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company's RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2017, the total adjusted capital of 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 limits 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.

Cybersecurity Regulation

Insurance regulators have been focusing increased attention on data security during financial exams, and new laws and regulations have been enacted or are pending that would impose new requirements and standards for protecting personally identifiable information of insurance company policyholders. For example, the New York Department of Financial Services cybersecurity regulation became effective in August 2017 requiring a cybersecurity program which promotes the protection of customer information as well as the information technology systems of regulated entities. In addition, the NAIC has adopted a new model data security law that imposes additional requirements on insurance companies to the extent the model law is ultimately adopted by the respective state legislatures. The NAIC has also strengthened and enhanced the cybersecurity guidance included in its handbook for state insurance examiners. The Company anticipates a continuing focus on new

12

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

We are regulated as an insurance holding company system and are subject to the insurance holding company acts of the states in which our insurance subsidiaries are domiciled and, in some case, additional states in which the insurance subsidiary is deemed commercially domiciled. These acts contain certain reporting requirements as well as restrictions on transactions between an insurer and its affiliates. These holding company laws and regulations 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 with those states' insurance departments certain reports 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, Illinois, Louisiana, Missouri, New York, Oklahoma, 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.

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 FIO submitted reports to Congress in 2013 and 2014 addressing how to improve and modernize the system of insurance regulation. The Dodd-Frank Act includes a number of financial reforms and regulations that may affect our business and financial reporting. However, the 2016 presidential and congressional election results have created 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 on-going efforts to repeal or replace the ACA, we continue to analyze and refine our estimates of the ultimate impact of the Health Care Acts on our business, cash flows, financial condition and results of operations. Additionally, certain Kemper health insurance subsidiaries are potentially subject to the Health Insurance Providers Fee (the "Fee") imposed on health insurers by the ACA. Recently enacted legislation placed a moratorium on the Fee otherwise payable in 2019. Additionally, there is currently legislation pending in the U.S. Congress that would repeal the Fee.

HIPAA and Gramm-Leach-Bliley Act

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes obligations for issuers of health insurance coverage and health benefit plan sponsors. This law requires guaranteed renewability of health care coverage for most group health plans and certain individuals. Also, the law limited exclusions based on preexisting medical conditions.

The administrative simplification provisions of HIPAA imposed a number of requirements on covered entities, including insurers. The requirements include uniform standards of common electronic health care transactions; privacy and security regulations; and unique identifier rules for employers, health plans and providers. Additional federal privacy and security requirements, including breach notification, improved enforcement and additional limitations on use and disclosure of protected health information were passed through the Health Information Technology for Economic and Clinical Health, or HITECH, Act provisions of the American Recovery and Reinvestment Act of 2009 and corresponding implementing regulations.

The federal Gramm-Leach-Bliley Act generally places restrictions on the disclosure of non-public information to non-affiliated third parties, and requires financial institutions, including insurers, to provide customers with notice regarding how their non-public personal information is used, including an opportunity to "opt out" of certain disclosures. State departments of insurance and certain federal agencies adopted implementing regulations as required by federal law. In addition, a number of states have adopted data security laws and/or regulations, regulating data security and/or requiring security breach notification, which may apply to us in certain circumstances.

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 2017 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 encompass a wide variety of matters, including policy forms, premium rates, licensing, market conduct, trade practices, claims 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 the companies from implementing premium rate changes for property, casualty and health insurance policies, introducing new, or making 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 12.

These laws and regulations, and their interpretation by the various regulators and courts, are undergoing 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 adding to operational costs. Industry practices 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 is experiencing 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. In recent years, 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 the treasurers or controllers of a large number of 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 historic 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 caused the Company to be involved in compliance audits, market conduct examinations and litigation. The Company is in the process of implementing a voluntary, comprehensive process that began in 2016 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 regulatory focus on cybersecurity and state adoption of extensive modifications to state

holding company laws that substantially expand the oversight and examination powers of state 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 12.
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.
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
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 of the reinsurance protection that Kemper's property and casualty insurance subsidiaries may purchase. A decrease in the amount of reinsurance protection that such subsidiaries purchase generally should increase their risk of a more severe loss. However, if the amount of available reinsurance is reduced, such subsidiaries may be forced to incur additional expenses for reinsurance or may not be able 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. 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. See the risk factor above under the title "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."

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 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.

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 for insured events that have occurred. 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 64 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.

Risks Relating to Competition

A downgrade in the ratings of Kemper or its insurance subsidiaries 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, 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 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 quality of management, product pricing, service quality, 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;
- 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 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 aging 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 multi-year projects will be successful and that the costs incurred to develop and implement replacement systems will be recoverable. Furthermore, failure to implement replacement systems in a timely manner could result in loss of business from the Company's inability to design and introduce new insurance products that meet emerging consumer needs 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 and store vast amounts of personal data that can present significant risks to the Company and its customers and employees. An increasing array of laws and regulations govern the use and storage of such data, including, for example, social security numbers, credit card data and protected health information. Despite the implementation of various security measures, the Company's data systems, or 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, 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 and expanding regulatory requirements related to personal data privacy and security expose the Company to potential data loss and resulting damages, regulatory fines and other liabilities, reputational risk and significant increases in compliance and litigation costs. Although Kemper maintains cyber risk insurance, there is no guarantee that it 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. 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 computer systems, including computer systems used by third party administrators 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 completion of critical processes across its operations, including, for example, insurance policy administration, claims processing, billing, treasury and investment operations and payroll. These failures could result in significant loss of business, 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 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.

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, realized losses upon sales of the securities, or other-than-temporary impairment charges on securities still held.

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-preferenced 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

Failure to complete the proposed Merger within the expected timeframe or at all could have a material adverse impact on our business, financial condition and results of operations.

Approvals, Clearance and Closing Conditions

There can be no assurance that the Infinity Merger will occur. The closing of the Infinity Merger is subject to certain conditions, including, among others, (i) the adoption of the Infinity Merger Agreement by the holders of at least a majority of the outstanding shares of Infinity common stock entitled to vote thereon, (ii) approval of the issuance of shares of Kemper’s common stock in the Infinity Merger by the holders of at least a majority of the shares of Kemper common stock entitled to vote thereon and present in person or represented by proxy at the meeting of Kemper’s stockholders called for such purpose, (iii) the receipt of certain regulatory approvals including the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, approvals of applicable state insurance regulators identified in the Infinity Merger Agreement and the receipt of any other regulatory approval the failure of which to be obtained would reasonably be likely to have a material adverse effect on Kemper or its subsidiaries, (iv) no court order or other legal restraint or prohibition preventing the consummation of the Infinity Merger being in effect, (v) the continued employment of a certain number of specified Infinity leadership management employees and certain percentages of sub-groups of a broader set of key Infinity employees, (vii) no exercise of appraisal rights in connection with the Infinity Merger by Infinity shareholders holding more than 10% of the outstanding shares of Infinity’s common stock, (viii) the absence of any action commenced by a governmental entity wherein a judgment would reasonably be expected to prevent the consummation of the Infinity

Merger or impose a “materially burdensome condition” (as defined in the Infinity Merger Agreement), (ix) in the case of each party’s obligation to effect the Infinity Merger, the absence of a material adverse effect with respect to the other party since the date of the Infinity Merger Agreement and (x) subject to materiality exceptions, the accuracy of the representations and warranties made by Kemper and Kemper Merger Sub, on the one hand, and Infinity, on the other hand, and compliance by Kemper and Kemper Merger Sub, on the one hand, and Infinity, on the other hand, in all material respects with each party's respective obligations under the Infinity Merger Agreement. Such closing conditions are not solely under the control of Kemper and/or Infinity and, accordingly, there can be no assurance that such closing conditions will be satisfied in a timely matter or at all.

In particular, before the proposed transactions contemplated by the Infinity Merger Agreement, including the Infinity Merger, may be completed, various clearances and approvals must be obtained from certain regulatory and governmental authorities. These regulatory and governmental entities may impose conditions on the granting of such approvals. Such conditions and the process of obtaining regulatory approvals could have the effect of delaying completion of the Infinity Merger or of imposing additional costs or limitations on the combined company following the Infinity Merger. The regulatory approvals may not be received at all, may not be received in a timely fashion and may contain conditions on the completion of the Infinity Merger. If any such conditions constitute a "materially burdensome condition" (as defined in the Infinity Merger Agreement), the parties may not be obligated to complete the Infinity Merger, and either Kemper or Infinity may have the right to terminate the Infinity Merger Agreement.

Impact on Our Ongoing Business

If the Infinity Merger is not completed, our ongoing business may be adversely affected, and we will be subject to several risks and consequences, including the following:

- we will be required to pay certain costs related to the Infinity Merger, whether or not the Infinity Merger is completed, such as legal, accounting and other costs incurred in connection with the transaction;
- under the Infinity Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Infinity Merger that may adversely affect our ability to execute certain of our business strategies; and
- our management may spend substantial time and resources, including time and resources devoted to planning integration activities, related to the transaction, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

In addition, if the Infinity Merger is not completed, we may experience negative reactions from the financial markets and from our agents, policyholders and employees. We also could be subject to litigation related to the Infinity Merger.

We will incur significant transaction and integration costs in connection with the Infinity Merger.

If the transaction is completed, we expect to incur various costs associated with completing the transaction, including financial advisory costs, and integrating the operations of the two companies. A substantial majority of these costs will be non-recurring expenses resulting from the transaction including (i) transaction costs, including costs to compensate financial advisors for their services, (ii) facilities and systems consolidation and integration costs and (iii) employment related costs. We may incur additional unanticipated costs to integrate our business with Infinity's business. As a result of such integration and consolidation activities, we may abandon, or shorten the useful lives, of assets that we currently use, which may result in us impairing an asset or accelerating depreciation and/or amortization of such assets. Although we expect 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.

The announcement and pendency of the Infinity Merger may adversely affect Kemper's business, financial condition and results of operations.

The announcement and pendency of the Infinity Merger with Infinity may cause disruptions and create uncertainty surrounding Kemper's business, which could affect its relationships with agents, employees and business partners, regardless of whether the Infinity Merger is consummated. In addition, Kemper has diverted, and will continue to divert, management resources towards the completion of the proposed transaction that may divert management's attention and Kemper's resources from ongoing business and operations.

The price of Kemper common stock might increase or decline prior to the completion of the Infinity Merger, which would change the value of the Infinity Merger consideration to be received by Infinity shareholders pursuant to the Infinity Merger Agreement.

The price of our common stock might increase or decline prior to the completion of the transaction, which would change the value of the consideration to be received by Infinity's shareholders at the closing, which could result in the shareholders of either, or both, companies not approving the transaction. Upon completion of the Infinity Merger, each share of Infinity common stock issued and outstanding as of immediately prior to the consummation of the Infinity Merger (other than as set forth in the Infinity Merger Agreement) will be canceled and converted into, at the election of the holder of such share, the right to receive $51.60 in cash and 1.2019 shares of Kemper common stock for each share of Infinity common stock, without interest thereon. The Infinity Merger Agreement also provides for an election procedure allowing each Infinity shareholder to seek all cash or all 0stock consideration, subject to automatic proration and adjustment (See Note 26, “Subsequent Events,” to the Consolidated Financial Statements for more information). The exchange ratio for determining the number of shares of Kemper common stock that Infinity shareholders will receive in the Infinity Merger is fixed and will not be adjusted for changes in the market price of Kemper’s common stock. A significant increase in the price of Kemper common stock could result in Kemper recognizing substantially more goodwill resulting from the transaction than currently contemplated. We are required to evaluate goodwill for recoverability at least annually based on facts and circumstances existing as of the dates of such evaluations. We cannot make any assurances that goodwill will be recoverable at any of such evaluation dates.

The Infinity Merger Agreement contains provisions that may discourage other companies from trying to acquire Kemper.

The Infinity Merger Agreement contains provisions that apply both during the pendency of the Infinity Merger transaction with Infinity as well as afterward should the Infinity Merger with Infinity not be consummated that may discourage a third party from submitting a business combination proposal to Kemper that might result in greater value to Kemper’s stockholders than the Infinity Merger. These Infinity Merger Agreement provisions include a general prohibition on Kemper soliciting, or, subject to certain exceptions, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions.

The issuance of shares of Kemper common stock to Infinity shareholders pursuant to the Infinity Merger Agreement will reduce the percentage ownership interests of Kemper’s pre-existing stockholders.

If the transaction is completed, we expect to issue approximately 13.2 million shares of Kemper common stock to Infinity’s shareholders and Infinity’s shareholders will own approximately 20% of the combined company. The issuance of such shares of our common stock will result in a significant reduction in the relative percentage interests of our current stockholders in earnings, voting, liquidation value and book and market value. While, excluding the impact of non-recurring transaction and integration costs, we currently anticipate that the Infinity Merger will be accretive to Kemper’s earnings per share in the first year following the completion of the transaction,our expectation is based on estimates, which may materially change. We could also encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits anticipated in the transaction. All of these factors could cause dilution to our earnings per share or decrease or delay the expected accretive effect of the transaction, which may result in a decrease in the price of our common stock.

To be successful, the combined company following the Infinity Merger must retain and motivate key employees, including those experienced with post-acquisition integration, and failure to do so could seriously harm the combined company.

The success of the combined company following the Infinity Merger largely depends on the skills, experience and continued efforts of management and other key personnel for each of Kemper and Infinity. As a result, to be successful, the combined company must retain and motivate executives and other key employees. Certain specified management employees of Infinity have executed retention letters and related employment agreements with Kemper to continue their employment for a period of two years following the Infinity Merger. However, certain key managers and functional area employees will continue to be at will employees following the Infinity Merger and there is no assurance that these individuals will remain with the combined company. If these personnel were to leave, the combined company may experience increased difficulty in managing the ongoing business operations and integrating the businesses and may not be able to adequately replace such personnel, which could have a material adverse effect on the combined company’s overall business, results of operations and financial condition.

We cannot assure our shareholders that the risks described above in this risk factor will not materialize and will not materially adversely affect our business, financial results and stock prices.

Item 1B. Unresolved Staff Comments.

Not applicable.

23

Item 2. Properties.

Owned Properties

Kemper's subsidiaries together own and occupy six buildings located in six states consisting of approximately 21,000 square feet in the aggregate. One of Kemper's subsidiaries owns two buildings totaling approximately 6,000 square feet which were vacant at December 31, 2017. Kemper's subsidiaries hold, solely for investment purposes, additional properties that are not occupied by Kemper or its subsidiaries.

Leased Facilities

The Company leases five floors, or approximately 67,000 square feet, in a 41-story office building in Chicago for its corporate headquarters and Property & Casualty Insurance segment's headquarters. The lease expires in September 2023. Kemper's Property & Casualty Insurance segment leases facilities with an aggregate square footage of approximately 452,000 at 14 locations in nine states. The latest expiration date of the existing leases is in June 2025. Kemper's Life & Health Insurance segment leases facilities with aggregate square footage of approximately 470,000 at 127 locations in 28 states. The latest expiration date of the existing leases is in January 2025. Kemper's corporate data processing operation leases facilities with aggregate square footage of approximately 36,000 square feet at three locations in three states. The latest expiration date of the existing leases 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 New York Stock Exchange (the "NYSE") under the symbol of "KMPR." Quarterly information pertaining to market prices of Kemper common stock in 2017 and 2016 is presented below.

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Dec 31, 2017
Common Stock Market Prices:					
High	$45.85	$42.10	$53.05	$71.52	$71.52
Low	38.35	36.55	36.35	52.85	36.35
Close	39.90	38.60	53.00	68.90	68.90

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Dec 31, 2016
Common Stock Market Prices:					
High	$36.73	$33.20	$39.52	$45.95	$45.95
Low	23.51	28.42	30.87	35.30	23.51
Close	29.57	30.98	39.32	44.30	44.30

Holders

As of January 24, 2018, the number of record holders of Kemper's common stock was 3,410.

Dividends

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

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Dec 31, 2017
Cash Dividends Paid to Shareholders (per share)	$0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.96

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Dec 31, 2016
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 9, "Shareholders' Equity," to the Consolidated Financial Statements for information on Kemper's ability and intent to pay dividends.

Issuer Purchases of Equity Securities

Information pertaining to purchases of Kemper common stock for the three months ended December 31, 2017 follows.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions)
October 2017	323	$ 54.85	—	$ 243.7
November 2017	547	$ 66.60	—	$ 243.7
December 2017	—	$ —	—	$ 243.7

(1) On August 6, 2014, Kemper's Board of Directors authorized the repurchase of up to 300 million of Kemper's common stock. The repurchase program has no expiration date. See MD&A, "Liquidity and Capital Resources."

The preceding table includes 870 shares withheld to satisfy the tax withholding obligations on the vesting of restricted stock awards under Kemper's long-term equity-based compensation plans during the quarter ended December 31, 2017.

Kemper Common Stock Performance Graph

The following graph assumes $100 invested on December 31, 2012 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.

Company / Index	2012	2013	2014	2015	2016	2017
Kemper Corporation	$100.00	$142.51	$129.24	$136.80	$167.40	$265.72
S&P MidCap 400 Index	100.00	133.50	146.54	143.35	173.08	201.20
S&P Supercomposite Insurance Index	100.00	145.74	158.44	164.21	195.19	226.39

Item 6. Selected Financial Data.

Selected financial information as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 is presented below.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2017	2016	2015	2014	2013
FOR THE YEAR					
Earned Premiums	$2,350.0	$2,220.0	$2,009.6	$1,862.2	$2,025.8
Net Investment Income	327.2	298.3	302.6	309.1	314.7
Other Income	4.0	3.2	3.7	1.4	0.8
Net Realized Gains on Sales of Investments	56.5	33.1	52.1	39.1	99.1
Net Impairment Losses Recognized in Earnings	(14.3)	(32.7)	(27.2)	(15.2)	(13.9)
Total Revenues	$2,723.4	$2,521.9	$2,340.8	$2,196.6	$2,426.5
Income from Continuing Operations	$119.9	$12.7	$80.2	$112.6	$214.5
Income from Discontinued Operations	1.0	4.1	5.5	1.9	3.2
Net Income	$120.9	$16.8	$85.7	$114.5	$217.7
Per Unrestricted Share:					
Income from Continuing Operations	$2.32	$0.25	$1.55	$2.08	$3.75
Income from Discontinued Operations	0.02	0.08	0.10	0.04	0.06
Net Income	$2.34	$0.33	$1.65	$2.12	$3.81
Per Unrestricted Share Assuming Dilution:					
Income from Continuing Operations	$2.31	$0.25	$1.55	$2.08	$3.74
Income from Discontinued Operations	0.02	0.08	0.10	0.04	0.06
Net Income	$2.33	$0.33	$1.65	$2.12	$3.80
Dividends Paid to Shareholders Per Share	$0.96	$0.96	$0.96	$0.96	$0.96
AT YEAR END					
Total Assets	$8,376.2	$8,210.5	$8,036.1	$7,833.4	$7,656.4
Insurance Reserves	$4,537.8	$4,406.7	$4,203.8	$4,007.6	$4,061.0
Unearned Premiums	653.9	618.7	613.1	536.9	598.9
Long-term Debt, Current and Non-current	592.3	751.6	750.6	752.1	606.9
All Other Liabilities	476.6	458.3	476.2	446.1	338.1
Total Liabilities	6,260.6	6,235.3	6,043.7	5,742.7	5,604.9
Shareholders’ Equity	2,115.6	1,975.2	1,992.4	2,090.7	2,051.5
Total Liabilities and Shareholders’ Equity	$8,376.2	$8,210.5	$8,036.1	$7,833.4	$7,656.4
Book Value Per Share	$41.11	$38.52	$38.82	$39.88	$36.86

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

Index to
Management’s Discussion and Analysis of
Financial Condition and Results of Operations

SUMMARY OF RESULTS

Net Income was $120.9 million ($2.34 per unrestricted common share) for the year ended December 31, 2017, compared to $16.8 million ($0.33 per unrestricted common share) for the year ended December 31, 2016. Income from Continuing Operations was $119.9 million ($2.32 per unrestricted common share) in 2017, compared to $12.7 million ($0.25 per unrestricted common share) in 2016.

A reconciliation of Segment Net Operating Income to Consolidated Net Operating Income (a non-GAAP financial measure) and to Net Income for the years ended December 31, 2017, 2016 and 2015 is presented below.

DOLLARS IN MILLIONS	2017	2016	Increase (Decrease) in Income from 2016 to 2017	2015	Increase (Decrease) in Income from 2015 to 2016
Segment Net Operating Income (Loss):					
Property & Casualty Insurance	$7.8	$(2.9)	$ 10.7	$26.7	$ (29.6)
Life & Health Insurance	90.8	30.3	60.5	71.7	(41.4)
Total Segment Net Operating Income	98.6	27.4	71.2	98.4	(71.0)
Corporate and Other Net Operating Income (Loss) From:					
Effects of Tax Law Changes	7.4	—	7.4	—	—
Other	(13.5)	(15.0)	1.5	(28.5)	13.5
Corporate and other Net Operating Loss	(6.1)	(15.0)	8.9	(28.5)	13.5
Consolidated Net Operating Income	92.5	12.4	80.1	69.9	(57.5)
Net Income (Loss) From:					
Net Realized Gains on Sales of Investments	36.7	21.5	15.2	33.9	(12.4)
Net Impairment Losses Recognized in Earnings	(9.3)	(21.2)	11.9	(17.7)	(3.5)
Loss from Early Extinguishment of Debt	—	—	—	(5.9)	5.9
Income from Continuing Operations	119.9	12.7	107.2	80.2	(67.5)
Income from Discontinued Operations	1.0	4.1	(3.1)	5.5	(1.4)
Net Income	$120.9	$16.8	$ 104.1	$85.7	$ (68.9)

Net Income

2017 Compared with 2016

The Company's net income increased by $104.1 million in 2017, compared to 2016. In the Property & Casualty Insurance segment, segment net operating results increased by $10.7 million due primarily to lower underlying losses and LAE as a percentage of earned premiums and, to a lesser extent, lower insurance expenses as a percentage of earned premiums and higher net investment income from Alternative Investments, partially offset by higher incurred catastrophe losses and LAE (excluding reserve development). See MD&A, "Property & Casualty Insurance," beginning on page 36 for additional discussion of the segment's results. In the Life & Health Insurance segment, segment net operating income increased by $60.5 million due primarily to a $50.5 million after-tax charge in 2016 to recognize the impact of using death verification databases in the Company's operations, including to determine its IBNR liability for unpaid claims and claims adjustment expenses for life insurance products. See MD&A, "Life & Health Insurance," beginning on page 46 for additional discussion of the segment's results. The Company's results were also positively impacted in 2017, compared to 2016, by higher net realized gains on sales of investments, lower impairment losses recognized in earnings and a lower unallocated net operating loss, due primarily to an income tax benefit of $7.4 million to recognize the effects of changes in the federal income tax law. See MD&A, "Investment Results," beginning on page 51 and MD&A, "Income Taxes," beginning on page 58 for additional discussion.

2016 Compared with 2015

The Company's net income decreased by $68.9 million in 2016, compared to 2015. In the Property & Casualty Insurance segment, segment net operating results deteriorated by $29.6 million due primarily to higher incurred catastrophe losses and LAE (excluding reserve development) and higher underlying losses and LAE as a percentage of earned premiums, partially offset by lower insurance expenses as a percentage of earned premiums and the impact of the write-off of internal use software in 2015. See MD&A, "Property & Casualty Insurance," beginning on page 36 for additional discussion of the segment's

SUMMARY OF RESULTS (Continued)
results. See MD&A, "Expenses," beginning on page 57 for additional information related to the internal use software write-off. In the Life & Health Insurance segment, segment net operating income decreased by $41.4 million due primarily to a $50.5 million after-tax charge to recognize the impact of using death verification databases in the Company's operations, including to determine its IBNR liability for unpaid claims and claims adjustment expenses for life insurance products, partially offset by the impact of an adjustment recorded in 2015 to correct deferred premium reserves on certain limited pay life insurance policies and lower insurance expenses. See MD&A, "Life & Health Insurance," beginning on page 46 for additional discussion of the segment's results. The Company's results were also significantly and negatively impacted in 2016, compared to 2015, by lower net realized gains on sales of investments and positively impacted in 2016, compared to 2015, from a loss from early extinguishment of debt in 2015. See MD&A, "Investment Results," beginning on page 51, MD&A, "Expenses" beginning on page 57, and MD&A, "Liquidity and Capital Resources," beginning on page 59 for additional discussion.
Revenues
2017 Compared with 2016
Earned Premiums were $2,350.0 million in 2017, compared to $2,220.0 million in 2016, an increase of $130.0 million. Earned Premiums increased by $121.2 million and $8.8 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. See MD&A, "Property & Casualty Insurance," beginning on page 36 and MD&A, "Life & Health Insurance," beginning on page 46 for discussion of the changes in each segment's earned premiums.
Net Investment Income increased by $28.9 million in 2017 due primarily to higher investment returns from Alternative Investments and higher level of investments in fixed income securities, partially offset by lower yields on fixed income securities. Net Investment Income from Alternative Investments, which consist of Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liability investments included in Equity Securities, increased by $27.1 million. Alternative investment income from Equity Method Limited Liability Investments, other limited liability investments included in Equity Securities, and Fair Value Option Investments increased by $17.3 million, $6.6 million and $3.2 million, respectively, in 2017, compared to 2016. See MD&A, "Investment Results," under the sub-caption "Net Investment Income" beginning on page 51 for additional discussion.

Net Realized Gains on Sales of Investments were $56.5 million in 2017, compared to $33.1 million in 2016. See MD&A, "Investment Results," under the sub-caption "Net Realized Gains on Sales of Investments" beginning on page 52 for additional discussion. Net Impairment Losses Recognized in Earnings in 2017 and 2016 were $14.3 million and $32.7 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 53 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

2016 Compared with 2015
Earned Premiums were $2,220.0 million in 2016, compared to $2,009.6 million in 2015, an increase of $210.4 million. Earned Premiums increased by $199.6 million and $10.8 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. See MD&A, "Property & Casualty Insurance," beginning on page 36 and MD&A, "Life & Health Insurance," beginning on page 46 for discussion of the changes in each segment's earned premiums.
Net Investment Income decreased by $4.3 million in 2016 due primarily to lower investment returns from Alternative Investments, lower levels and lower returns on investments in equity securities excluding Alternative Investments, and higher level of investments in fixed income securities, partially offset by lower yields on fixed income securities. Net Investment Income from Alternative Investments decreased by $9.2 million. Alternative investment income from Equity Method Limited Liability Investments and Fair Value Option Investments decreased by $11.5 million and $2.1 million, respectively, in 2016, compared to 2015, while alternative investment income from other limited liability

investments included in Equity Securities increased by $4.4 million. See MD&A, "Investment Results," under the sub-caption "Net Investment Income" beginning on page 51 for additional discussion.

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

SUMMARY OF RESULTS (Continued)

Net Realized Gains on Sales of Investments were $33.1 million in 2016, compared to $52.1 million in 2015. See MD&A, "Investment Results," under the sub-caption "Net Realized Gains on Sales of Investments" beginning on page 52 for additional discussion. Net Impairment Losses Recognized in Earnings in 2016 and 2015 were $32.7 million and $27.2 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 53 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 discussions that follow utilize ISO's definition of catastrophes.

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, 2017, 2016 and 2015 are presented below.

	Year Ended					
	Dec 31, 2017		Dec 31, 2016		Dec 31, 2015	
DOLLARS IN MILLIONS	Number of Events	Losses and LAE	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:						
Below $5	39	$61.3	39	$37.6	37	$43.6
$5 - $10	1	5.3	2	13.5	3	24.7
$10 - $15	2	21.4	—	—	—	—
$15 - $20	—	—	—	—	—	—
$20 - $25	1	24.4	—	—	—	—
Greater Than $25	2	72.5	2	64.0	—	—
Total	45	$184.9	43	$115.1	40	$68.3
Property & Casualty Insurance		$179.0		$109.6		$64.5
Life & Health Insurance		5.9		5.5		3.8
Total Catastrophe Losses and LAE		$184.9		$115.1		$68.3

2017 Compared with 2016

As shown in the preceding table, catastrophe losses and LAE increased for the year ended December 31, 2017, compared to 2016, due primarily to an increase in the severity of losses on ISO-classified catastrophe events with losses and LAE of less than $15.0 million and estimated losses and LAE associated with two California wildfires in the fourth quarter of 2017 and a Texas hailstorm in March of 2017 (aggregate estimated losses and LAE of $96.4

million, net of reinsurance recoveries), compared to estimated losses and LAE of two significant catastrophe events in 2016 (a Texas hailstorm in March of 2016 and another Texas hailstorm in April of 2016 with aggregate estimated losses and LAE of $64.0 million). In accordance with the terms of the Company’s catastrophe reinsurance program, the Company estimates reinsurance recoveries for losses and LAE incurred related to the two California wildfires, which are classified as separate events by ISO, but a single event under the

CATASTROPHES (Continued)

Company’s catastrophe reinsurance agreement, to be $11.9 million in 2017. The Company did not have any reinsurance recoveries on catastrophe losses and LAE in 2016 or 2015.

2016 Compared with 2015

As shown in the preceding table, catastrophe losses and LAE increased for the year ended December 31, 2016, compared to 2015, due primarily to two significant catastrophe events in 2016 exceeding $25 million of losses (a hailstorm in Texas in March with losses and LAE of $36.0 million and another hailstorm in Texas in April with losses and LAE of $28.0 million), compared to no such events in 2015, partially offset by lower severity of events below $10 million of losses in 2016, compared to 2015.

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 Property & Casualty Insurance segment. Coverage for this segment’s catastrophe reinsurance program is provided in various contracts and layers. The Property & Casualty Insurance segment also purchases 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. Except for the coverage provided by the FHCF, the Life & Health Insurance segment does not carry any other catastrophe reinsurance coverage.

In 2017, the Property & Casualty Insurance segment had catastrophe reinsurance recoveries of $11.9 million under the catastrophe reinsurance program. Catastrophe recoveries under the FHCF were not material in 2017. Neither segment had catastrophe reinsurance recoveries in 2016 or 2015.

In 2017, the Company paid $0.8 million in reinstatement premium to reinstate the first layer of coverage under the Property & Casualty Insurance segment’s catastrophe reinsurance program. The Company did not pay any reinstatement premium in 2016 or 2015.

See the “Reinsurance” subsections 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, 2017, 2016 and 2015 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.

DOLLARS IN MILLIONS	2017	2016	2015
Property & Casualty Insurance:			
Non-catastrophe	$24.5	$4.9	$(5.0)
Catastrophe	(5.0)	(19.2)	(7.9)
Total	19.5	(14.3)	(12.9)
Life & Health Insurance:			
Non-catastrophe	0.4	—	1.3
Catastrophe	0.5	(0.1)	0.1
Total	0.9	(0.1)	1.4
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years:			
Non-catastrophe	24.9	4.9	(3.7)
Catastrophe	(4.5)	(19.3)	(7.8)
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years	$20.4	$(14.4)	$(11.5)

See MD&A, "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 2017 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 Combined Ratio

The following discussions 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 (including write-offs of long-lived assets) 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 (including write-offs of long-lived assets) Ratio. The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and are used by management to reveal the trends in the Company's Property & Casualty Insurance business that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company's loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on incurred losses and LAE and the combined ratio. Prior-year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier 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

NON-GAAP FINANCIAL MEASURES (Continued)

useful for investors to evaluate these components separately and in the aggregate when reviewing the Company’s underwriting performance.

Consolidated Net Operating Income

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:

1) Net Realized Gains on Sales of Investments;
2) Net Impairment Losses Recognized in Earnings related to investments;
3) Loss from Early Extinguishment of Debt; and
4) 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 Consolidated Net Operating Income for the years ended December 31, 2017, 2016 or 2015.

The Company believes that 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 and Net Impairment Losses Recognized in Earnings related to investments included in the Company’s results may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions that impact the values of the Company’s investments, the timing of which is unrelated to the insurance underwriting process. Loss from Early Extinguishment of Debt is driven by the Company’s financing and refinancing decisions and capital needs, as well as external economic developments such as debt market conditions, the timing of which is unrelated to the insurance underwriting process. Significant non-recurring items are excluded because, by their nature, they are not indicative of the Company’s business or economic trends.

PROPERTY & CASUALTY INSURANCE

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

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$1,769.6	$1,620.9	$1,406.2
Earned Premiums	$1,736.0	$1,614.8	$1,415.2
Net Investment Income	94.3	72.4	73.3
Other Income	1.1	0.5	0.6
Total Revenues	1,831.4	1,687.7	1,489.1
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	1,251.5	1,223.9	1,034.6
Catastrophe Losses and LAE	179.0	109.6	64.5
Prior Years:			
Non-catastrophe Losses and LAE	24.5	4.9	(5.0)
Catastrophe Losses and LAE	(5.0)	(19.2)	(7.9)
Total Incurred Losses and LAE	1,450.0	1,319.2	1,086.2
Insurance Expenses, Excluding Write-offs of Long-lived Assets	382.8	385.7	368.1
Write-offs of Long-lived Assets	—	—	11.1
Operating Profit (Loss)	(1.4)	(17.2)	23.7
Income Tax Benefit	9.2	14.3	3.0
Segment Net Operating Income (Loss)	$7.8	$(2.9)	$26.7
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	72.1 %	75.8 %	73.2 %
Current Year Catastrophe Losses and LAE Ratio	10.3	6.8	4.6
Prior Years Non-catastrophe Losses and LAE Ratio	1.4	0.3	(0.4)
Prior Years Catastrophe Losses and LAE Ratio	(0.3)	(1.2)	(0.6)
Total Incurred Loss and LAE Ratio	83.5	81.7	76.8
Insurance Expense Ratio, Excluding Write-offs of Long-lived Assets	22.1	23.9	26.0
Impact on Ratio from Write-offs of Long-lived Assets	—	—	0.8
Combined Ratio	105.6 %	105.6 %	103.6 %
Underlying Combined Ratio			
Current Year Non-catastrophe Losses and LAE Ratio	72.1 %	75.8 %	73.2 %
Insurance Expense Ratio, Excluding Write-offs of Long-lived Assets	22.1	23.9	26.0
Impact on Ratio from Write-offs of Long-lived Assets	—	—	0.8
Underlying Combined Ratio	94.2 %	99.7 %	100.0 %
Non-GAAP Measure Reconciliation			
Underlying Combined Ratio	94.2 %	99.7 %	100.0 %
Current Year Catastrophe Losses and LAE Ratio	10.3	6.8	4.6
Prior Years Non-catastrophe Losses and LAE Ratio	1.4	0.3	(0.4)
Prior Years Catastrophe Losses and LAE Ratio	(0.3)	(1.2)	(0.6)
Combined Ratio as Reported	105.6 %	105.6 %	103.6 %

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

PROPERTY & CASUALTY INSURANCE (Continued)
CATASTROPHE FREQUENCY AND SEVERITY

DOLLARS IN MILLIONS	Dec 31, 2017 Number of Events	Dec 31, 2017 Losses and LAE	Dec 31, 2016 Number of Events	Dec 31, 2016 Losses and LAE
Range of Losses and LAE Per Event:				
Below $5	39	$57.3	39	$33.0
$5 - $10	2	14.7	2	13.2
$10 - $15	1	10.2	—	—
$15 - $20	—	—	—	—
$20 - $25	1	24.4	—	—
Greater Than $25	2	72.4	2	63.4
Total	45	$179.0	43	$109.6

INSURANCE RESERVES

DOLLARS IN MILLIONS	Dec 31, 2017	Dec 31, 2016
Insurance Reserves:		
Automobile	$795.9	$754.1
Homeowners	139.7	88.9
Other	40.7	41.1
Insurance Reserves	$976.3	$884.1
Insurance Reserves:		
Loss Reserves:		
Case	$602.4	$598.0
Incurred But Not Reported	239.3	158.2
Total Loss Reserves	841.7	756.2
LAE Reserves	134.6	127.9
Insurance Reserves	$976.3	$884.1

See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 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 Alliance United

As discussed in Note 3, "Acquisition of Business," to the Consolidated Financial Statements, the Company completed its acquisition of Alliance United on April 30, 2015. Alliance United is a provider of nonstandard personal automobile insurance in California and has added significant scale to the Property & Casualty Insurance segment's premium base. The results of Alliance United's operations have been included in the Company's consolidated results since the date of its acquisition, which can obscure certain comparisons of year-over-year results, particularly when analyzing overall segment results as well as the nonstandard personal automobile insurance line of business.

PROPERTY & CASUALTY INSURANCE (Continued)

Overall

2017 Compared with 2016

The Property & Casualty Insurance segment reported Segment Net Operating Income of $7.8 million for the year ended December 31, 2017, compared to Segment Net Operating Loss of $2.9 million in 2016. Segment net operating results improved by $10.7 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, particularly in the Company’s nonstandard automobile insurance business, lower insurance expenses as a percentage of earned premiums and higher net investment income from Alternative Investments, partially offset by higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development.

Earned Premiums in the Property & Casualty Insurance segment increased by $121.2 million in 2017, compared to 2016, as higher average earned premium and higher volume accounted for increases of $103.3 million and $17.9 million, respectively. All product lines experienced an increase in average earned premium, although the overall impact on Earned Premiums was driven primarily by nonstandard personal automobile insurance and preferred personal automobile insurance, which had increases due to higher average earned premium of $77.7 million and $14.8 million, respectively. The higher volume was driven by nonstandard personal automobile insurance, which had a volume increase of $56.6 million, partially offset primarily by volume decreases in preferred personal automobile insurance, homeowners insurance and commercial automobile insurance of $16.6 million, $13.2 million, and $6.1 million, respectively.

Net Investment Income in the Property & Casualty Insurance segment increased by $21.9 million in 2017, compared to 2016, due primarily to higher investment income from Alternative Investments, and to a lesser extent, higher levels of non-alternative investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of $37.4 million in 2017, compared to $20.2 million in 2016.

Underlying losses and LAE as a percentage of earned premiums were 72.1% in 2017, a decrease of 3.7 percentage points, compared to 2016, driven primarily by improvements in nonstandard personal automobile insurance, particularly in the Alliance United business. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were $179.0 million in 2017, compared to $109.6 million in 2016, which is an increase of $69.4 million due primarily to California wildfires and higher average severity on catastrophic events with losses and LAE (excluding reserve development) of less than $15 million in 2017, compared to 2016. This increase was partially offset by two large catastrophes, both Texas hailstorms, occurring in 2016, with aggregate estimated losses and LAE of $63.4 million, compared to one such Texas hailstorm, occurring in 2017, with estimated losses and LAE of $42.6 million. Adverse loss and LAE reserve development (including catastrophe reserve development) was $19.5 million in 2017, compared to favorable development of $14.3 million in 2016. Adverse development in 2017 was driven primarily by preferred personal automobile insurance.

Insurance expenses were $382.8 million, or 22.1% of earned premiums, in 2017, an improvement of 1.8 percentage points compared to 2016, driven primarily by a mix shift in business written in the segment toward nonstandard personal automobile insurance, which runs at a lower expense ratio, improvement in the Alliance United expense ratio, an increase in the percentage of software development costs eligible for capitalization, cost reduction initiatives and premium growth outpacing growth in fixed costs.

The Property & Casualty Insurance segment’s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $25.6 million in 2017, compared to $23.7 million in 2016.

2016 Compared with 2015

The Property & Casualty Insurance segment reported Segment Net Operating Loss of $2.9 million for the year ended December 31, 2016, compared to Segment Net Operating Income of $26.7 million in 2015. Segment net operating results deteriorated by $29.6 million due primarily to higher incurred catastrophe losses and LAE (excluding reserve development) and higher net operating losses from Alliance United, largely due to it being included in 2016 results for the full year. The deterioration was partially offset by lower underlying losses and LAE as a percentage of earned premiums in the legacy business and the write-off of internal-use software in 2015.

PROPERTY & CASUALTY INSURANCE (Continued)

Earned Premiums in the Property & Casualty Insurance segment increased by $199.6 million in 2016, compared to 2015. Excluding the $235.9 million impact from Alliance United, earned premiums decreased by $36.3 million, as lower volume accounted for a decrease of $55.6 million, while higher average earned premium accounted for an increase of $19.3 million. Excluding Alliance United, the lower volume was driven primarily by preferred personal automobile insurance, homeowners insurance and nonstandard personal automobile insurance, which had volume decreases of $28.3 million, $11.9 million and $9.0 million, respectively. Excluding Alliance United, the increase in average earned premium was driven primarily by nonstandard personal automobile insurance, which had an increase of $15.3 million.

Net Investment Income in the Property & Casualty Insurance segment decreased by $0.9 million in 2016, compared to 2015, due primarily to lower investment income from Alternative Investments and a lower level of non-alternative investments, partially offset by investment income from the investments acquired from the acquisition of, and the capital contributed to, Alliance United and higher yields on non-alternative investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of $20.2 million in 2016, compared to $25.3 million in 2015.

Underlying losses and LAE as a percentage of earned premiums were 75.8% in 2016, an increase of 2.6 percentage points, compared to 2015. Alliance United, which runs at a higher underlying losses and LAE ratio but lower insurance expense ratio, added 8.4 percentage points to the overall underlying losses and LAE ratio in 2016, compared to adding 4.8 percentage points in 2015. Excluding the impact of Alliance United, underlying losses and LAE as a percentage of earned premiums were 67.4% in 2016, compared to 68.4% in 2015, or a decrease of 1.0 percentage points, as all product lines improved with the exception of preferred personal automobile insurance, which deteriorated. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were $109.6 million in 2016, compared to $64.5 million in 2015, which is an increase of $45.1 million due primarily to two separate hailstorms in Texas—one in March 2016 with estimated losses and LAE of $36.0 million and another in April 2016 with estimated losses and LAE of $27.4 million. The increase was partially offset by reduced severity of catastrophic events with losses and LAE (excluding reserve development) of less than $10 million in 2016, compared to 2015. Excluding the impact of Alliance United, favorable loss and LAE reserve development (including favorable catastrophe reserve development of $19.2 million in 2016 and $7.9 million in 2015) was $19.4 million in 2016, compared to $20.6 million in 2015.

Insurance expenses were $385.7 million, or 23.9% of earned premiums, in 2016. Excluding a write-off of a long-lived asset, insurance expenses were $368.1 million, or 26.0% of earned premiums, in 2015. The improvement in the ratio of 2.1 percentage points from 2015 to 2016 was due primarily to the inclusion of Alliance United, which runs at a lower insurance expense ratio, for a full year in 2016. Excluding the impact of the write-off and Alliance United, insurance expenses decreased by $12.7 million in 2016, compared to 2015, and decreased as a percentage of earned premiums from 28.8% in 2015 to 28.4% in 2016.

The Property & Casualty Insurance segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income, dividends received deductions and estimated indemnification recoveries recognized in earnings pursuant to the Alliance United purchase agreement. Tax-exempt investment income and dividends received deductions were $23.7 million in 2016, compared to $22.6 million in 2015. Indemnification recoveries result in an adjustment to the tax purchase price and are excluded from the determination of taxable income and income tax expense. Estimated indemnification recoveries recognized in earnings were $0.7 million in 2016, all of which has been reported as a reduction of Insurance Expenses. Estimated indemnification recoveries recognized in earnings were $10.4 million in 2015, of which $5.9 million has been reported as a reduction of Incurred Losses and LAE and $4.5 million has been recorded as a reduction of Insurance Expenses.

PROPERTY & CASUALTY INSURANCE (Continued)

Preferred Personal Automobile Insurance

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

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$424.4	$426.1	$434.5
Earned Premiums	$422.8	$424.6	$449.9
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	$309.0	$308.0	$319.5
Catastrophe Losses and LAE	11.3	11.6	3.0
Prior Years:			
Non-catastrophe Losses and LAE	19.5	4.9	(15.0)
Catastrophe Losses and LAE	(0.2)	(0.3)	(0.2)
Total Incurred Losses and LAE	$339.6	$324.2	$307.3
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	73.0 %	72.6 %	70.9 %
Current Year Catastrophe Losses and LAE Ratio	2.7	2.7	0.7
Prior Years Non-catastrophe Losses and LAE Ratio	4.6	1.2	(3.3)
Prior Years Catastrophe Losses and LAE Ratio	—	(0.1)	—
Total Incurred Loss and LAE Ratio	80.3 %	76.4 %	68.3 %

2017 Compared with 2016

Earned premiums in preferred personal automobile insurance decreased by $1.8 million in 2017, compared to 2016, as lower volume accounted for a decrease of $16.6 million, while higher average earned premium accounted for an increase of $14.8 million. The run-off of the direct-to-consumer business accounted for approximately 60% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were $339.6 million, or 80.3% of earned premiums, in 2017, compared to $324.2 million, or 76.4% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a higher level of adverse loss and LAE reserve development and higher underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of related earned premiums were 73.0% in 2017, compared to 72.6% in 2016, which was a deterioration of 0.4 percentage points due primarily to higher severity of losses, particularly on bodily injury coverages, partially offset by lower frequency of claims on most coverages, particularly bodily injury. Catastrophe losses and LAE (excluding reserve development) were $11.3 million in 2017, compared to $11.6 million in 2016, both periods experiencing higher losses than average due primarily to Hurricane Harvey in 2017, and hailstorms in Texas in both 2017 and 2016. Adverse loss and LAE reserve development was $19.3 million in 2017, compared to $4.6 million in 2016.

2016 Compared with 2015

Earned premiums in preferred personal automobile insurance decreased by $25.3 million in 2016, compared to 2015, as lower volume accounted for a decrease of $28.3 million, while higher average earned premium accounted for an increase of $3.0 million. The run-off of the direct-to-consumer business accounted for approximately 60% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were $324.2 million, or 76.4% of earned premiums, in 2016, compared to $307.3 million, or 68.3% of earned premiums, in 2015. Incurred losses and LAE as a percentage of earned premiums increased due to an unfavorable change in loss and LAE reserve development, higher incurred catastrophe losses and LAE (excluding reserve development) and higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of related earned premiums were 72.6% in 2016, compared to 70.9% in 2015, which was an deterioration of 1.7 percentage points due primarily to slightly higher severity of losses on most coverages.

40

PROPERTY & CASUALTY INSURANCE (Continued)

Catastrophe losses and LAE (excluding reserve development) were $11.6 million in 2016, compared to $3.0 million in 2015. This increase was driven primarily by the two aforementioned hailstorms in Texas in 2016. Loss and LAE reserve development was adverse by $4.6 million in 2016, compared to favorable development of $15.2 million in 2015.

Non-standard Personal Automobile Insurance

Selected financial information for the nonstandard personal automobile insurance product line for the years ended December 31, 2017, 2016 and 2015 is presented in the following table. The results for the year ended December 31, 2015 for Alliance United include only the last eight months of the period, which is the period since the date of acquisition.

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$992.3	$832.6	$596.0
Earned Premiums	$954.3	$820.0	$577.8
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	$750.4	$714.3	$500.9
Catastrophe Losses and LAE	4.8	5.7	3.7
Prior Years:			
Non-catastrophe Losses and LAE	3.1	6.8	13.5
Catastrophe Losses and LAE	(0.2)	(0.1)	(0.1)
Total Incurred Losses and LAE	$758.1	$726.7	$518.0
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	78.6 %	87.1 %	86.8 %
Current Year Catastrophe Losses and LAE Ratio	0.5	0.7	0.6
Prior Years Non-catastrophe Losses and LAE Ratio	0.3	0.8	2.3
Prior Years Catastrophe Losses and LAE Ratio	—	—	—
Total Incurred Loss and LAE Ratio	79.4 %	88.6 %	89.7 %

2017 Compared with 2016

Earned Premiums on nonstandard personal automobile insurance increased by $134.3 million in 2017, compared to 2016, as higher average earned premium and higher volume accounted for increases of $77.7 million and $56.6 million, respectively. Incurred losses and LAE were $758.1 million, or 79.4% of earned premiums, in 2017, compared to $726.7 million, or 88.6% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of earned premiums, and to a lesser extent, a lower level of adverse loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 78.6% in 2017, compared to 87.1% in 2016, which was an improvement of 8.5 percentage points due primarily to improvement in both the Alliance United and legacy books of business. For Alliance United, underlying losses and LAE as a percentage of related earned premiums improved 11.5 percentage points due primarily to higher average earned premium and, to a lesser extent, lower frequency of liability claims. For the legacy book, underlying losses and LAE as a percentage of related earned premiums improved 3.9 percentage points due primarily to lower frequency of claims, particularly on liability coverages, and higher average earned premium, partially offset by higher severity of losses on most coverages. Catastrophe losses and LAE (excluding reserve development) were $4.8 million in 2017, compared to $5.7 million in 2016. Adverse loss and LAE reserve development was $2.9 million in 2017, compared to $6.7 million in 2016.

2016 Compared with 2015

Earned Premiums on nonstandard personal automobile insurance increased by $242.2 million in 2016, compared to 2015. Excluding the impact from Alliance United, Earned Premiums increased by $6.3 million as higher average earned premium accounted for an increase of $15.3 million, while lower volume accounted for a decrease of $9.0

million. Incurred losses and LAE were $726.7 million, or 88.6% of earned premiums, in 2016, compared to $518.0 million, or 89.7% of earned premiums, in 2015. Excluding Alliance United, incurred losses and LAE were $243.3 million, or 78.2% of related earned premiums, in

PROPERTY & CASUALTY INSURANCE (Continued)

2016, compared to $257.0 million, or 84.3% of related earned premiums, in 2015. Excluding the impact of Alliance United, incurred losses and LAE as a percentage of earned premiums decreased due to lower underlying losses and LAE as a percentage of earned premiums and a lower level of adverse loss and LAE reserve development, partially offset by higher incurred catastrophe losses and LAE (excluding reserve development). Excluding Alliance United, underlying losses and LAE as a percentage of related earned premiums were 75.9% in 2016, compared to 81.2% in 2015, which was an improvement of 5.3 percentage points due primarily to higher average earned premium, lower frequency of claims across all coverages on non-California policies and lower severity of property losses on California policies, partially offset by higher frequency of claims on most coverages on California policies and higher severity of bodily injury losses on non-California policies. For Alliance United, underlying losses and LAE as a percentage of related earned premiums were 94.0% in 2016, compared to 92.8% in 2015, which was a deterioration of 1.2 percentage points due primarily to higher frequency of claims on all coverages and, to a lesser extent, higher severity of losses on most coverages. Catastrophe losses and LAE (excluding reserve development) were $5.7 million in 2016, compared to $3.7 million in 2015. Adverse loss and LAE reserve development was $6.7 million in 2016, compared to $13.4 million in 2015.

Homeowners Insurance

Selected financial information for the homeowners insurance product line follows.

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$260.5	$267.4	$276.0
Earned Premiums	$264.8	$271.9	$286.3
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	$129.5	$135.5	$145.1
Catastrophe Losses and LAE	157.3	89.0	55.4
Prior Years:			
Non-catastrophe Losses and LAE	4.7	(3.2)	(3.3)
Catastrophe Losses and LAE	(3.7)	(16.8)	(7.5)
Total Incurred Losses and LAE	$287.8	$204.5	$189.7
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	48.9 %	49.9 %	50.7 %
Current Year Catastrophe Losses and LAE Ratio	59.4	32.7	19.4
Prior Years Non-catastrophe Losses and LAE Ratio	1.8	(1.2)	(1.2)
Prior Years Catastrophe Losses and LAE Ratio	(1.4)	(6.2)	(2.6)
Total Incurred Loss and LAE Ratio	108.7 %	75.2 %	66.3 %

PROPERTY & CASUALTY INSURANCE (Continued)

2017 Compared with 2016

Earned premiums in homeowners insurance decreased by $7.1 million in 2017, compared to 2016, as lower volume accounted for a decrease of $13.2 million, while higher average earned premium accounted for an increase of $6.1 million. Incurred losses and LAE were $287.8 million, or 108.7% of earned premiums, in 2017, compared to $204.5 million, or 75.2% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due to higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development, partially offset by lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 48.9% in 2017, compared to 49.9% in 2016, which was an improvement of 1.0 percentage points due primarily to lower frequency of claims, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were $157.3 million in 2017, compared to $89.0 million in 2016. This increase was driven primarily by California wildfires, with estimated losses and LAE of $53.3 million, and higher average severity on catastrophic events in 2017 with losses and LAE (excluding reserve development) of less than $15 million, compared to 2016, partially offset by the impact of the aggregate losses and LAE from the two aforementioned Texas hailstorms that occurred in 2016 exceeding the losses and LAE from the aforementioned Texas hailstorm that occurred in March of 2017. Loss and LAE reserve development was adverse by $1.0 million in 2017, compared to favorable development of $20.0 million in 2016.

2016 Compared with 2015

Earned premiums in homeowners insurance decreased by $14.4 million in 2016, compared to 2015, as lower volume accounted for a decrease of $11.9 million and lower average earned premium accounted for a decrease of $2.5 million. Incurred losses and LAE were $204.5 million, or 75.2% of earned premiums, in 2016, compared to $189.7 million, or 66.3% of earned premiums, in 2015. Incurred losses and LAE as a percentage of earned premiums increased due to higher incurred catastrophe losses and LAE (excluding reserve development), partially offset by a higher level of favorable loss and LAE reserve development and lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 49.9% in 2016, compared to 50.7% in 2015, which was an improvement of 0.8 percentage points due primarily to lower frequency of claims, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were $89.0 million in 2016, compared to $55.4 million in 2015. This increase was driven primarily by the two aforementioned hailstorms in Texas in 2016. Favorable loss and LAE reserve development was $20.0 million in 2016, compared to $10.8 million in 2015.

PROPERTY & CASUALTY INSURANCE (Continued)
Commercial Automobile Insurance
Selected financial information for the commercial automobile insurance product line follows.

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$51.2	$51.0	$54.1
Earned Premiums	$51.4	$53.3	$54.5
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	$40.8	$44.0	$45.7
Catastrophe Losses and LAE	0.7	0.8	0.2
Prior Years:			
Non-catastrophe Losses and LAE	1.0	2.5	1.8
Catastrophe Losses and LAE	(0.1)	(0.1)	—
Total Incurred Losses and LAE	$42.4	$47.2	$47.7
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	79.4 %	82.6 %	83.8 %
Current Year Catastrophe Losses and LAE Ratio	1.4	1.5	0.4
Prior Years Non-catastrophe Losses and LAE Ratio	1.9	4.7	3.3
Prior Years Catastrophe Losses and LAE Ratio	(0.2)	(0.2)	—
Total Incurred Loss and LAE Ratio	82.5 %	88.6 %	87.5 %

2017 Compared with 2016
Earned premiums in commercial automobile insurance decreased by $1.9 million in 2017, compared to 2016, as lower volume accounted for a decrease of $6.1 million, while higher average earned premium accounted for an increase of $4.2 million. Incurred losses and LAE were $42.4 million, or 82.5% of earned premiums, in 2017, compared to $47.2 million, or 88.6% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of earned premiums and a lower level of adverse loss and LAE reserve development Underlying losses and LAE as a percentage of earned premiums were 79.4% in 2017, compared to 82.6% in 2016, which was an improvement of 3.2 percentage points due primarily to higher average earned premium and lower frequency of claims, partially offset by higher severity of losses. Adverse loss and LAE reserve development was $0.9 million in 2017, compared to $2.4 million in 2016.
2016 Compared with 2015
Earned premiums in commercial automobile insurance decreased by $1.2 million in 2016, compared to 2015, as lower volume accounted for a decrease of $3.8 million, while higher average earned premium accounted for an increase of $2.6 million. Incurred losses and LAE were $47.2 million, or 88.6% of earned premiums, in 2016, compared to $47.7 million, or 87.5% of earned premiums, in 2015. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a higher level of adverse loss and LAE reserve development and higher incurred catastrophe losses and LAE (excluding reserve development), partially offset by lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 82.6% in 2016, compared to 83.8% in 2015, which was an improvement of 1.2 percentage points due primarily to higher average earned premium and lower severity of losses, partially offset by higher frequency of claims. Adverse loss and LAE reserve development was $2.4 million in 2016, compared to $1.8 million in 2015.

PROPERTY & CASUALTY INSURANCE (Continued)

Other Personal Insurance

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

DOLLARS IN MILLIONS	2017	2016	2015
Net Premiums Written	$41.2	$43.8	$45.6
Earned Premiums	$42.7	$45.0	$46.7
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	$21.8	$22.1	$23.4
Catastrophe Losses and LAE	4.9	2.5	2.2
Prior Years:			
Non-catastrophe Losses and LAE	(3.8)	(6.1)	(2.0)
Catastrophe Losses and LAE	(0.8)	(1.9)	(0.1)
Total Incurred Losses and LAE	$22.1	$16.6	$23.5
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	51.1 %	49.1 %	50.1 %
Current Year Catastrophe Losses and LAE Ratio	11.5	5.6	4.7
Prior Years Non-catastrophe Losses and LAE Ratio	(8.9)	(13.6)	(4.3)
Prior Years Catastrophe Losses and LAE Ratio	(1.9)	(4.2)	(0.2)
Total Incurred Loss and LAE Ratio	51.8 %	36.9 %	50.3 %

2017 Compared with 2016

Earned premiums in other personal insurance decreased by $2.3 million in 2017, compared to 2016, as lower volume accounted for a decrease of $2.8 million, while higher average earned premium accounted for an increase of $0.5 million. Incurred losses and LAE were $22.1 million, or 51.8% of earned premiums, in 2017, compared to $16.6 million, or 36.9% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due to a lower level of favorable loss and LAE reserve development, higher catastrophe losses and LAE (excluding reserve development) and, to a lesser extent, higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 51.1% in 2017, compared to 49.1% in 2016, which was a deterioration of 2.0 percentage points due primarily to higher frequency of umbrella claims, partially offset by lower severity of losses on umbrella claims. Catastrophe losses and LAE (excluding reserve development) were $4.9 million in 2017, compared to $2.5 million in 2016. Favorable loss and LAE reserve development was $4.6 million in 2017, compared to $8.0 million in 2016.

2016 Compared with 2015

Earned premiums in other personal insurance decreased by $1.7 million in 2016, compared to 2015, as lower volume accounted for a decrease of $2.6 million, while higher average earned premium accounted for an increase of $0.9 million. Incurred losses and LAE were $16.6 million, or 36.9% of earned premiums, in 2016, compared to $23.5 million, or 50.3% of earned premiums, in 2015. Incurred losses and LAE as a percentage of earned premiums decreased due to a higher level of favorable loss and LAE reserve development and, to a lesser extent, lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 49.1% in 2016, compared to 50.1% in 2015, which was an improvement of 1.0 percentage points due primarily to lower frequency of non-umbrella claims and lower severity of losses on most coverages, partially offset by higher frequency of umbrella claims and lower average earned premium. Catastrophe losses and LAE (excluding reserve development) were $2.5 million in 2016, compared to $2.2 million in 2015. Favorable loss and LAE reserve development was $8.0 million in 2016, compared to $2.1 million in 2015.

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

LIFE & HEALTH INSURANCE

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

DOLLARS IN MILLIONS	2017	2016	2015
Earned Premiums:			
Life	$379.7	$381.6	$374.1
Accident and Health	161.7	149.4	144.9
Property	72.6	74.2	75.4
Total Earned Premiums	614.0	605.2	594.4
Net Investment Income	221.5	213.2	214.2
Other Income	2.6	2.8	2.4
Total Revenues	838.1	821.2	811.0
Policyholders' Benefits and Incurred Losses and LAE	387.4	461.6	381.3
Insurance Expenses	312.2	313.9	320.0
Operating Profit	138.5	45.7	109.7
Income Tax Expense	(47.7)	(15.4)	(38.0)
Segment Net Operating Income	$90.8	$30.3	$71.7

INSURANCE RESERVES

DOLLARS IN MILLIONS	Dec 31, 2017	Dec 31, 2016
Insurance Reserves:		
Future Policyholder Benefits	$3,357.5	$3,311.5
Incurred Losses and LAE Reserves:		
Life	140.0	141.9
Accident and Health	23.5	21.9
Property	4.1	4.5
Total Incurred Losses and LAE Reserves	167.6	168.3
Insurance Reserves	$3,525.1	$3,479.8

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

2017 Compared with 2016

Earned Premiums in the Life & Health Insurance segment increased by $8.8 million for the year ended December 31, 2017, compared to 2016 due primarily to higher volume from accident and health insurance products offered by Reserve National, partially offset by lower earned premiums on property insurance products offered by Kemper Home Service Companies ("KHSC").

Net Investment Income increased by $8.3 million in 2017, compared to 2016, due primarily to higher levels of non-alternative investments and higher returns from Alternative Investments, partially offset by lower yields on non-alternative investments. The weighted-average book yield on the Company's life and health insurance subsidiaries' investments in fixed maturities was approximately 5.4% and 5.5% at December 31, 2017 and 2016, respectively. A protracted low interest rate environment,

46

LIFE & HEALTH INSURANCE (Continued)

relative to the Life & Health Insurance segment's fixed income portfolio, could adversely impact the weighted-average book yield on these subsidiaries' investments in fixed maturities. For example, the weighted-average book yield on the subsidiaries' investments in fixed maturities will decline if new money is invested at yields below the portfolio rate. Also, the weighted-average book yield on the subsidiaries' investments in fixed maturities will decline, to the extent that investments maturing are not used for such purposes as paying claims and expenses, if the reinvested portion is at a yield that is lower than the book yield of the maturing investment. To help illustrate the potential impact, the subsidiaries' investments in fixed maturities that are maturing over the next five years totaled $751.7 million at December 31, 2017. The weighted-average book yield on such investments was 6.7% at December 31, 2017. The reinvestment rate for the subsidiaries' investments in fixed maturities was approximately 5.6% in 2017 with an average duration of 7.6 years at December 31, 2017.

Policyholders' Benefits and Incurred Losses and LAE decreased by $74.2 million in 2017, compared to 2016. Excluding the initial impact of using death verification databases described above, Policyholders' Benefits and Incurred Losses and LAE increased by $3.6 million due primarily to growth in the Company's accident and health insurance business, partially offset by lower policyholders' benefits on life insurance. Insurance Expenses in the Life & Health Insurance segment decreased by $1.7 million due primarily to a higher portion of agent compensation for KHSC being deferrable as well as lower legal and agent incentive conference expenses for KHSC, partially offset by higher commission and amortization expense for Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was $90.8 million for the year ended December 31, 2017, compared to $30.3 million in 2016.

2016 Compared with 2015

Earned Premiums in the Life & Health Insurance segment increased by $10.8 million for the year ended December 31, 2016, compared to 2015 due primarily to the impact of an adjustment of $7.6 million recorded in 2015 to correct deferred premium reserves on certain limited pay life insurance policies.

Net Investment Income decreased by $1.0 million in 2016, compared to 2015, due primarily to lower yields on investments in fixed income securities and lower levels of Alternative Investments, partially offset by higher levels of investments in non-alternative investments.

Policyholders' Benefits and Incurred Losses and LAE increased by $80.3 million in 2016, compared to 2015. Excluding the impact of using death verification databases described above, Policyholders' Benefits and Incurred Losses and LAE increased by $2.5 million due primarily to higher policyholders' benefits on life insurance, partially offset by lower incurred losses and LAE on property insurance and accident and health insurance. Insurance Expenses in the Life & Health Insurance segment decreased by $6.1 million due primarily to lower legal costs, partially offset by higher agent and field management compensation costs for KHSC and the impact of an adjustment made in 2015 to deferred policy acquisition costs for Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was $30.3 million for the year ended December 31, 2016, compared to $71.7 million in 2015.

LIFE & HEALTH INSURANCE (Continued)

Life Insurance

Selected financial information for the life insurance product line follows.

DOLLARS IN MILLIONS	2017	2016	2015
Earned Premiums	$379.7	$381.6	374.1
Net Investment Income	214.3	206.3	207.2
Other Income	2.4	2.3	1.9
Total Revenues	596.4	590.2	583.2
Policyholders’ Benefits and Incurred Losses and LAE	274.1	356.3	274.9
Insurance Expenses	207.9	211.3	221.7
Operating Profit	114.4	22.6	86.6
Income Tax Expense	(39.3)	(7.5)	(30.1)
Total Product Line Net Operating Income	$75.1	$15.1	$56.5

2017 Compared with 2016

Earned premiums on life insurance decreased by $1.9 million in 2017, compared to 2016, due primarily to the termination of the relationship between Reserve National and one of its brokers. Policyholders’ benefits on life insurance were $274.1 million in 2017, compared to $356.3 million in 2016, a decrease of $82.2 million. Excluding the initial impact of using death verification databases described above, Policyholders’ Benefits and Incurred Losses and LAE decreased by $4.4 million due primarily to lower policyholder benefits on Reserve National’s life insurance products. Insurance Expenses decreased by $3.4 million in 2017, compared to 2016, due primarily to a higher portion of agent compensation for KHSC being deferrable as well as lower legal and agent incentive conference expenses for KHSC, partially offset by higher commission and other general expenses for Reserve National.

2016 Compared with 2015

Earned premiums on life insurance increased by $7.5 million in 2016, compared to 2015, due primarily to an adjustment of $7.6 million recorded in the first quarter of 2015 to correct deferred premium reserves on certain limited pay life insurance policies. Excluding the adjustment, earned premiums on life insurance decreased by $0.1 million as a decrease of $3.4 million from life insurance products offered by KHSC was offset by an increase of $3.3 million from life insurance products offered by Reserve National. Policyholders’ benefits on life insurance were $356.3 million in 2016, compared to $274.9 million in 2015, an increase of $81.4 million. Excluding the impact of using death verification databases described above, Policyholders’ Benefits and Incurred Losses and LAE increased by $3.6 million. Insurance Expenses decreased by $10.4 million in 2016, compared to 2015, due primarily to lower legal costs, partially offset by higher agent and field management compensation costs for KHSC.

LIFE & HEALTH INSURANCE (Continued)

Accident and Health Insurance

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

DOLLARS IN MILLIONS	2017	2016	2015
Earned Premiums	$161.7	$149.4	$144.9
Net Investment Income	5.2	5.4	5.5
Other Income	0.2	0.5	0.5
Total Revenues	167.1	155.3	150.9
Policyholders' Benefits and Incurred Losses and LAE	88.7	80.3	80.8
Insurance Expenses	71.7	67.6	63.8
Operating Profit	6.7	7.4	6.3
Income Tax Expense	(2.5)	(2.5)	(2.2)
Total Product Line Net Operating Income	$4.2	$4.9	$4.1

2017 Compared with 2016

Earned premiums on accident and health insurance increased by $12.3 million in 2017, compared to 2016, due primarily to higher volume on accident and health insurance products offered by Reserve National and, to a lesser extent, lower accrued medical loss ratio ("MLR") premium rebates. Incurred accident and health insurance losses were $88.7 million, or 54.9% of accident and health insurance earned premiums, in 2017, compared to $80.3 million, or 53.7% of accident and health insurance earned premiums, in 2016. Incurred accident and health insurance losses increased as a percentage of earned premiums due primarily to deterioration in the ratios on critical illness and hospital indemnity products. Insurance Expenses increased by $4.1 million in 2017, compared to 2016, due primarily to higher commission expense for Reserve National due in part to a higher volume of earned premium.

2016 Compared with 2015

Earned premiums on accident and health insurance increased by $4.5 million in 2016, compared to 2015, due primarily to higher volume. Incurred accident and health insurance losses were $80.3 million, or 53.7% of accident and health insurance earned premiums, in 2016, compared to $80.8 million, or 55.8% of accident and health insurance earned premiums, in 2015. Incurred accident and health insurance losses decreased as a percentage of earned premiums due primarily to lower average claim costs in other supplemental products and a lower level of hospitalization exposure, partially offset by higher frequency and higher average claim costs in Medicare Supplement. Insurance Expenses increased by $3.8 million in 2016, compared to 2015, due primarily to the impact of an adjustment made in 2015 to Reserve National's deferred policy acquisition costs and the higher level of earned premiums

LIFE & HEALTH INSURANCE (Continued)

Property Insurance

Selected financial information for the property insurance product line follows.

DOLLARS IN MILLIONS	2017	2016	2015
Earned Premiums	$72.6	$74.2	$75.4
Net Investment Income	2.0	1.5	1.5
Total Revenues	74.6	75.7	76.9
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	17.8	19.6	20.4
Catastrophe Losses and LAE	5.9	5.5	3.8
Prior Years:			
Non-catastrophe Losses and LAE	0.4	—	1.3
Catastrophe Losses and LAE	0.5	(0.1)	0.1
Total Incurred Losses and LAE	24.6	25.0	25.6
Insurance Expenses	32.6	35.0	34.5
Operating Profit	17.4	15.7	16.8
Income Tax Expense	(5.9)	(5.4)	(5.7)
Total Product Line Net Operating Income	$11.5	$10.3	$11.1
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	24.5 %	26.4 %	27.2 %
Current Year Catastrophe Losses and LAE Ratio	8.1	7.4	5.0
Prior Years Non-catastrophe Losses and LAE Ratio	0.6	—	1.7
Prior Years Catastrophe Losses and LAE Ratio	0.7	(0.1)	0.1
Total Incurred Loss and LAE Ratio	33.9 %	33.7 %	34.0 %

2017 Compared with 2016

Earned premiums on property insurance decreased by $1.6 million in 2017, compared to 2016, due primarily to a lower volume of insurance. Incurred losses and LAE on property insurance were $24.6 million, or 33.9% of property insurance earned premiums, in 2017, compared to $25.0 million, or 33.7% of property insurance earned premiums, in 2016. Underlying losses and LAE on property insurance were $17.8 million, or 24.5% of property insurance earned premiums, in 2017, compared to $19.6 million, or 26.4% of property insurance earned premiums, in 2016, and decreased due to a lower frequency of claims. Catastrophe losses and LAE (excluding development), net of reinsurance recoveries from the Florida Hurricane Catastrophe Fund (the "FHCF") were $5.9 million in 2017, compared to $5.5 million in 2016. Catastrophe losses and LAE, net of reinsurance from the FHCF, included catastrophe losses and LAE of $3.2 million from Hurricanes Harvey and Irma. Adverse loss and LAE reserve development was $0.9 million in 2017, compared to favorable development of $0.1 million in 2016. Insurance expenses decreased $2.4 million in 2017, compared to 2016, due primarily to lower commission expense due in part to a lower volume of earned premium.

LIFE & HEALTH INSURANCE (Continued)

2016 Compared with 2015

Earned premiums on property insurance decreased by $1.2 million in 2016, compared to 2015, due primarily to a lower volume of insurance. Incurred losses and LAE on property insurance were $25.0 million, or 33.7% of property insurance earned premiums, in 2016, compared to $25.6 million, or 34.0% of property insurance earned premiums, in 2015. Underlying losses and LAE on property insurance were $19.6 million, or 26.4% of property insurance earned premiums, in 2016, compared to $20.4 million, or 27.1% of property insurance earned premiums, in 2015. Catastrophe losses and LAE (excluding development) were $5.5 million in 2016, compared to $3.8 million in 2015. Favorable loss and LAE reserve development was $0.1 million in 2016, compared to unfavorable loss and LAE reserve development of $1.4 million in 2015.

INVESTMENT RESULTS

Net Investment Income

Net Investment Income for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Investment Income (Loss):			
Interest and Dividends on Fixed Maturities	$246.6	$242.7	$236.2
Dividends on Equity Securities Excluding Alternative Investments	9.3	11.8	14.8
Alternative Investments:			
Equity Method Limited Liability Investments	24.8	7.5	19.0
Fair Value Option Investments	1.3	(1.9)	0.2
Limited Liability Investments Included in Equity Securities	28.6	22.0	17.6
Total Alternative Investments	54.7	27.6	36.8
Short-term Investments	1.6	0.5	0.4
Loans to Policyholders	21.6	21.6	21.1
Real Estate	10.7	11.8	11.9
Other	0.5	0.3	—
Total Investment Income	345.0	316.3	321.2
Investment Expenses:			
Real Estate	10.5	11.0	11.3
Other Investment Expenses	7.3	7.0	7.3
Total Investment Expenses	17.8	18.0	18.6
Net Investment Income	$327.2	$298.3	$302.6

2017 Compared with 2016

Net Investment Income increased by $28.9 million for the year ended December 31, 2017, compared to 2016, due primarily to higher investment returns from Alternative Investments and higher levels of investments in fixed income securities, partially offset by lower yields on fixed income securities and lower levels of investments in equity securities, excluding alternative investments.

2016 Compared with 2015

Net Investment Income decreased by $4.3 million for the year ended December 31, 2016, compared to 2015, due primarily to lower investment returns from Alternative Investments, lower levels and lower returns on investments in equity securities excluding alternative investments and lower yields on fixed income securities, partially offset by higher level of investments in fixed income securities.

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

INVESTMENT RESULTS (Continued)

Total Comprehensive Investment Gains (Losses)

The components of Total Comprehensive Investment Gains (Losses) for the years ended December 31, 2017, 2016 and 2015 is presented below.

DOLLARS IN MILLIONS	2017	2016	2015
Recognized in Consolidated Statements of Income:			
Gains on Sales	$56.9	$38.0	$55.3
Losses on Sales	(1.0)	(5.1)	(2.9)
Net Impairment Losses Recognized in Earnings	(14.3)	(32.7)	(27.2)
Net Gains (Losses) on Trading Securities	0.6	0.2	(0.3)
Net Gain Recognized in Consolidated Statements of Income	42.2	0.4	24.9
Recognized in Other Comprehensive Income (Loss)	85.5	(2.5)	(178.7)
Total Comprehensive Investment Gains (Losses)	$127.7	$(2.1)	$(153.8)

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Fixed Maturities:			
Gains on Sales	$8.4	$17.0	$16.1
Losses on Sales	(0.9)	(4.6)	(1.1)
Equity Securities:			
Gains on Sales	42.0	19.9	39.2
Losses on Sales	—	(0.3)	(1.6)
Real Estate:			
Gains on Sales	6.4	1.1	—
Losses on Sales	—	—	(0.2)
Other Investments:			
Gains on Sales	0.1	—	—
Losses on Sales	(0.1)	(0.2)	—
Trading Securities Net Gains (Losses)	0.6	0.2	(0.3)
Net Realized Gains on Sales of Investments	$56.5	$33.1	$52.1
Gross Gains on Sales	$56.9	$38.0	$55.3
Gross Losses on Sales	(1.0)	(5.1)	(2.9)
Net Gains (Losses) on Trading Securities	0.6	0.2	(0.3)
Net Realized Gains on Sales of Investments	$56.5	$33.1	$52.1

Equity Securities

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.

Net Realized Gains on Sales of Equity Securities for the year ended December 31, 2016 includes a net realized gain of $8.1 million from a transaction in which the Company's investment in the common stock of a company was acquired by another company for cash and shares of such acquiring company.

In 2015, the Company sold $149.9 million of equity securities due to portfolio allocation adjustments and tax planning initiatives. The Company recognized Gains on Sales of Equity Securities of $31.4 million and Losses on Sales of Equity Securities of $0.7 million resulting from such sales.

52

INVESTMENT RESULTS (Continued)

Other sales activity in 2017, 2016 and 2015 was due to normal portfolio management.

Net Impairment Losses Recognized in Earnings

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. Losses arising from other-than-temporary declines in fair 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 years ended December 31, 2017, 2016 and 2015 is presented below.

	2017		2016		2015	
DOLLARS IN MILLIONS	Amount	Number of Issuers/ Properties	Amount	Number of Issuers/ Properties	Amount	Number of Issuers/ Properties
Fixed Maturities	$(12.1)	10	$(26.6)	12	$(11.5)	9
Equity Securities	(2.2)	5	(5.6)	14	(15.7)	25
Real Estate	—	—	(0.5)	1	—	—
Net Impairment Losses Recognized in Earnings	$(14.3)		$(32.7)		$(27.2)	

Fixed Maturities

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.

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2016 related to Investments in Fixed Maturities include losses of $23.9 million due to the Company's intent to sell or requirement to sell bonds of 11 issuers and credit losses of $2.7 million from other-than-temporary declines in the fair values of investments in fixed maturities of one issuer.

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2015 related to Investments in Fixed Maturities include losses of $4.3 million due to the Company's intent to sell or requirement to sell bonds of four issuers and credit losses of $7.2 million from other-than-temporary declines in the fair values of investments in fixed maturities of six 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 years ended December 31, 2017 or December 31, 2015.

Net Impairment Losses Recognized in the Consolidated Statements of Income for the year ended December 31, 2016 related to Investments in Real Estate includes a loss of $0.5 million due to the Company's intent to sell one property.

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, 2017, 89% of the Company's fixed maturity investment portfolio was rated investment-grade, which the Company defines as a security issued by a high quality obligor with at least a relatively stable credit profile and where it is highly likely that all contractual payments of principal and interest will timely occur and carry a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2. Securities with a rating of 1 or 2 from the NAIC typically are rated by one or more Nationally Recognized Statistical Rating Organizations and either have a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); a rating of Aaa, Aa, A or Baa from Moody's Investors Service ("Moody's"); or a rating of AAA, AA, A or BBB from Fitch Ratings.

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

INVESTMENT QUALITY AND CONCENTRATIONS (Continued)
The following table summarizes the credit quality of the fixed maturity investment portfolio at December 31, 2017 and 2016:

NAIC Rating	Rating	Dec 31, 2017 Fair Value in Millions	Dec 31, 2017 Percentage of Total		Dec 31, 2016 Fair Value in Millions	Dec 31, 2016 Percentage of Total	
1	AAA, AA, A	$3,481.8	64.6	%	$3,280.4	64.0	%
2	BBB	1,335.2	24.8		1,338.2	26.1	
3-4	BB, B	357.2	6.7		321.6	6.3	
5-6	CCC or Lower	208.5	3.9		184.7	3.6	
Total Investments in Fixed Maturities		$5,382.7	100.0	%	$5,124.9	100.0	%

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were $6.9 million and $12.7 million at December 31, 2017 and 2016, respectively.
The following table summarizes the fair value of the Company's investments in governmental fixed maturities at December 31, 2017 and 2016:

DOLLARS IN MILLIONS	Dec 31, 2017 Fair Value	Dec 31, 2017 Percentage of Total Investments		Dec 31, 2016 Fair Value	Dec 31, 2016 Percentage of Total Investments	
U.S. Government and Government Agencies and Authorities	$556.1	8.2	%	$336.3	5.1	%
States and Political Subdivisions:						
States	594.0	8.7		655.3	9.9	
Political Subdivisions	171.1	2.5		174.7	2.6	
Revenue Bonds	936.7	13.8		884.9	13.4	
Foreign Governments	3.2	—		3.4	0.1	
Total Investments in Governmental Fixed Maturities	$2,261.1	33.2	%	$2,054.6	31.1	%

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

DOLLARS IN MILLIONS	Dec 31, 2017 Fair Value	Dec 31, 2017 Percentage of Total Investments		Dec 31, 2016 Fair Value	Dec 31, 2016 Percentage of Total Investments	
Manufacturing	$1,168.8	17.2	%	$1,227.8	18.6	%
Finance, Insurance and Real Estate	780.2	11.5		742.6	11.2	
Services	453.3	6.7		391.6	5.9	
Transportation, Communication and Utilities	353.7	5.2		364.1	5.5	
Mining	163.5	2.4		157.2	2.4	
Retail Trade	102.6	1.5		101.9	1.5	
Wholesale Trade	81.3	1.2		69.2	1.0	
Agriculture, Forestry and Fishing	14.5	0.2		14.4	0.2	
Other	3.7	0.1		1.5	—	
Total Investments in Non-governmental Fixed Maturities	$3,121.6	46.0	%	$3,070.3	46.3	%

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

INVESTMENT QUALITY AND CONCENTRATIONS (Continued)

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, 2017.

DOLLARS IN MILLIONS	Number of Issuers	Aggregate Fair Value
Below $5	459	$ 910.9
$5 -$10	146	966.7
$10 - $20	66	890.0
$20 - $30	12	287.4
Greater Than $30	2	66.6
Total	685	$ 3,121.6

The Company’s short-term investments primarily consist of money market funds, U.S. Treasury securities with maturities of less than one year at the date of purchase, commercial paper and overnight interest bearing accounts. At December 31, 2017, the Company had $116.1 million invested in money market funds which primarily invest in U.S. Treasury securities, $81.2 million invested in U.S. Treasury securities with maturities of less than one year at the date of purchase, $23.0 million invested in commercial paper and $15.2 million invested in overnight interest bearing bank accounts with one of the Company’s custodial banks.

The following table summarizes the fair value of the Company’s ten largest exposures, excluding investments in U.S. Government and Government Agencies and Authorities and Short-term Investments, at December 31, 2017.

DOLLARS IN MILLIONS	Fair Value	Percentage of Total Investments
Fixed Maturities:		
States including their Political Subdivisions:		
Texas	$ 101.4	1.5 %
Michigan	87.9	1.3
Georgia	86.6	1.3
Ohio	70.0	1.0
Louisiana	68.2	1.0
Colorado	66.3	1.0
Virginia	64.8	1.0
Florida	62.1	0.9
Wisconsin	56.4	0.8
Equity Securities—Other Equity Interests:		
iShares® Core International Stock ETF	60.5	0.9

Total	$724.2	10.7 %

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

INVESTMENTS IN LIMITED LIABILITY COMPANIES AND LIMITED PARTNERSHIPS

The Company owns investments in various limited liability investment companies and limited partnerships that primarily invest in mezzanine debt, hedge funds and distressed debt. The Company's investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments, Other Equity Interests and included in Equity Securities, or Fair Value Option Investments depending on the accounting method used to report the investment. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements. Additional information pertaining to these investments at December 31, 2017 and 2016 is presented below.

Asset Class	Unfunded Commitment Dec 31, 2017	Reported Value in Millions Dec 31, 2017	Reported Value in Millions Dec 31, 2016
Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:			
Distressed Debt	$ —	$47.5	$65.4
Mezzanine Debt	60.4	73.0	63.2
Secondary Transactions	18.9	20.6	27.3
Senior Debt	21.6	4.8	6.6
Growth Equity	—	5.7	4.6
Leveraged Buyout	0.1	3.3	—
Other	—	6.1	8.8
Total Equity Method Limited Liability Investments	101.0	161.0	175.9
Reported as Other Equity Interests at Fair Value:			
Mezzanine Debt	87.1	102.2	97.6
Senior Debt	28.8	35.5	36.4
Distressed Debt	4.7	16.6	18.8
Secondary Transactions	10.4	8.9	11.9
Leveraged Buyout	3.3	6.3	6.5
Other	7.0	33.4	38.4
Total Reported as Other Equity Interests at Fair Value	141.3	202.9	209.6
Reported as Fair Value Option Investments:			
Hedge Fund	—	77.5	111.4
Total Investments in Limited Liability Companies and Limited Partnerships	$ 242.3	$441.4	$496.9

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.

The Company engages in limited hedging activities to optimize exposure to foreign currencies and changes in interest rates. In 2017 the Company entered into a cross-currency interest rate swap to hedge the foreign denominated cash flows of one fixed maturity investment. In 2016, in anticipation of a debt offering in 2017, the Company entered into a cash flow hedge to optimize exposure to changes in interest rates. The Company does not directly participate, as either a lender or borrower of securities, in any securities lending program, nor does the Company participate directly in credit default swaps. The Company has limited exposure to such programs and activities by virtue of its investments in the limited liability investment companies and limited partnerships noted above. See Note 7 "Debt," to the Consolidated Financial Statements for additional discussion of the cash flow hedge entered into by the Company in 2016 in anticipation of a debt offering in 2017.

EXPENSES

Expenses for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Commissions	$425.6	$399.2	$357.6
General Expenses	194.1	209.0	241.1
Taxes, Licenses and Fees	52.8	48.8	44.2
Total Costs Incurred	672.5	657.0	642.9
Policy Acquisition Costs:			
Deferred	(351.6)	(314.9)	(270.6)
Amortized	318.3	299.3	257.4
Net Policy Acquisition Costs Deferred	(33.3)	(15.6)	(13.2)
Amortization of Insurance in Force	5.1	5.9	15.4
Insurance Expenses	644.3	647.3	645.1
Write-off of Long-lived Asset	—	—	11.1
Loss from Early Extinguishment of Debt	—	—	9.1
Interest and Other Expenses:			
Interest Expense	34.9	44.4	46.5
Other Expenses:			
Curtailment Gains, Net	—	(2.6)	—
Loss on Cash Flow Hedge	1.1	—	—
Other	44.6	48.5	61.1
Other Expenses	45.7	45.9	61.1
Interest and Other Expenses	80.6	90.3	107.6
Total Expenses	$724.9	$737.6	$772.9

Insurance Expenses

Insurance Expenses decreased by $3.0 million for the year ended December 31, 2017, compared to 2016, due primarily to a lower premium deficiency in the Alliance United nonstandard personal automobile book of business, which allows for a higher percentage of acquisition costs to be deferred, an increase in the percentage of software development costs eligible for capitalization as projects moved from the preliminary project stage to the application development stage, and cost reduction initiatives, partially offset by growth in business. Insurance Expenses increased by $2.2 million for the year ended December 31, 2016, compared to 2015, due primarily to growth in business, partially offset by lower amortization of insurance in force.

Write-off of Long-lived Assets

In June 2015, the Company decided to cease funding for and abandon a computer software development project for the Company's Property & Casualty Insurance segment. Accordingly, the Company recorded a charge of $11.1 million before taxes to write off such software in 2015.

Loss from Early Extinguishment of Debt

Prior to their scheduled maturity, Kemper redeemed in full the $250.0 million outstanding principal amount of its 6.00% senior notes due November 30, 2015. Kemper recognized a loss of $9.1 million before income taxes in 2015 from the early redemption of these senior notes.

Interest and Other Expenses

Interest expense decreased by $9.5 million for the year ended December 31, 2017, compared to 2016, due primarily to lower levels of debt outstanding and a lower average effective interest rate thereon. See MD&A, "Liquidity and Capital Resources," and Note 7, "Debt" to the Consolidated Financial Statements for additional discussion of debt activity. Other Expenses decreased by $0.2 million for the year ended December 31, 2017, compared to 2016, due primarily to lower pension expense in

EXPENSES (Continued)
2017 resulting from the full-year effect of freezing benefit accruals under the Company's defined benefit pension plans and a longer amortization period to amortize actuarial losses, as discussed in Note 16 "Pension Benefits" to the Consolidated Financial Statements, partially offset by net curtailment gains recognized in 2016, higher employee compensation and a charge to earnings in 2017 to record the ineffective portion of a hedging relationship related to an anticipated debt issuance. Other Expenses decreased by $15.2 million for the year ended December 31, 2016, compared to 2015, due primarily to lower pension expense from the effect of freezing benefit accruals under the Company's defined benefit pension plans.

In 2016, the Company changed its method for estimating the interest and service cost components of expense recognized for its pension and other postretirement employee benefit plans. As a result, the Company elected to use a full yield curve approach to estimate these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company has accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and, accordingly, recognized the effect prospectively in 2016. The change in method for estimating the interest and service cost components decreased pension expense by $2.7 million in 2016, compared to 2015, but had no impact on the measurement of benefit obligations. See Note 2 , "Summary of Accounting Policies and Accounting Changes" to the Consolidated Financial Statements.

INCOME TAXES

On December 22, 2017, Public Law 115-97, more commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted. The Tax Act includes numerous changes to existing federal income tax law, including a permanent reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

Pursuant to Staff Accounting Bulletin No. 118 ("SAB 118"), the Company recorded certain provisional amounts for the estimated income tax effects of the Tax Act on deferred income taxes. The Company estimates that the reduction in the corporate income tax rate decreased its net deferred income tax liability as of December 22, 2017 by $10.5 million. The effect of the rate change was recorded as a decrease to income tax expense in the Company's Consolidated Statement of Income for the year ended December 31, 2017. Final determination of the effects of the Tax Act on deferred income taxes requires additional information, including data from third parties, actuarial computations and other items. The Company expects to complete its determination of the effect of the Tax Act on its deferred income tax assets and liabilities pursuant to its annual income tax return filing process which is expected to be completed during the fourth quarter of 2018.

The Company had not previously provide for Federal income taxes on $14.7 million of Mutual Savings Life's income earned prior to 1984, which was not subject to income taxes under certain conditions prior to the Tax Act. Under the Tax Act, such income is now subject to taxation. Accordingly, the Company recognized current income tax expense of $3.1 million in the Company's Consolidated Statement of Income for the year ended December 31, 2017.

The Company's effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to the effects of tax-exempt investment income and dividends received deductions, the Tax Act, interest related to unrecognized tax benefits, estimated indemnification recoveries recognized in earnings pursuant to the Alliance United purchase agreement, 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, and the net effects of state income taxes.

Tax-exempt investment income and dividends received deductions were $28.0 million, $28.0 million and $27.9 million in 2017, 2016 and 2015, respectively. The tax benefit recorded pursuant to the Tax Act was $7.4 million for the year ended December 31, 2017. Estimated indemnification recoveries recognized in earnings result in an adjustment in the tax purchase price and are excluded from the determination of taxable income and income tax expense. Such recoveries were $0.7 million and $10.4 million for the years ended December 31, 2016 and December 31, 2015, respectively. Tax expense for the year ended December 31, 2015 includes an interest benefit on unrecognized tax benefits of $2.3 million from the settlement of certain tax years. The amount of expense recognized for long-term equity-based compensation expense under GAAP was $1.1 million lower than the amount that would be deductible under the Internal Revenue Code for the year ended December 31, 2017. State income tax expense, net of federal benefit, from continuing operations was $0.1 million, $0.6 million and $0.6 million in 2017, 2016 and 2015, respectively. See Note 15, “Income Taxes,” to the Consolidated Financial Statements for additional discussion of income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Debt

Kemper has a $225.0 million, unsecured, revolving credit agreement expiring June 2, 2020. The credit agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The credit agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper’s largest insurance subsidiaries, United Insurance and Trinity Universal Insurance Company (“Trinity”). Proceeds from advances under the credit agreement may be used for general corporate purposes, including repayment of existing indebtedness. The Company’s borrowings under the credit agreement were insignificant in 2017. The Company did not borrow under the credit agreement during 2016 or 2015. There were no outstanding borrowings under the credit agreement at December 31, 2017, and accordingly, $225.0 million was available for future borrowings.

The outstanding principal balance, net of unamortized issuance costs, of Kemper’s debt was $592.3 million at December 31, 2017, of which $450.0 million is scheduled to mature on February 15, 2025 (the “2025 Senior Notes”) and $150.0 million is scheduled to mature on February 27, 2054 (the “2054 Debt”). The 2054 Debt was issued in 2014 and is subordinated to the 2025 Senior Notes. Kemper cannot redeem the 2054 Debt prior to February 27, 2019 unless certain tax or rating agency events have occurred. See Note 7, “Debt,” to the Consolidated Financial Statements for additional information regarding Kemper’s debt.

The Company has $450.0 million of 4.35% senior notes due February 15, 2025 (the “2025 Senior Notes”) outstanding as of December 31, 2017. The Company initially issued $250 million of the 2025 Senior Notes in February of 2015, with proceeds from the issuance of $247.3 million, net of discount and transaction costs, for an effective yield of 4.49%. Kemper used the net proceeds from the sale, together with available cash, to redeem in full the $250.0 million outstanding principal amount of its 6.00% senior notes due November 30, 2015. Kemper recognized a loss of $9.1 million before income taxes in 2015 from the early redemption of these senior notes.

In June of 2017, Kemper issued an additional $200 million of the 2025 Senior Notes. The proceeds of the additional issuance were $200.2 million, net of discount and transaction costs, for an effective yield of 4.16%. The additional notes are fungible with the initial notes issued in 2015, and together are treated as part of a single series for all purposes under the indenture governing the 2025 Senior Notes. Kemper used the net proceeds from the additional issuance for general corporate purposes. 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.

Trinity and United Insurance are members of the Federal Home Loan Bank (“FHLB”) of Dallas and the FHLB of Chicago, respectively. As members, Trinity and United Insurance may obtain advances from the FHLB of Dallas and Chicago, respectively. Advances from the FHLB of Dallas and Chicago are subject to collateral requirements as specified in the respective agreements with Trinity and United Insurance. From time to time, Trinity and United Insurance obtain advances from the FHLB of Dallas and Chicago, respectively, for short-term liquidity needs. Trinity’s outstanding advances from the FHLB of Dallas did not exceed $60 million during 2017. United Insurance’s outstanding advances from the FHLB of Chicago did not exceed $80 million during 2017. During 2016, Trinity borrowed and repaid one advance of $10 million under its agreement with the FHLB of Dallas. United Insurance did not borrow under its agreement with the FHLB of Chicago in 2016. There were no advances from the FHLB of Dallas or Chicago outstanding at either December 31, 2017 or December 31, 2016.

Subsidiary Dividends

Under various state insurance laws, Kemper’s insurance subsidiaries may pay dividends without obtaining prior regulatory approval based upon levels of statutory capital and surplus and/or net income, as defined by the applicable state law. Kemper’s direct insurance subsidiaries paid dividends of $108.1 million, $104.5 million and $285.0 million to Kemper in 2017, 2016 and 2015, respectively. In 2018, Kemper estimates that its direct insurance subsidiaries would be able to pay $201 million in dividends to Kemper without prior regulatory approval.

Agreement to Acquire Infinity

On February 13, 2018, Kemper and Infinity announced that they have entered into the Infinity Merger Agreement under which Kemper will acquire Infinity in a cash and stock transaction. The Infinity Merger is expected to close in the third quarter of 2018, subject to the satisfaction or waiver of applicable closing conditions, including the approval of shareholders of both companies and receipt of required regulatory clearances and approvals. If approved and consummated, Kemper expects to fund the cash portion of the consideration with a combination of cash on hand and other internal resources. While no additional

LIQUIDITY AND CAPITAL RESOURCES (Continued)

financing resources are needed to consummate the Infinity Merger, Kemper may explore issuing an institutional term loan prior to the closing of the Infinity Merger in order to optimize its liquidity position. See Item 1A., "Risk Factors" and Note 26, "Subsequent Events," to the Consolidated Financial Statements and our current report on Form 8-K filed with the SEC on the date hereof and subsequent filings with the SEC for additional information.

Acquisition of Alliance United Group

On April 30, 2015, Kemper completed its acquisition of Alliance United in a cash transaction for a total purchase price of $71.0 million, subject to certain post-closing indemnifications. After completing the transaction, Kemper contributed $75.0 million to support the book of business acquired. Kemper contributed $30 million of additional capital in the fourth quarter of 2015 due primarily to support Alliance United's growing book of business and reductions in statutory capital resulting from the impacts of development of pre-acquisition losses and LAE and non-admission of indemnification receivables. In 2016, Kemper contributed $55 million of additional capital to Alliance United. Kemper made no capital contributions to Alliance United in 2017.

Common Stock Repurchases and Dividends to Shareholders

On August 6, 2014, the Board of Directors approved the 2014 Repurchase Program under which Kemper is authorized to repurchase up to $300 million of its common stock and terminated Kemper's remaining authorization under the 2011 Repurchase Program.

During 2017, Kemper did not repurchase any shares of its common stock. During 2016, Kemper repurchased approximately 0.1 million shares of its common stock at an aggregate cost of $3.8 million in open market transactions under the 2014 Repurchase Program. During 2015, Kemper repurchased approximately 1.2 million shares of its common stock at an aggregate cost of $43.5 million in open market transactions under the 2014 Repurchase Program. The Company had $243.7 million of remaining capacity under the 2014 Repurchase Program at December 31, 2017.

Kemper paid a quarterly dividend to shareholders of $0.24 per common share in each quarter of 2017. Dividends paid were $49.5 million for the year ended December 31, 2017.

Sources and Uses of Funds

Kemper directly held cash and investments totaling $197.3 million at December 31, 2017, compared to $298.7 million at December 31, 2016. Sources available for the repayment of indebtedness, repurchases of common stock, future shareholder dividend payments, additional capitalization of its direct insurance subsidiaries, and the payment of interest on Kemper's senior notes and subordinated debentures include cash and investments directly held by Kemper, receipt of dividends from Kemper's subsidiaries and borrowings under the credit agreement.

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

In the third quarter of 2016, the Company's Life & Health segment voluntarily began implementing a comprehensive process under which it cross-references its life insurance policies against the DMF and other death verification databases to identify potential instances where the beneficiaries may not have filed a claim following the death of an insured and initiate an outreach process to identify and contact beneficiaries and settle claims. The Company expects to pay approximately $80 million in claims over the next several years to complete the initial outreach process.

During periods of growth, insurance companies typically experience positive operating cash flows and are able to invest a portion of their operating cash flows to fund future policyholder benefits and claims. During periods in which premium revenues decline, insurance companies may experience negative cash flows from operations and may need to sell investments to fund payments to policyholders and claimants. In addition, if the Company's property and casualty insurance subsidiaries experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in

60

LIQUIDITY AND CAPITAL RESOURCES (Continued)

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 increased by $0.1 million for the year ended December 31, 2017, compared to 2016. Net Cash Provided by Operating Activities increased by $25.5 million for the year ended December 31, 2016, compared to 2015.

Net Cash Used by Financing Activities was $205.2 million for the year ended December 31, 2017, compared to $48.4 million for the same period in 2016. Kemper used $360.0 million of cash to repay long-term debt for the year ended December 31, 2017. Net proceeds from the issuance of long-term debt provided $200.2 million of cash for the year ended December 31, 2017. Kemper did not use any cash during 2017 to repurchase shares of its common stock, compared to $3.8 million in 2016. Kemper used $49.5 million of cash to pay dividends for the year ended December 31, 2017, compared to $49.2 million of cash used to pay dividends in the same period of 2016. The quarterly dividend rate was $0.24 per common share for each quarter of 2017 and 2016.

Net Cash Used by Financing Activities was $48.4 million for the year ended December 31, 2016, compared to $100.8 million for the same period in 2015. Net proceeds from advances from FHLB provided $10.0 million for the year ended December 31, 2016. Kemper used $10.0 million of cash to repay the FHLB advances for the year ended December 31, 2016. Kemper used $258.8 million of cash to redeem the 2015 Senior Notes for the year ended December 31, 2015. Net proceeds from the issuance of the 2025 Senior Notes provided $247.3 million of cash for the year ended December 31, 2015. Kemper used $3.8 million of cash during 2016 to repurchase shares of its common stock, compared to $45.0 million of cash to repurchase shares of its common stock in 2015, including $1.5 million of cash to settle repurchases made at the end of 2014. Kemper used $49.2 million of cash to pay dividends for the year ended December 31, 2016, compared to $49.7 million in 2015. The quarterly dividend rate was $0.24 per common share for each quarter of 2016 and 2015.

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 $105.4 million for the year ended December 31, 2017, compared to $238.1 million in 2016. Net cash provided by dispositions of short-term investments was $39.4 million for the year ended December 31, 2017, compared to net cash used by acquisitions of short term investments of $18.0 million in 2016. Fixed Maturities investing activities used net cash of $181.9 million for the year ended December 31, 2017, compared to $318.0 million in 2016. Equity Securities investing activities used net cash of $0.7 million for the year ended December 31, 2017, compared to providing net cash of $68.8 million in 2016. Equity Method Limited Liability Investments investing activities provided net cash of $20.2 million for the year ended December 31, 2017, compared to $6.4 million in 2016. Net cash provided by Fair Value Option Investments investing activities was $35.2 million for the year ended December 31, 2017, compared to $51.2 million in 2016. The Company did not use cash to purchase Corporate-owned Life Insurance during the year ended December 31, 2017, compared to purchases of $7.5 million in the year ended December 31, 2016.

Net Cash Used by Investing Activities was $238.1 million for the year ended December 31, 2016, compared to $28.6 million in 2015. Net cash used by acquisitions of short-term investments was $18.0 million for the year ended December 31, 2016, compared to net cash provided by dispositions of short-term investments of $104.9 million in 2015. Fixed Maturities investing activities used net cash of $318.0 million for the year ended December 31, 2016, compared to $53.5 million in 2015. Equity Securities investing activities provided net cash of $68.8 million for the year ended December 31, 2016, compared to $104.4 million in 2015. Equity Method Limited Liability Investments investing activities provided net cash of $6.4 million for the year ended December 31, 2016, compared to $0.5 million in 2015. Net cash provided by Fair Value Option Investments investing activities was $51.2 million for the year ended December 31, 2016, compared to net cash used of $111.0 million in 2015. Net cash used to acquire Alliance United was $57.6 million for the year ended December 31, 2015. Purchases of Corporate-owned Life Insurance were $7.5 million for both the year ended December 31, 2016 and the year ended December 31, 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, 2017 are presented below.

DOLLARS IN MILLIONS	Jan 1, 2018 to Dec 31, 2018	Jan 1, 2019 to Dec 31, 2020	Jan 1, 2021 to Dec 31, 2022	After Dec 31, 2022	Total
Long Term Debt Obligations	$ —	$ —	$ —	$ 600.0	$ 600.0
Capital Lease Obligations	0.1	—	—	—	0.1
Operating Lease Obligations	15.3	23.4	15.8	9.0	63.5
Purchase Obligations	22.2	11.6	0.1	—	33.9
Life and Health Insurance Policy Benefits	321.6	605.1	566.3	7,455.7	8,948.7
Property and Casualty Insurance Reserves	610.9	306.9	53.0	46.0	1,016.8
Other Contractual Obligations Reflected in Long Term Liabilities on the Consolidated Balance Sheet under GAAP	33.4	66.8	66.0	434.8	601.0
Total Contractual Obligations	$ 1,003.5	$ 1,013.8	$ 701.2	$ 8,545.5	$ 11,264.0

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 $5.2 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, 2017.

In addition to the purchase obligations included above, the Company had certain investment commitments totaling $255.1 million at December 31, 2017. The funding of such investment commitments is dependent on a number of factors, the timing of which is indeterminate. The contractual obligations reported above also exclude the Company's liability of $8.1 million for unrecognized tax benefits. 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 Sheet under GAAP primarily consist of interest obligations related to Long Term Debt Obligations.

CRITICAL ACCOUNTING ESTIMATES

Kemper's subsidiaries conduct their businesses 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 property and casualty insurance reserves for 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 $6,804.9 million at December 31, 2017, of which $5,992.9 million, or 88%, was reported at fair value, $161.0 million, or 2%, was reported under the equity method of accounting, $298.6 million, or 4%, was reported at unpaid principal balance and $352.4 million, or 5%, was reported at 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

CRITICAL ACCOUNTING ESTIMATES (Continued)

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 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 $5,992.9 million at December 31, 2017, of which $5,190.3 million, or 87%, were investments that were based on quoted market prices or significant value drivers that are observable, $556.6 million, or 9%, were investments where at least one significant value driver was unobservable and $246.0 million or 4% 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, 2017 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. For investments classified as trading or for financial instruments for which a company has elected the fair value option method of accounting, a company is required to recognize changes in the fair values into income for the period reported. Accordingly, both the reported and fair values of the Company's investments classified as trading were $6.7 million at December 31, 2017. Both the reported and fair values of the Company's investments accounted for under the fair value option method of accounting were $77.5 million at December 31, 2017. 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, 2017. Changes in the fair value of investments in fixed maturities classified as available for sale, investments in equity securities classified as available for sale and an insurance entity's investments in equity securities without readily determinable fair values are not recognized in income during the period, but rather are recognized as a separate component of AOCI until realized. All of the Company's investments in fixed maturities were classified as available for sale at December 31, 2017. Except for investments accounted for under the equity method of accounting or classified as trading, all of the Company's investments in equity securities at December 31, 2017 are reported at fair value with changes in fair value reported in AOCI until realized. The Company's investments accounted for under the equity method of accounting consist of the Company's investments in Equity Method Limited Liability Investments and are valued at cost plus cumulative undistributed comprehensive earnings or losses, and not at fair value.

Under GAAP, a company may elect to use the fair value option for some or all of its investments in financial instruments. Under the fair value option, a company is required to recognize changes in the fair values 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, 2017, would have increased by $59.0 million.

The Company regularly reviews its investments for factors that may indicate that a decline in the fair value of an investment below its cost or amortized cost 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 for fixed maturity and equity securities in evaluating whether or not a decline in fair value 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

Opinions of the Company's external investment managers;

- The Company's intentions to sell or not to sell the investment; and
- The Company's determination of whether it will be required to sell the investment before a full recovery in value.
- The financial condition and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The volatility of the investment;
- Analyst recommendations and near term price targets;
- Opinions of the Company's external investment managers;
- Market liquidity;
- Debt-like characteristics of perpetual preferred stocks and issuer ratings; and
- The Company's intentions to sell or ability to hold the investments until recovery.

Changes in these factors from their December 31, 2017 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, 2017 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 $1,016.8 million and $931.4 million of gross loss and LAE reserves at December 31, 2017 and 2016, respectively.

Property and Casualty Insurance Reserves for the Company's business segments at December 31, 2017 and 2016 were:

DOLLARS IN MILLIONS	2017	2016
Business Segments:		
Property & Casualty Insurance	$976.3	$884.1
Life & Health Insurance	4.1	4.5
Total Business Segments	980.4	888.6
Discontinued Operations	33.1	38.6
Unallocated Reserves	3.3	4.2
Total Property and Casualty Insurance Reserves	$1,016.8	$931.4

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 known and unknown claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures which may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company's discontinued operations are predominantly long-tailed exposures, $16.3 million of which was related to asbestos, environmental matters and construction defect exposures at December 31, 2017.

CRITICAL ACCOUNTING ESTIMATES (Continued)

The Company's actuaries generally estimate reserves at least quarterly for most product lines and/or coverage levels using accident quarters 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, 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 and re-estimate the ultimate losses and LAE for previous accident quarters 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.

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 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.

At a minimum, the Company's actuaries analyze 45 product and/or coverage levels for over 40 separate current and prior accident quarters for both losses and LAE using many of the loss reserving estimation methodologies identified above as well as other generally accepted actuarial estimation methodologies. In all, there are more than 10,000 combinations of accident quarters, coverage levels, and generally accepted actuarial estimation methodologies used to estimate the Company's unpaid losses and LAE. In some cases, the Company's actuaries make adjustments to the loss reserving estimation methodologies identified above or use additional generally accepted actuarial estimation methodologies to estimate ultimate losses and LAE.

For each accident quarter, 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 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. As an accident quarter 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 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, compared with the paid loss

CRITICAL ACCOUNTING ESTIMATES (Continued)

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;
- 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,

CRITICAL ACCOUNTING ESTIMATES (Continued)

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 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 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. 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.

Development for the years ended December 31, 2017, 2016 and 2015, was:

DOLLARS IN MILLIONS	Favorable (Adverse) Development 2017	2016	2015
Continuing Operations:			
Property & Casualty Insurance:			
Personal Automobile Insurance	$ (22.2)	$ (11.3)	$ 1.8
Homeowners Insurance	(1.0)	20.0	10.8
Commercial Automobile Insurance	(0.9)	(2.4)	(1.8)
Other Personal Lines	4.6	8.0	2.1
Life & Health Insurance:			
Property	(0.9)	0.1	(1.4)
Total Favorable (Adverse) Development from Continuing Operations, Net	(20.4)	14.4	11.5
Discontinued Operations	1.5	6.3	8.6
Total Favorable (Adverse) Development, Net	$ (18.9)	$ 20.7	$ 20.1

See MD&A, "Loss and LAE Reserve Development," "Property & Casualty Insurance," and "Life & Health Insurance," for further information on development reported in the Consolidated Financial Statements.

Although development will emerge in all of the Company's product lines, development in the Company's 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 personal automobile insurance losses and LAE to changes in the cumulative development factors, for each quarterly evaluation point the Company's actuaries calculated the variability of cumulative development factors observed in the incurred loss development methodology using one standard deviation. The Company believes that one standard deviation of variability is a reasonably likely scenario to measure variability for its loss and LAE reserves under the incurred development method for personal automobile insurance. Assuming that the Company's personal automobile insurance loss and LAE reserves were based solely on the incurred loss development methodology and the variability in the cumulative development factors occurred within one standard deviation, the Company estimates that the Company's personal automobile insurance loss and LAE reserves could have varied by $79.5 million in either direction at December 31, 2017 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

CRITICAL ACCOUNTING ESTIMATES (Continued)

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 2017 Annual Report under the heading "Property and Casualty Loss and Loss Adjustment Expense Reserves."

Goodwill Recoverability

The Company tests goodwill for impairment annually on January 1, or whenever events or circumstances indicate the carrying amount of goodwill may not be recoverable. Goodwill is tested for impairment at the reporting unit level. As of January 1, 2017, the Company performed a quantitative goodwill impairment assessment for all reporting units with goodwill. The quantitative assessment compares the estimated fair value of a reporting unit to its carrying value to determine if there is an impairment of goodwill. Estimating the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions by the Company. The estimates and assumptions included, but were not limited to, projections of future cash flows, operating results, discount rates, investment yields and market conditions. Such projections are inherently uncertain and, accordingly, actual future results may differ materially from the Company's projections. For each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit, and the Company concluded that the associated goodwill was recoverable.

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, 2017. 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, 2017 by $95.3 million, while a one–percentage point increase in the rate would decrease the pension benefit obligation at December 31, 2017 by $76.3 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, 2017 by $5.3 million, while a one–percentage point increase in the rate would decrease pension expense by $5.3 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 Accounting Standards Updates ("ASUs") to amend the authoritative literature in ASC.

The Company has adopted all recently issued accounting pronouncements with effective dates prior to January 1, 2018. See Note 2, "Summary of Accounting Policies and Accounting Changes" 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, 2017, the Company does not expect adoption to have a material impact on its financial statements, with the possible exceptions of ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-02, Leases (Topic 842) and ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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

Quantitative Information About Market Risk

The Company’s consolidated balance sheets include four 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;
3. Fair Value Option Investments; and
4. Debt.

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

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, 2017 and 2016 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, 2017 and 2016. 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, 2017 and 2016. 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, 2017 and 2016, 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 1.00 and 1.00 at December 31, 2017 and 2016, 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, 2017 and 2016, and weighted on the fair value of such securities at December 31, 2017 and 2016, respectively. For equity securities without observable market inputs, the Company assumed a beta of 1.00 at December 31, 2017 and 2016. The Company’s Fair Value Option Investments were correlated with the S&P 500 using such portfolio’s weighted-average beta of 0.06 and 0.08 at December 31, 2017 and 2016, respectively, which was calculated for each hedge fund in the portfolio and weighted on the respective fair value of each of the hedge funds.

69

Quantitative Information About Market Risk (Continued)

The estimated adverse effects on the fair value of the Company's financial instruments at December 31, 2017 using these assumptions were:

DOLLARS IN MILLIONS	Fair Value	Pro Forma Increase (Decrease) Interest Rate Risk	Equity Price Risk	Total Market Risk
ASSETS				
Investments in Fixed Maturities	$ 5,382.7	$ (322.4)	$ —	$ (322.4)
Investments in Equity Securities	526.0	(6.3)	(134.9)	(141.2)
Fair Value Option Investments	77.5	—	(1.4)	(1.4)
LIABILITIES				
Debt	$ 614.6	$ 30.1	$ —	$ 30.1

The estimated adverse effects on the fair value of the Company's financial instruments at December 31, 2016 using these assumptions were:

DOLLARS IN MILLIONS	Fair Value	Pro Forma Increase (Decrease) Interest Rate Risk	Equity Price Risk	Total Market Risk
ASSETS				
Investments in Fixed Maturities	$ 5,124.9	$ (313.4)	$ —	$ (313.4)
Investments in Equity Securities	481.7	(5.4)	(120.7)	(126.1)
Fair Value Option Investments	111.4	—	(2.5)	(2.5)
LIABILITIES				
Debt	$ 770.9	$ 24.5	$ —	$ 24.5

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.

70

Item 8. Financial Statements and Supplementary Data.
Index to the Consolidated Financial Statements of
Kemper Corporation and Subsidiaries

Kemper Corporation and Subsidiaries
Consolidated Balance Sheets

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	December 31, 2017	2016
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2017 - $5,021.6; 2016 - $4,846.8)	$5,382.7	$5,124.9
Equity Securities at Fair Value (Cost: 2017 - $476.2; 2016 - $434.4)	526.0	481.7
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	161.0	175.9
Fair Value Option Investments	77.5	111.4
Short-term Investments at Cost which Approximates Fair Value	235.5	273.7
Other Investments	422.2	439.9
Total Investments	6,804.9	6,607.5
Cash	45.7	115.7
Receivables from Policyholders	366.0	336.5
Other Receivables	194.3	198.6
Deferred Policy Acquisition Costs	365.3	332.0
Goodwill	323.0	323.0
Current Income Tax Assets	6.1	15.5
Deferred Income Tax Assets	—	25.8
Other Assets	270.9	255.9
Total Assets	$8,376.2	$8,210.5
Liabilities and Shareholders’ Equity:		
Insurance Reserves:		
Life and Health	$3,521.0	$3,475.3
Property and Casualty	1,016.8	931.4
Total Insurance Reserves	4,537.8	4,406.7
Unearned Premiums	653.9	618.7
Deferred Income Tax Liabilities	14.8	—
Liabilities for Unrecognized Tax Benefits	8.1	5.1
Long-term Debt, Current and Non-current, at Amortized Cost (Fair Value: 2017 - $614.6; 2016 - $770.9)	592.3	751.6
Accrued Expenses and Other Liabilities	453.7	453.2
Total Liabilities	6,260.6	6,235.3
Shareholders’ Equity:		
Common Stock, $0.10 Par Value Per Share, 100 Million Shares Authorized; 51,462,405 Shares Issued and Outstanding at December 31, 2017 and 51,270,940 Shares Issued and Outstanding at December 31, 2016	5.1	5.1
Paid-in Capital	673.1	660.3
Retained Earnings	1,243.0	1,172.8
Accumulated Other Comprehensive Income	194.4	137.0
Total Shareholders’ Equity	2,115.6	1,975.2
Total Liabilities and Shareholders’ Equity	$8,376.2	$8,210.5

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

72

Kemper Corporation and Subsidiaries
Consolidated Statements of Income

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	For The Years Ended December 31, 2017	2016	2015
Revenues:			
Earned Premiums	$2,350.0	$2,220.0	$2,009.6
Net Investment Income	327.2	298.3	302.6
Other Income	4.0	3.2	3.7
Net Realized Gains on Sales of Investments	56.5	33.1	52.1
Other-than-temporary Impairment Losses:			
Total Other-than-temporary Impairment Losses	(14.4)	(33.0)	(27.4)
Portion of Losses Recognized in Other Comprehensive Income	0.1	0.3	0.2
Net Impairment Losses Recognized in Earnings	(14.3)	(32.7)	(27.2)
Total Revenues	2,723.4	2,521.9	2,340.8
Expenses:			
Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses	1,837.4	1,780.8	1,467.6
Insurance Expenses	644.3	647.3	645.1
Write-off of Long-lived Assets	—	—	11.1
Loss from Early Extinguishment of Debt	—	—	9.1
Interest and Other Expenses	80.6	90.3	107.6
Total Expenses	2,562.3	2,518.4	2,240.5
Income from Continuing Operations before Income Taxes	161.1	3.5	100.3
Income Tax Benefit (Expense)	(41.2)	9.2	(20.1)
Income from Continuing Operations	119.9	12.7	80.2
Discontinued Operations:			
Income from Discontinued Operations	1.0	4.1	5.5
Net Income	$120.9	$16.8	$85.7
Income from Continuing Operations Per Unrestricted Share:			
Basic	$2.32	$0.25	$1.55
Diluted	$2.31	$0.25	$1.55
Net Income Per Unrestricted Share:			
Basic	$2.34	$0.33	$1.65
Diluted	$2.33	$0.33	$1.65
Dividends Paid to Shareholders Per Share	$0.96	$0.96	$0.96

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)

DOLLARS IN MILLIONS	For The Years Ended December 31, 2017	2016	2015
Net Income	$120.9	$16.8	$85.7
Other Comprehensive Income (Loss) Before Income Taxes:			
Unrealized Holding Gains (Losses)	83.8	(2.2)	(177.3)
Foreign Currency Translation Adjustments	1.7	(0.3)	(1.4)
Decrease in Net Unrecognized Postretirement Benefit Costs	3.3	20.5	26.1
Gain (Loss) on Cash Flow Hedge	(6.7)	1.6	—
Other Comprehensive Income (Loss) Before Income Taxes	82.1	19.6	(152.6)
Other Comprehensive Income Tax Benefit (Expense)	(24.7)	(6.9)	54.2
Other Comprehensive Income (Loss)	57.4	12.7	(98.4)
Total Comprehensive Income (Loss)	$178.3	$29.5	$(12.7)

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Cash Flows

DOLLARS IN MILLIONS	For The Years Ended December 31, 2017	2016	2015
Operating Activities:			
Net Income	$120.9	$16.8	$85.7
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Increase in Deferred Policy Acquisition Costs	(33.3)	(15.6)	(13.1)
Amortization of Intangible Assets Acquired	5.1	5.9	15.4
Equity in Earnings of Equity Method Limited Liability Investments	(24.8)	(7.5)	(19.0)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	19.6	15.7	8.6
Decrease (Increase) in Value of Fair Value Option Investments reported in Investment Income	(1.3)	1.9	(0.3)
Amortization of Investment Securities and Depreciation of Investment Real Estate	16.7	16.2	16.1
Net Realized Gains on Sales of Investments	(56.5)	(33.1)	(52.1)
Net Impairment Losses Recognized in Earnings	14.3	32.7	27.2
Loss from Early Extinguishment of Debt	—	—	9.1
Depreciation of Property and Equipment	13.1	13.6	13.5
Write-offs of Long-lived Assets	—	—	11.1
Decrease (Increase) in Other Receivables	(29.2)	(11.0)	49.6
Increase (Decrease) in Insurance Reserves	131.1	201.8	39.6
Increase (Decrease) in Unearned Premiums	35.2	5.6	(9.4)
Change in Income Taxes	28.9	(6.5)	(21.8)
Increase (Decrease) in Accrued Expenses and Other Liabilities	2.9	3.3	22.6
Other, Net	(2.1)	0.7	32.2
Net Cash Provided by Operating Activities	240.6	240.5	215.0
Investing Activities:			
Sales, Paydowns and Maturities of Fixed Maturities	528.2	532.3	627.8
Purchases of Fixed Maturities	(710.1)	(850.3)	(681.3)
Sales of Equity Securities	342.0	158.9	238.4
Purchases of Equity Securities	(342.7)	(90.1)	(134.0)
Acquisition and Improvements of Investment Real Estate	(1.5)	(2.2)	(1.8)
Sales of Investment Real Estate	26.7	7.5	7.7
Sales of and Return of Investment of Equity Method Limited Liability Investments	48.1	41.0	32.9
Acquisitions of Equity Method Limited Liability Investments	(27.9)	(34.6)	(32.4)
Sales of Fair Value Option Investments	42.2	72.2	—
Purchases of Fair Value Option Investments	(7.0)	(21.0)	(111.0)
Decrease (Increase) in Short-term Investments	39.4	(18.0)	104.9
Acquisition of Businesses, Net of Cash Acquired	—	—	(57.6)
Increase in Other Investments	(4.5)	(5.7)	(3.2)
Purchase of Corporate-owned Life Insurance	—	(7.5)	(7.5)
Acquisition of Software	(35.5)	(17.6)	(8.9)
Other, Net	(2.8)	(3.0)	(2.6)
Net Cash Used by Investing Activities	(105.4)	(238.1)	(28.6)
Financing Activities:			
Net Proceeds from Issuances of Debt	200.2	—	247.3
Repayments of Debt	(360.0)	—	(258.8)
Common Stock Repurchases	—	(3.8)	(45.0)
Dividends and Dividend Equivalents Paid	(49.5)	(49.2)	(49.7)

Cash Exercise of Stock Options	4.0	3.5	3.9
Other, Net	0.1	1.1	1.5
Net Cash Used by Financing Activities	(205.2)	(48.4)	(100.8)
Increase (Decrease) in Cash	(70.0)	(46.0)	85.6
Cash, Beginning of Year	115.7	161.7	76.1
Cash, End of Year	$45.7	$115.7	$161.7

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE AMOUNTS	For The Years Ended December 31, 2017, 2016 and 2015					
	Number of Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCE, DECEMBER 31, 2014	52.4	$ 5.2	$ 660.1	$ 1,202.7	$ 222.7	$ 2,090.7
Net Income	—	—	—	85.7	—	85.7
Other Comprehensive Income (Note 12)	—	—	—	—	(98.4)	(98.4)
Cash Dividends and Dividend Equivalents to Shareholders ($0.96 per share)	—	—	—	(49.7)	—	(49.7)
Repurchases of Common Stock	(1.2)	(0.1)	(15.5)	(27.9)	—	(43.5)
Equity-based Compensation Cost (Note 10)	—	—	6.5	—	—	6.5
Equity-based Awards, Net of Shares Exchanged (Note 10)	0.1	—	2.9	(1.8)	—	1.1
BALANCE, DECEMBER 31, 2015	51.3	$ 5.1	$ 654.0	$ 1,209.0	$ 124.3	$ 1,992.4
Net Income	—	—	—	16.8	—	16.8
Other Comprehensive Loss (Note 12)	—	—	—	—	12.7	12.7
Cash Dividends and Dividend Equivalents to Shareholders ($0.96 per share)	—	—	—	(49.2)	—	(49.2)
Repurchases of Common Stock	(0.1)	—	(1.8)	(2.0)	—	(3.8)
Equity-based Compensation Cost (Note 10)	—	—	4.7	—	—	4.7
Equity-based Awards, Net of Shares Exchanged (Note 10)	0.1	—	3.4	(1.8)	—	1.6
BALANCE, DECEMBER 31, 2016 As Reported	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
BALANCE, JANUARY 1, 2017 As Adjusted	51.3	$ 5.1	$ 660.3	$ 1,173.3	$ 137.0	$ 1,975.7
Net Income	—	—	—	120.9	—	120.9
Other Comprehensive Income (Note 12)	—	—	—	—	57.4	57.4
Cash Dividends and Dividend Equivalents to Shareholders ($0.96 per share)	—	—	—	(49.5)	—	(49.5)
Equity-based Compensation Cost (Note 10)	—	—	9.4	—	—	9.4
Equity-based Awards, Net of Shares Exchanged (Note 10)	0.2	—	3.4	(1.7)	—	1.7
BALANCE, DECEMBER 31, 2017	51.5	$ 5.1	$ 673.1	$ 1,243.0	$ 194.4	$ 2,115.6

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

Kemper Corporation and Subsidiaries
Notes to the Consolidated 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.
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 Equity Securities, Fair Value Option Investments, Trading Securities, Debt, and derivative instruments included in either Other Assets or Other Liabilities 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.
Investments in Equity Securities include common and non-redeemable preferred stocks and other equity interests and are reported at fair value. Investments in common and non-redeemable preferred stocks with readily determinable fair values are classified as available for sale. Dividend income on investments in common and non-redeemable preferred stocks is recognized on the ex-dividend date. Other equity interests primarily consist of exchange traded funds and interests in limited liability companies and limited partnerships in which the Company’s interests are deemed minor. The Company’s share of distributed earnings from other equity interests is recognized as dividend income when received.
Unrealized appreciation or depreciation, net of applicable deferred income taxes, on fixed maturities and equity securities classified as available for sale is reported in Accumulated Other Comprehensive Income (“AOCI”) included in Shareholders’ Equity.

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.

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

Fair Value Option Investments include investments in certain hedge funds, which the Company has elected the fair value option ("FVO") to account for such investments. Under the FVO method of accounting, the Company reports changes in the fair value of such investments in Net Investment Income in the Consolidated Statements of Income. The hedge funds are designed to preserve liquidity, while providing higher returns than Kemper would otherwise expect to earn had it invested in other short-term investments.

Short-term Investments include certificates of deposits 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 and real estate. 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.

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 — 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 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.

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

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 mortality. 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 the third quarter of 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 the third quarter of 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 include 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. No such charge was recorded during the year ended December 31, 2017 or December 31, 2015.

Other Receivables

Other Receivables primarily include reinsurance recoverables and accrued investment income. Reinsurance Recoverables were $111.6 million and $106.4 million at December 31, 2017 and 2016, respectively. Accrued Investment Income was $72.8 million and $70.8 million at December 31, 2017 and 2016, respectively.

Other Assets

Other Assets primarily include property and equipment, internal use software, insurance licenses acquired in business combinations, the value of other intangible assets acquired, corporate-owned life insurance 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 impairment indicators. Write-offs of Long-lived Assets for the year ended December 31, 2015 were $11.1 million to write off the costs of a computer software development project that

was abandoned by the Company’s Property & Casualty Insurance segment.
Insurance licenses acquired in business combinations and other indefinite life intangibles are not amortized, but rather tested periodically for recoverability.

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

Corporate-owned life insurance 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.

The Company accounts for the present value of the future profits embedded in life insurance in force acquired ("Life VIF") based on actuarial estimates of the present value of estimated net cash flows. Life VIF was $25.5 million and $28.9 million at December 31, 2017 and 2016, respectively. Life VIF is amortized using the effective interest method using interest rates consistent with the rates in the underlying insurance contracts. The Company estimates that it will record Life VIF amortization, net of interest, of $3.0 million in 2018, $2.8 million in 2019, $2.3 million in 2020, $2.0 million in 2021 and $1.9 million in 2022. The Company evaluates the Life VIF for recoverability annually.

The Company accounts for the present value of the future profits embedded in Property and Casualty Insurance Customer Relationships Acquired ("P&C Customer Relationships") based on the present value of estimated future cash flows from the customer relationships acquired. P&C Customer Relationships was $7.3 million and $9.0 million at December 31, 2017 and 2016, respectively. P&C Customer Relationships is amortized using the effective interest method. P&C Customer Relationships is 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 Property and Casualty Insurance Broker Relationships Acquired ("P&C Broker Relationships") based on the present value of estimated future cash flows from the broker relationships acquired. P&C Broker Relationships was $15.6 million and $16.8 million at December 31, 2017 and 2016, respectively. P&C Broker Relationships is amortized on a straight-line basis over 15 years. P&C Broker Relationships is 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 accrued salaries and commissions, pension benefits, postretirement medical benefits 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. The Company's deferred policy acquisition costs in the Consolidated Balance Sheets as of December 31, 2017 and 2016 include reductions of $1.2 million and $9.7 million, respectively, due to premium deficiencies with respect to Alliance United's personal automobile book of business.

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.

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.

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

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 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 resulting from uncertain tax positions taken