



# Morgan Stanley P&C Insurance Investor Day

September 2018



# Preliminary Matters

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## **Cautionary Statements Regarding Forward-Looking Information**

This presentation 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, and can be identified by the fact that they relate to future actions, performance or results rather than strictly to historical or current facts.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this presentation. Forward-looking statements involve a number of risks and uncertainties that are difficult to predict, and are not guarantees of future performance. Among the general factors that could cause actual results and financial condition to differ materially from estimated results and financial condition are those listed in periodic reports filed by Kemper Corporation with the Securities and Exchange Commission (SEC). No assurances can be given that the results and financial condition contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable. Kemper assumes no obligation to publicly correct or update any forward-looking statements as a result of events or developments subsequent to the date of this presentation. The reader is advised, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

## **Non-GAAP Financial Measures**

This presentation contains non-GAAP financial measures that the company believes are meaningful to investors. Non-GAAP financial measures have been reconciled to the most comparable GAAP financial measure.

# Kemper is a Leading Specialized Multi-Line Insurer

*Taking advantage of the benefits a diversified platform provides*

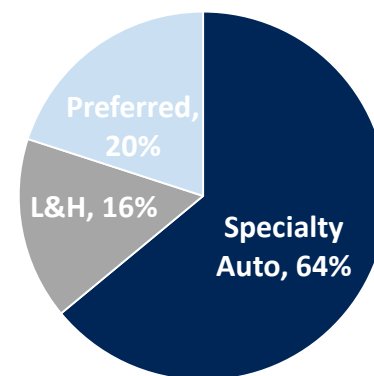
- **Multi-line national insurance company**
  - Provide specialty auto and preferred personal insurance (auto, home & umbrella)
  - Provide basic life, accident & health products
  - Founded in 1990 and headquartered in Chicago, with subsidiaries writing policies since 1911
- **Multi-channel distribution network**
  - 2,200 career agents
  - Approximately 30,000 independent agents
- **Strong balance sheet**
  - Insurance subsidiaries highly rated<sup>1</sup> by A.M. Best
  - ~90% of Kemper's fixed maturity portfolio is investment grade
- **Successful execution by proven leadership team**
  - Kemper results have exceeded analysts' expectations for last 9 quarters
  - Kemper closed acquisition of Infinity P&C in July 2018

## Key Metrics – Post Infinity Acquisition

|  |               |
|--|---------------|
| Market Cap (8/31/18)                             | \$5.3 Billion |
| Debt-to-Capital Ratio                            | ~27%          |
| A.M. Best Ratings (Kemper/Infinity) <sup>1</sup> | A-/A          |
| Excess Capital                                   | >\$100 MM     |
| Employees  | >7,800        |
| In-force policies                                | ~7MM          |

## 2017 Pro Forma<sup>2</sup> Business Mix

*Complementary Businesses Provide Diversification Benefits*

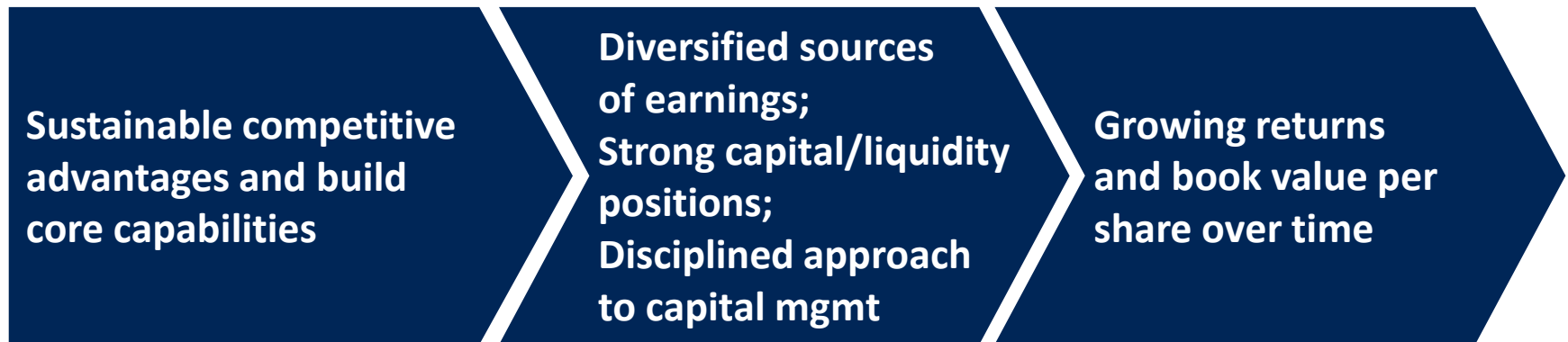


2017 Earned Premium: \$3.7bn

**Creating value for all of our stakeholders**

# Create Long-Term Stakeholder Value

*Leverage competitive advantages to grow returns and BVPS over time*



## Strategic focus:

Consumer-related businesses with opportunities that:

- Target niche markets
- Have limited, weak or unfocused competition
- Require unique expertise (underwriting, claim, distribution, other)

**Delivering consistent returns while managing risk**

<sup>1</sup> Return on Equity

# Key Investment Highlights

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**Strong Brand with Three Diversified Businesses  
Growing Top Line Revenues**

Successfully Executing on Strategy to Unlock  
Embedded Value

Stable Cash Flow Generation

Strong Capitalization and Ample Liquidity

Superior Risk Profile and Leading Portfolio Returns

Experienced Management Team with a History of  
Delivering Favorable Results



**KEMPER**

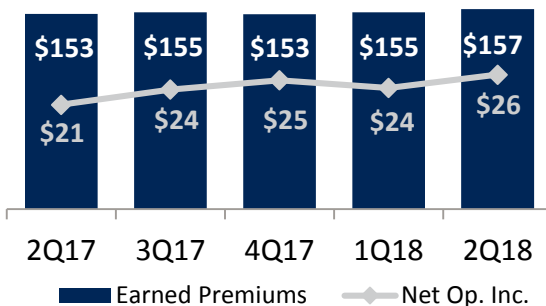
# Mix of Diversified Non-Correlated Businesses That Complement One Another

## *Stable & predictable L&H cash flow supports P&C growth*

### Life and Health

16% of LTM Earned Premiums

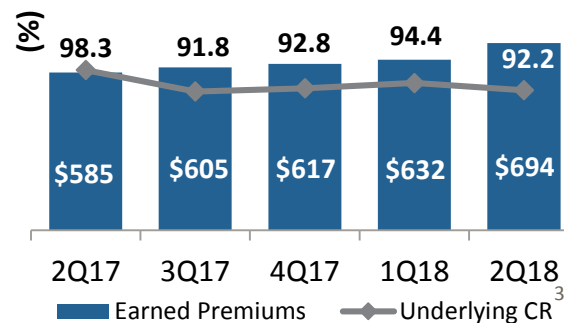
- Provides basic life, accident and health products in 49 states
  - Limited sensitivity to interest rate or stock market volatility
  - Simple products with stable cash flows
- Consists of 2 divisions:
  - Kemper Home Service Companies
  - Reserve National
- Distribution Channels:
  - 2,200 captive home service agents
  - ~3,500 independent agents
  - Employer-sponsored voluntary benefit programs
- Key Risks:
  - Mortality
  - Morbidity



### Specialty Auto<sup>1</sup>

65% of LTM Earned Premiums

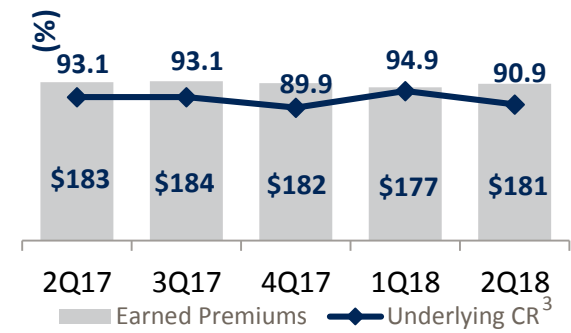
- Seasoned writer providing insurance to this market for more than 65 years
- Acquired Infinity Property & Casualty Corporation in July 2018 and Alliance United in May 2015, both with an emphasis on the Hispanic market
- Emphasis on specialized service & claims functions to address market needs
- Growing new business through products with increased specialization and segmentation
- Distribution Channel:
  - ~25,000 Independent agents
- Key Risks:
  - Auto: Frequency & severity



### Preferred Home and Auto<sup>2</sup>

19% of LTM Earned Premiums

- Offer packaged policies (more than 50 percent of home policies are packaged with auto)
- Management addressing profitability through claims, rate and underwriting actions
- Catastrophe loss expectations remain in line with long-term pricing expectations
- Obtained additional reinsurance to reduce volatility from high frequency / low severity events
- Distribution Channel:
  - ~5,000 Independent agents
- Key Risks:
  - Auto: Frequency & severity
  - Property: Catastrophe



<sup>1</sup>Pro forma with Infinity Property & Casualty Corporation

<sup>2</sup>Includes Home, Preferred Auto and Other Personal Insurance

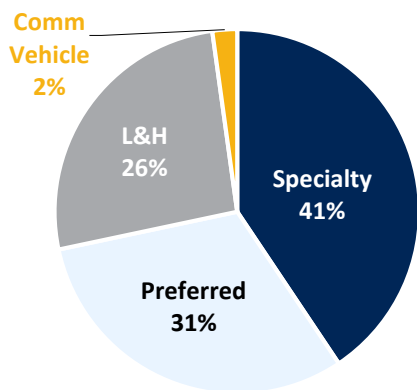
<sup>3</sup>Underlying Combined Ratio; Non-GAAP financial measure; see reconciliation in the appendix

# Infinity Strengthens Core Capabilities and Improves Geographic Diversification

## *Reduces our overall risk and California concentration*

### Standalone Kemper

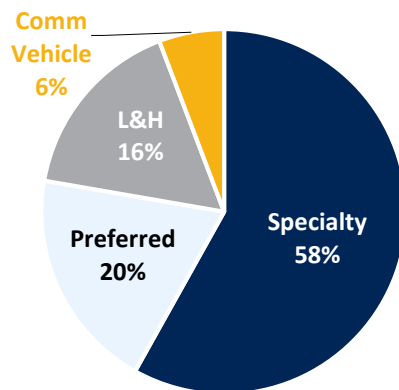
#### Business Mix



2017 EP: \$2.4bn

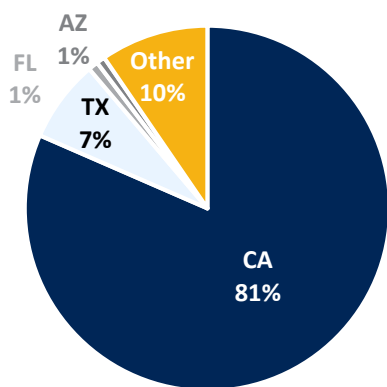
### Pro Forma

#### Business Mix



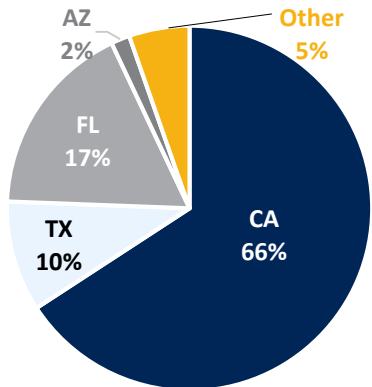
2017 EP: \$3.7bn

#### Specialty Geographic Distribution



2017 EP: \$1.0bn

#### Specialty Geographic Distribution



2017 EP: \$2.2bn

- Diversified product offerings focused on niche customers
- Combined entity offers more capital efficiency
- Opportunity to offer life, health, renters products to Infinity customer base
- Commercial auto offers attractive source of growth

- Strengthens specialty premium in key states (i.e., CA, FL, TX)
- Limited agency overlap
- Complementary product offerings

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Growing Top Line Revenues

**Successfully Executing on Strategy to Unlock  
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Superior Risk Profile and Leading Portfolio Returns

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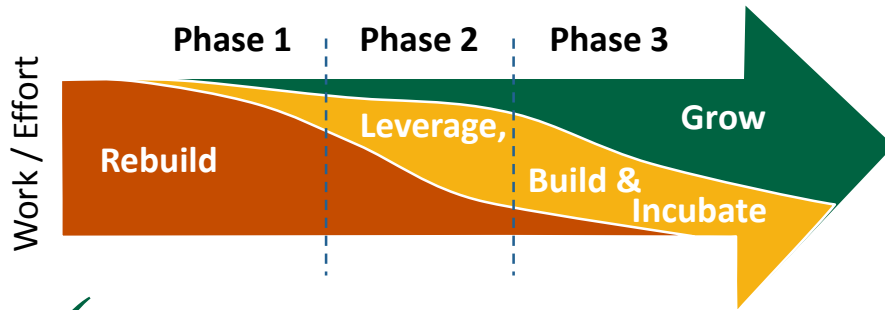
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# Taking the Next Step on Kemper's Journey to Unlock Embedded Value

## *Acquisition of Infinity increased scale and capabilities*

### Continued Progress on Specialty Auto Strategic Plan



- ✓ Majority of Phase 1 and Phase 2 initiatives are complete or ahead of schedule
- ✓ Shifting focus towards Phase 3 as a result of improved operating performance
- ➡ Grow and enhance strategic position in key focus markets
- ➡ Scale business platform and enhance product suite
- ➡ Optimize data and analytics capabilities
- ➡ Continue to enhance operational efficiency with claims initiatives

### Acquisition of Infinity Accelerates Momentum

- Combines two leading brands in specialty auto insurance
- Increases scale in specialty auto and attractive markets
  - Improves presence in core markets
  - Expands product offering and customer base
  - Deepens agency relationships in urban and Hispanic markets
  - Bolsters growth opportunities
- Better positioned to serve combined customer base
  - Specialization optimizes claims process
  - Efficient expense base enables more competitive pricing
  - Enhanced customer experience
  - Broader product offering enables cross-sell
- Enhances earnings profile and provides significant financial flexibility
  - Improved capital generation capabilities
  - Deploys capital in a strategic acquisition that will meaningfully enhance shareholder value

**Combination of two leading specialty businesses improves our ability to provide valuable products at reasonable costs to the combined customer base**

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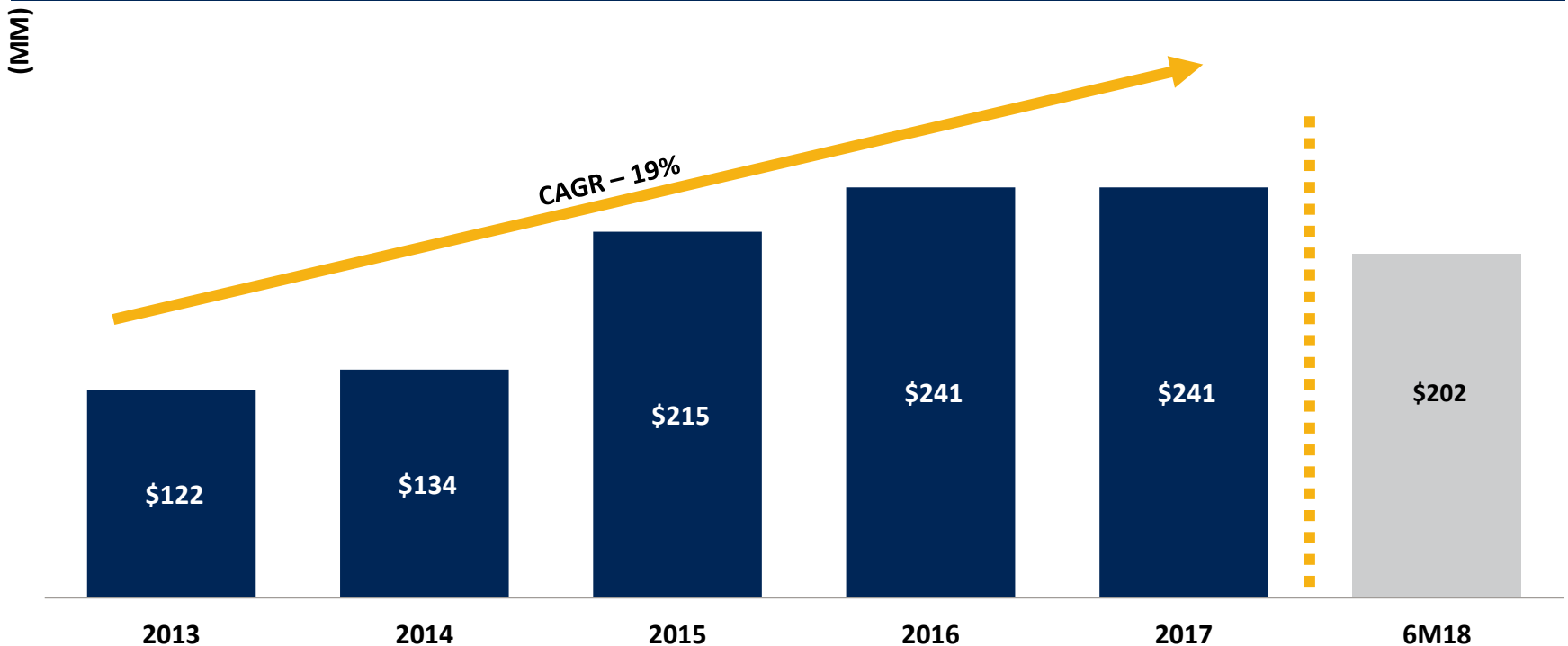
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# Consistent Operating Cash Flow Generation

## *Steady increase in cash flow from operations*

- Execution of strategic initiatives bearing fruit
- Disciplined approach to expense management unlocking cash flow
- Diversified business model reduces volatility of cash flow
- Acquisition of Infinity provides an additional stable source of cash flow generation

### Cash Flow from Operating Activities



Strong cash flow generation is further enhanced with the Infinity acquisition

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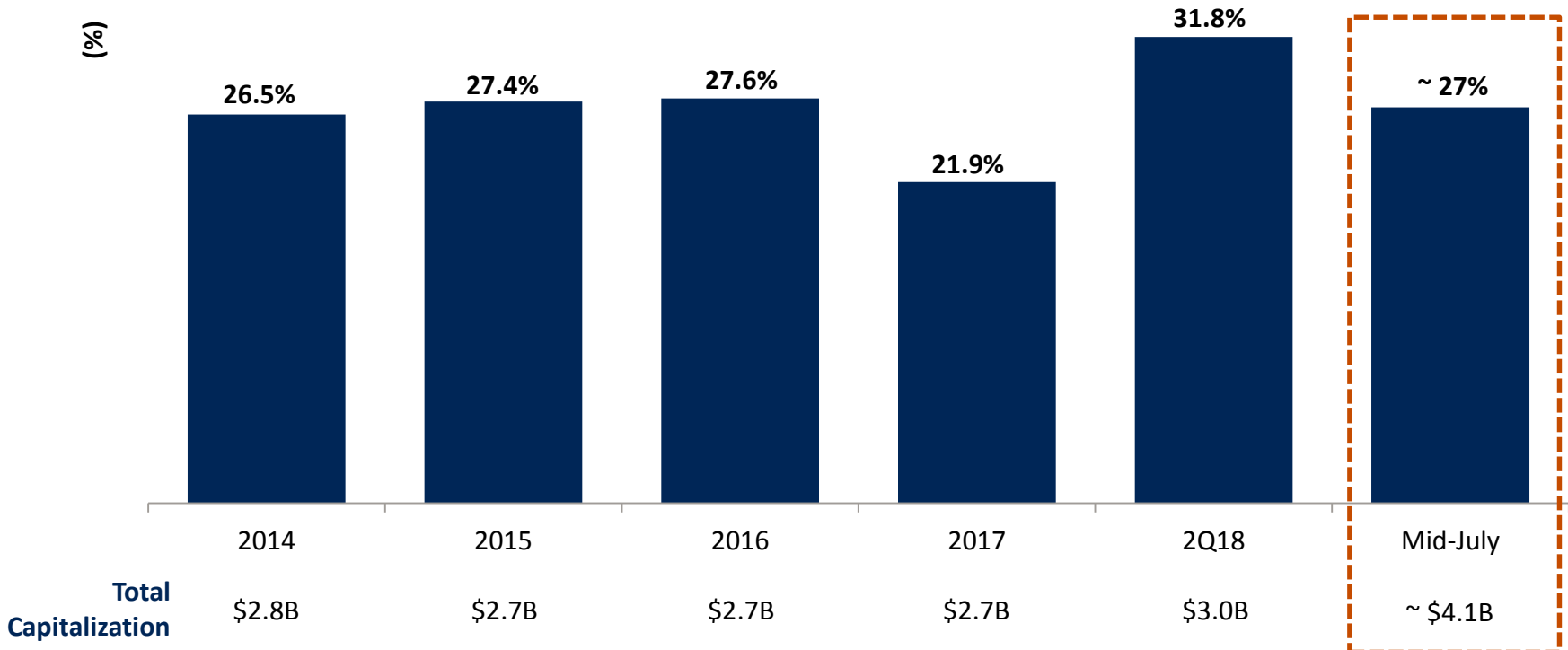
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# Debt-to-Capital Ratio Remains Under 30%

*Expect ratio to return to low 20s by mid-2019*

- 2Q18 debt-to-capital ratio reflects the pre-funding of the Infinity acquisition
- Post Infinity close and repayment of FHLB borrowings, pro forma ratio was approximately 27%
- Normalized long-term debt-to-capital range is between 20% and 25%

## Debt-to-Capital Historically <30%



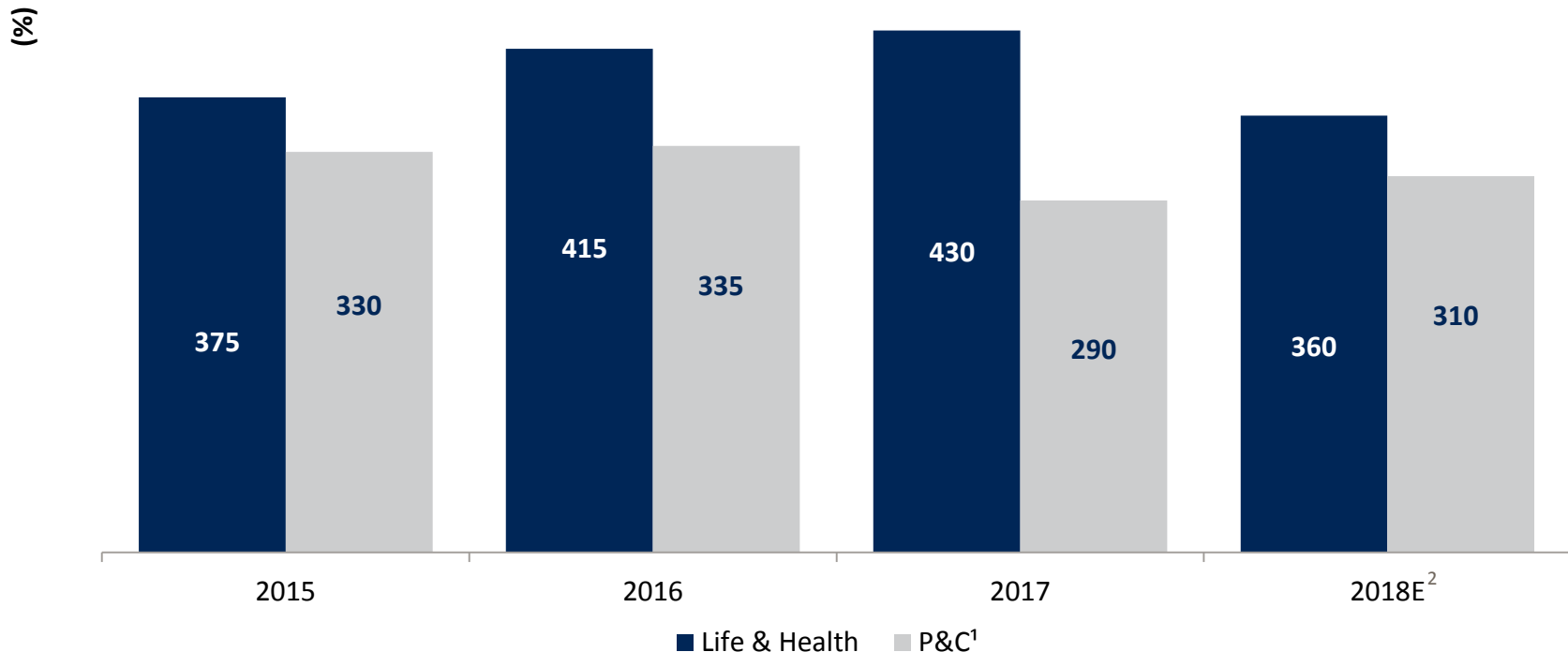
Capital position provides significant financial flexibility & strong collateral coverage

# Insurance Subsidiaries are Well-Capitalized

## Increased capital management efficiency to optimize financial flexibility

- Reinsurance programs reduce P&C earnings and capital volatility
- Diversification benefits of business model reduce earnings volatility and enhance liquidity profile
- 2018E RBC ratio includes the impact of tax reform (~50 pts); capital remains in excess of level required to support ratings

### Risk-Based Capital Ratios (Company Action Level)

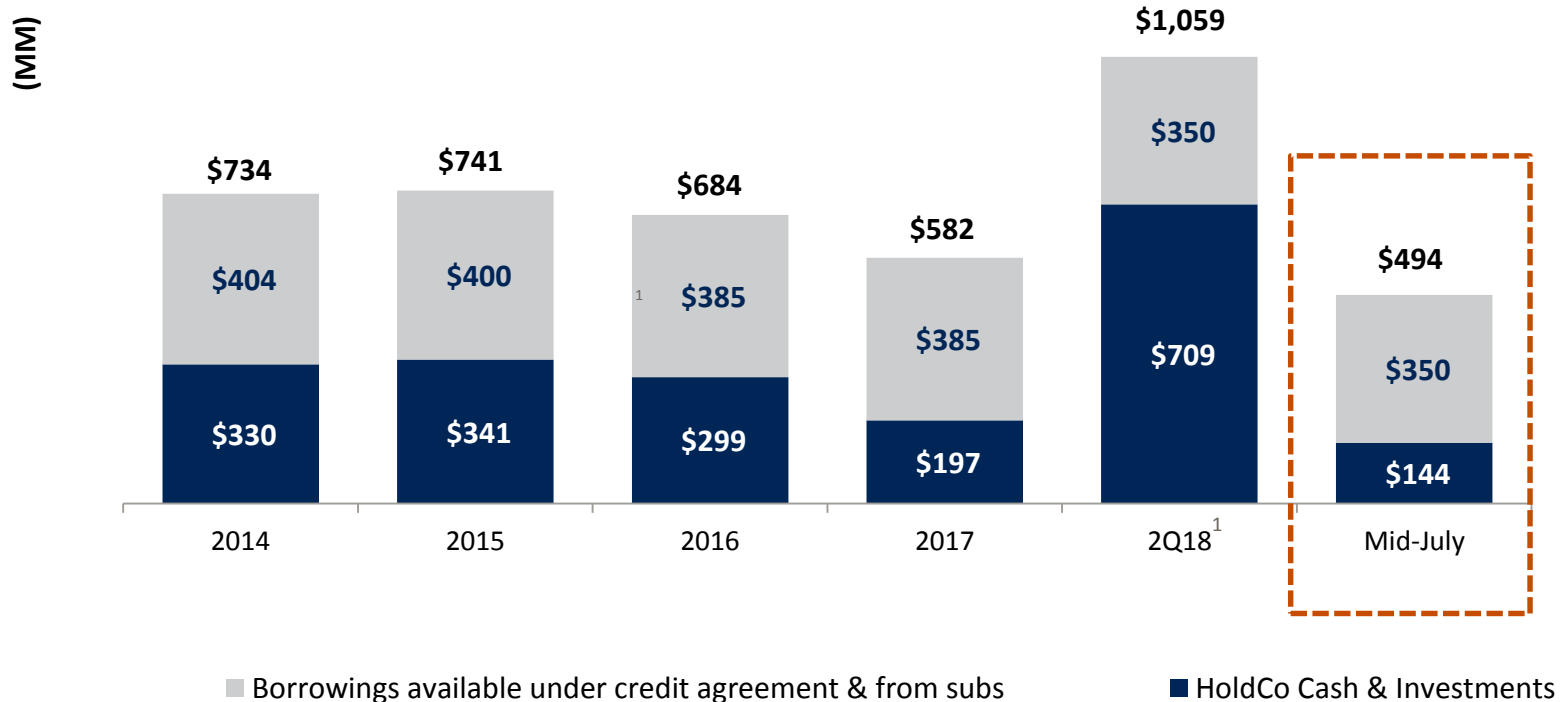


Committed to maintaining ample capital to ensure strong ratings

# Strong Parent Company Liquidity

*Post acquisition, Company maintains ample liquidity to meet future obligations*

## Parent Company Liquidity



Maintain a high level of liquidity to ensure ability to fund expected and planned unexpected events

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# Prudent Approach to Risk Management

## *Multi-line platform enhances risk diversification*

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### Insurance Products

- P&C: Primarily short-tail liabilities allow for flexible repricing to swiftly address frequency and severity trends as they emerge; strong Property and catastrophe aggregate reinsurance programs in place balancing cost and protection
- L&H: Small face amount limits mortality risk (~\$5,500 per policy in force); no variable annuities or equity-linked products
- Reduced risk over time by eliminating long-tail commercial lines, major medical products and coastal exposures

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### Investments

- Market and interest rate risk is limited as only 12 percent of operating revenues is derived from investments as of year end 2017
- Approximately 80 percent of portfolio is fixed maturities, of which 90 percent is investment grade

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### Corporate Profile

- Multi-line operating structure optimizes liquidity, capital, and investment management while enhancing risk diversification through non-correlated distributable cash flows
- Highly rated insurance financial strength ratings (A- Stable or better) demonstrates our commitment to disciplined risk and capital management

# Reinsurance Program Designed to Balance Cost & Protection

*Cat reinsurance program provides capital protection in the event of a large Cat*

## Catastrophe Reinsurance Program (Multi Year)

| Placed at 1/1/16  | Placed at 1/1/17  | Placed at 1/1/18  |                                 |
|---|---|---|---------------------------------|
| Retention 68.33% of \$100M xs \$250M                            |   |   |                                 |
| <b>\$200M xs \$150M</b><br>2016: 3.00% ROL<br><br>31.67% Placed | <b>\$100M xs \$150M</b><br>2017: 3.40% ROL<br><br>31.67% Placed | <b>\$100M xs \$150M</b><br>2018: 3.35% ROL<br><br>31.67% Placed | Retention 5% of \$200M xs \$50M |
| <b>\$100M xs \$50M</b><br>7.00% ROL<br><br>31.67% Placed        | <b>\$100M xs \$50M</b><br>6.60% ROL<br><br>31.67% Placed        | <b>\$100M xs \$50M</b><br>6.85% ROL<br><br>31.67% Placed        |                                 |
| Retention 100% of first \$50M                                   |   |   |                                 |

- For an event that occurs in 2018, we have coverage of 31.67% of \$300 million xs \$50 million from our 1/1/16 treaty
- We have coverage of 31.67% of \$200 million xs \$50 million from our 1/1/17 treaty, and similar coverage from our 1/1/18 treaty

# Reinsurance Program Designed to Balance Cost & Protection

*New aggregate program reduces exposure to high frequency, low severity events*

## 2018 Aggregate Catastrophe Reinsurance Program

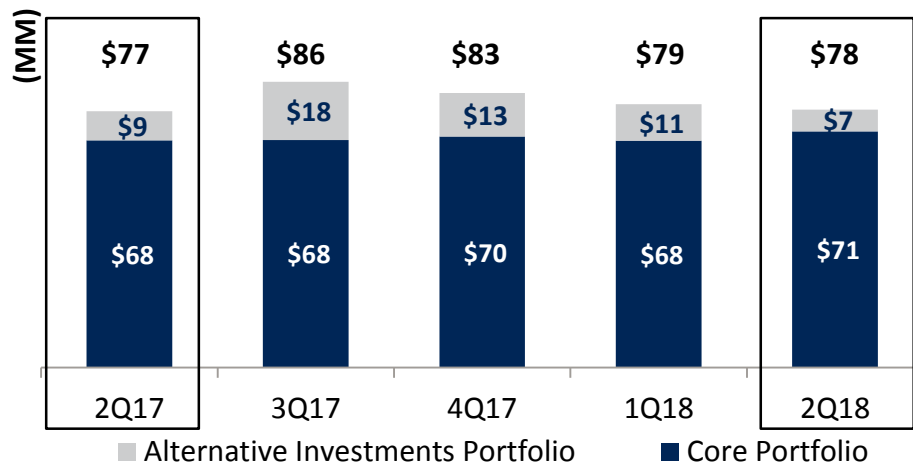


- Coverage
  - \$50 million in excess of \$60 million
  - \$500k deductible per storm
  - Perils: All perils, excluding named storms (i.e., hurricanes) and earthquakes
  - Covered Line: Homeowners
- Pricing
  - \$9 million

# Consistent Portfolio Returns: High Quality, Moderate Risk

*Core portfolio provides stable returns; enhanced with alternative investments*

## Strong Investment Income Despite Low Rates

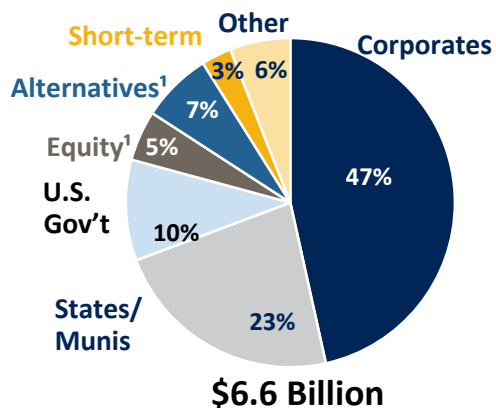


## Overview

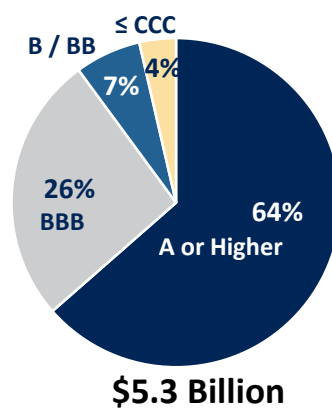
- Investment portfolio produced a pre-tax equivalent annualized book yield of 5.0 percent in 2Q18 compared to 5.2 percent in 2Q17
- After-tax yield increased from 3.4 percent to 3.9 percent due primarily to tax law change; this resulted in an increase of \$10.5 million after-tax net income
- Alternative investment portfolio, which is designed to provide enhanced returns over time, produced investment income of \$7 million in 2Q18
- Core portfolio continues to provide consistent and predictable cash flows; \$3 million increase was driven by higher investment base generated by growth in the Life and Specialty books
- More than 80 percent of the total investment portfolio remains comprised of fixed maturity and short-term securities, of which 90 percent is rated investment grade

## Diversified & Highly-Rated Portfolio

### Portfolio Composition



### Fixed Maturity Ratings



<sup>1</sup> Equity Securities excludes \$260 million of Other Equity Interests of LP/LLC's that have been reclassified into Alternative Investments

# Financial Strength and Credit Ratings

## *Highly rated insurance financial strength and debt ratings*

| Financial Strength Ratings |   |                              |                                   |
|----------------------------|---|------------------------------|-----------------------------------|
|                            | Kemper Property & Casualty <sup>1</sup> | Infinity Property & Casualty | Kemper Life & Health <sup>2</sup> |
| A.M. Best                  | A-                                      | A                            | A-                                |
| Standard & Poor's          | A-                                      | A-                           | A-                                |
| Moody's Investor Service   | A3                                      | A3                           | A3                                |
| Fitch Ratings              | A-                                      | --                           | A-                                |

| Debt Ratings <sup>3</sup> |             |                   |
|---------------------------|-------------|-------------------|
|                           | Senior Debt | Subordinated Debt |
| A.M. Best                 | bbb-        | bb+               |
| Standard & Poor's         | BBB-        | BB                |
| Moody's Investor Service  | Baa3        | Ba1               |
| Fitch Ratings             | BBB-        | BB                |

<sup>1</sup>The lead operating company in Kemper Property & Casualty is Trinity Universal Insurance Company. Alliance United Insurance Company is not rated

<sup>2</sup>The lead operating company in Kemper Life & Health is United Insurance Company of America

<sup>3</sup>All Debt is held at the parent company, Kemper Corporation, with the exception of Infinity Property and Casualty Corporation's legacy debt

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**KEMPER**

# Experienced Leaders with History of Delivering Results

## *Increased ability to attract and retain high caliber talent*

### **Joe Lacher**

President & Chief Executive Officer

- 25+ years of insurance industry experience; Joined Kemper in 2015;
- Previous experience: Allstate, Travelers

### **Jim McKinney**

SVP & Chief Financial Officer

- 15+ years of finance experience; Joined Kemper in November 2016
- Previous experience: Banc of California, AerCap, RBS Citizens, KPMG

### **John Boschelli**

SVP & Chief Investment Officer

- 25+ years of insurance industry experience; Rejoined Kemper in 1997
- Held various investment, finance and accounting positions

### **Charles Brooks**

SVP, Operations & Systems

- 25+ years of IT and operations experience; Joined Kemper in 2016
- Previous experience: ACE Group, Travelers and Accenture

### **Tom Evans**

SVP, Secretary & General Counsel

- 30+ years of legal experience, majority in the insurance industry
- Joined Kemper in 1992; served in various legal roles

### **Mark Green**

President, Life & Health

- 25+ years of insurance industry experience; Joined Kemper in 2016
- Previous experience: Allstate, AIX Group, Wells Fargo Ins., Chubb

### **Andy Lau**

SVP, Chief Data & Analytics Officer

- 20+ years of data and analytics experience; Joined Kemper in July 2017;
- Previous experience: CNA Insurance, Liberty International

### **Christine Mullins**

SVP, Chief Human Resources Officer

- 25+ years of human resources experience; Joined Kemper in 2016;
- Previous experience: CEO.works, Zurich, Motorola

### **Duane Sanders**

President, P&C

- 30+ years of insurance industry experience; Joined Kemper in 2018
- Previous experience: Travelers, Fortune Financial, Cigna, Progressive

# Executive Oversight Leads to a Successful Infinity Integration

*Experienced integration teams working diligently to ensure a smooth integration*

## People Integration – IPCC Key Personnel

- Current Infinity leadership remains highly involved post closing
- Expect to retain vast majority of sales, underwriting, claims and customer service employees
- Well-positioned to attract and retain top talent in the specialty segment to increase effectiveness

## Culture

- Similar focus on serving niche segments of the personal auto market
- Focus on building brand awareness and bringing new products and services to the segment

## Products, Pricing & Underwriting

- Over time, leverage increased data and segmentation into product pricing
- Develop additional products tailored towards the urban and Hispanic segments

## Claims

- Transition to a single P&C claims platform to improve operational efficiencies and data analytics
- Use best practices to refine approach to claim operations

## Systems/Operation Integration

- Executing comprehensive integration plan
- Identifying strengths and weaknesses of current systems and platforms
- Elimination of duplicate systems over time to reduce expenses and gain efficiencies



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# Appendix

# Second Quarter 2018 Highlights

## *Continue to produce growing returns across business lines*

### 2Q18 vs 2Q17 Operating Results

- Net Income increased from \$36.6 million to \$37.6 million resulting in EPS of \$0.71 and \$0.73, respectively
- Adj Consolidated Net Operating EPS<sup>1</sup> increased from \$0.41 to \$0.70
- Earned Premiums increased \$76 million, or 13 percent; improvements continue to be driven by policies-in-force growth in the Nonstandard Auto business
- Nonstandard Auto increased earned premium by 32 percent and policies in force by 29 percent while improving the Underlying Combined Ratio by 2.0 percentage points
- Life & Health net operating income increased \$6 million
- Net Investment Income of \$78 million continues to provide a consistent income stream

### Balance Sheet

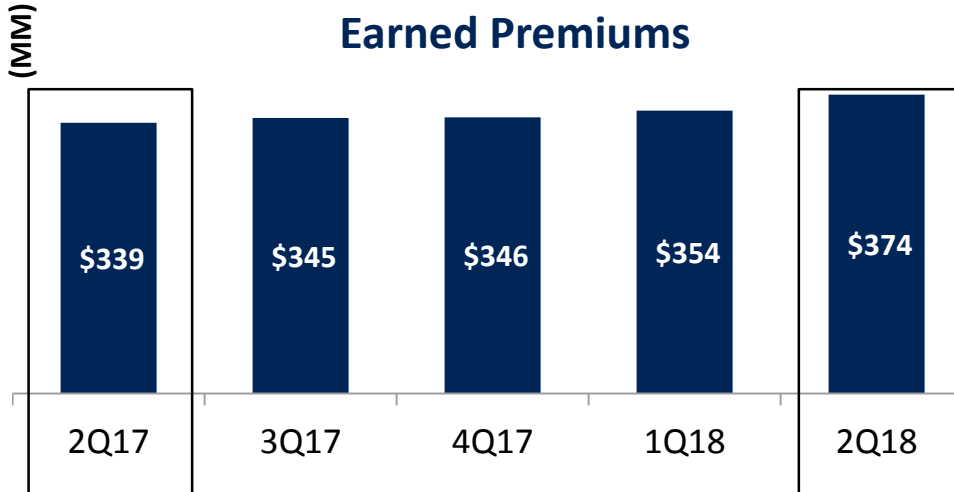
- Ample liquidity at holding company post Infinity acquisition
  - Approximately \$500 million of available and contingent liquidity
  - More than \$100 million of excess capital
  - Debt-to-capital ratio of approximately 27 percent

### Other

- Amended and extended credit agreement on June 8, 2018
  - Increased revolver capacity to \$300 million
- Closed acquisition of Infinity P&C on July 2, 2018
- Teresa A. Canida elected to Board of Directors effective upon Infinity close

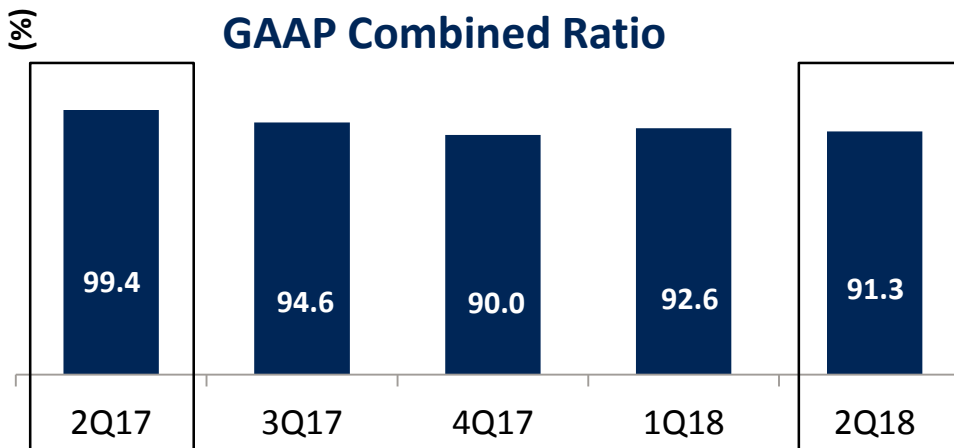
# Infinity 2Q 2018 Performance – Not Included in Kemper’s 2Q18 Results

*10% premium growth with improved margins compared to 2Q17*



## Revenues

- Earned premiums increased 10 percent over the 2Q17, driven by:
  - 5 percent growth of policy-in-force
  - Higher average premiums
- Written premium increased in all states as well as in Commercial Auto



## Underwriting Results

- Combined ratio improved by 8.1 percentage points over 2Q17 driven by:
  - Improving loss cost trends in CA & FL
  - Higher average premiums as rate increases earned in
- 2Q17 artificially high by 3.6 percentage points as a result of premium refunds to CA policyholders

Infinity’s strong performance validates our thesis for the acquisition

# Non-GAAP Financial Measures

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**Underlying Combined Ratio** is a non-GAAP financial measure that is computed by excluding the current year catastrophe and LAE ratio and the prior-year reserve development ratio (both non-catastrophe and catastrophes) from the combined ratio. The most directly comparable GAAP financial measure is the combined ratio, which is computed by adding the total incurred loss and LAE ratio, including the impact of catastrophe losses and loss and LAE reserve development from prior years, with the insurance expense ratio.

Kemper believes the underlying combined ratio is useful to investors and is used by management to reveal the trends in Kemper's property and casualty insurance businesses that may be obscured by catastrophe losses and prior-year reserve development. These catastrophe losses may cause 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 development is caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier periods, it has no bearing on the performance of the company's insurance products in the current period. Kemper believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing its underwriting performance. The underlying combined ratio should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business.

# Non-GAAP Financial Measures

## Underlying Combined Ratio – Continued

|  | For the Three Months Ended |          |          |          |          |
|--|----------------------------|----------|----------|----------|----------|
|  | 2Q17                       | 3Q17     | 4Q17     | 1Q18     | 2Q18     |
| <b>Kemper Nonstandard Personal Automobile</b>    |                            |          |          |          |          |
| Earned Premiums                                  | \$ 233.6                   | \$ 246.5 | \$ 257.8 | \$ 266.2 | \$ 307.5 |
| Current Year Non-Catastrophe Loss and LAE        | 183.9                      | 185.5    | 204.6    | 202.8    | 237.8    |
| Current Year Catastrophe Loss and LAE            | 2.4                        | 1.5      | (0.8)    | 0.2      | 1.7      |
| Prior Years Non-Catastrophe Losses and LAE       | (1.0)                      | 2.1      | 2.8      | 0.2      | 4.2      |
| Prior Years Catastrophe Losses and LAE           | -                          | (0.1)    | -        | (0.2)    | -        |
| Incurred Losses and LAE as Reported              | \$ 185.3                   | \$ 189.0 | \$ 206.6 | \$ 203.0 | \$ 243.7 |
| Insurance Expenses                               | 36.9                       | 39.7     | 41.5     | 45.2     | 46.7     |
| Total Underwriting Losses, LAE & Expenses        | \$ 222.2                   | \$ 228.7 | \$ 248.1 | \$ 248.2 | \$ 290.4 |
| Combined Ratio as Reported                       | 95.1%                      | 92.8%    | 96.2%    | 93.3%    | 94.5%    |
| Current Year Catastrophe Loss and LAE Ratio      | (1.0%)                     | (0.6%)   | 0.3%     | (0.1%)   | (0.6%)   |
| Prior Years Non-Catastrophe Losses and LAE Ratio | 0.4%                       | (0.9%)   | (1.1%)   | (0.1%)   | (1.4%)   |
| Prior Years Catastrophe Losses and LAE Ratio     | 0.0%                       | 0.0%     | 0.0%     | 0.1%     | 0.0%     |
| Underlying Combined Ratio                        | 94.5%                      | 91.3%    | 95.4%    | 93.2%    | 92.5%    |

|  | For the Three Months Ended |         |         |         |         |
|--|----------------------------|---------|---------|---------|---------|
|  | 2Q17                       | 3Q17    | 4Q17    | 1Q18    | 2Q18    |
| <b>Kemper Commercial Automobile</b>              |                            |         |         |         |         |
| Earned Premiums                                  | \$ 12.7                    | \$ 13.1 | \$ 12.9 | \$ 12.2 | \$ 12.5 |
| Current Year Non-Catastrophe Loss and LAE        | 9.9                        | 11.3    | 10.0    | 9.5     | 9.4     |
| Current Year Catastrophe Loss and LAE            | 0.4                        | 0.2     | -       | -       | 0.4     |
| Prior Years Non-Catastrophe Losses and LAE       | 1.6                        | (1.3)   | (1.1)   | (0.7)   | (0.1)   |
| Prior Years Catastrophe Losses and LAE           | -                          | (0.1)   | -       | (0.1)   | -       |
| Incurred Losses and LAE as Reported              | \$ 11.9                    | \$ 10.1 | \$ 8.9  | \$ 8.7  | \$ 9.7  |
| Insurance Expenses                               | 2.8                        | 3.0     | 2.6     | 2.7     | 2.3     |
| Total Underwriting Losses, LAE & Expenses        | \$ 14.7                    | \$ 13.1 | \$ 11.5 | \$ 11.4 | \$ 12.0 |
| Combined Ratio as Reported                       | 115.7%                     | 100.0%  | 89.2%   | 93.4%   | 96.0%   |
| Current Year Catastrophe Loss and LAE Ratio      | (3.1%)                     | (1.5%)  | 0.0%    | 0.0%    | (3.2%)  |
| Prior Years Non-Catastrophe Losses and LAE Ratio | (12.6%)                    | 9.9%    | 8.5%    | 5.7%    | 0.8%    |
| Prior Years Catastrophe Losses and LAE Ratio     | 0.0%                       | 0.8%    | 0.0%    | 0.8%    | 0.0%    |
| Underlying Combined Ratio                        | 100.0%                     | 109.2%  | 97.7%   | 99.9%   | 93.6%   |

# Non-GAAP Financial Measures

## Underlying Combined Ratio – Continued

|  | For the Three Months Ended |          |          |          |          |
|--|----------------------------|----------|----------|----------|----------|
|  | 2Q17                       | 3Q17     | 4Q17     | 1Q18     | 2Q18     |
| <b>Total Kemper Nonstandard Automobile<sup>1</sup></b> |                            |          |          |          |          |
| Earned Premiums  | \$ 246.3                   | \$ 259.6 | \$ 270.7 | \$ 278.4 | \$ 320.0 |
| Current Year Non-Catastrophe Loss and LAE              | 193.8                      | 196.8    | 214.6    | 212.3    | 247.2    |
| Current Year Catastrophe Loss and LAE                  | 2.8                        | 1.7      | (0.8)    | 0.2      | 2.1      |
| Prior Years Non-Catastrophe Losses and LAE             | 0.6                        | 0.8      | 1.7      | (0.5)    | 4.1      |
| Prior Years Catastrophe Losses and LAE                 | -                          | (0.2)    | -        | (0.3)    | -        |
| Incurred Losses and LAE as Reported                    | \$ 197.2                   | \$ 199.1 | \$ 215.5 | \$ 211.7 | \$ 253.4 |
| Insurance Expenses                                     | 39.7                       | 42.7     | 44.1     | 47.9     | 49.0     |
| Total Underwriting Losses, LAE & Expenses              | \$ 236.9                   | \$ 241.8 | \$ 259.6 | \$ 259.6 | \$ 302.4 |
| Combined Ratio as Reported                             | 96.2%                      | 93.1%    | 95.9%    | 93.2%    | 94.5%    |
| Current Year Catastrophe Loss and LAE Ratio            | (1.1%)                     | (0.7%)   | 0.3%     | (0.1%)   | (0.7%)   |
| Prior Years Non-Catastrophe Losses and LAE Ratio       | (0.2%)                     | (0.3%)   | (0.6%)   | 0.2%     | (1.3%)   |
| Prior Years Catastrophe Losses and LAE Ratio           | 0.0%                       | 0.1%     | 0.0%     | 0.1%     | 0.0%     |
| Underlying Combined Ratio                              | 94.8%                      | 92.3%    | 95.6%    | 93.5%    | 92.6%    |

|   | For the Three Months Ended |          |          |          |          |
|---|----------------------------|----------|----------|----------|----------|
|   | 2Q17                       | 3Q17     | 4Q17     | 1Q18     | 2Q18     |
| <b>Infinity</b>                                   |                            |          |          |          |          |
| Earned Premiums                                   | \$ 339.1                   | \$ 345.0 | \$ 345.9 | \$ 354.0 | \$ 374.3 |
| Current Year Non-Catastrophe Loss and LAE         | 278.6                      | 252.3    | 248.4    | 273.6    | 277.4    |
| Current Year Catastrophe Loss and LAE             | 1.7                        | 15.1     | (0.9)    | (0.1)    | 1.4      |
| Prior Years Non-Catastrophe Losses and LAE        | (6.7)                      | (4.1)    | (1.3)    | (8.9)    | (3.6)    |
| Prior Years Catastrophe Losses and LAE            | -                          | -        | -        | -        | -        |
| Incurred Losses and LAE as Reported               | \$ 273.6                   | \$ 263.3 | \$ 246.2 | \$ 264.6 | \$ 275.2 |
| Insurance Expenses (Less Install & Other Fee Inc) | 63.5                       | 63.3     | 65.2     | 63.1     | 66.5     |
| Total Underwriting Losses, LAE & Expenses         | \$ 337.1                   | \$ 326.6 | \$ 311.4 | \$ 327.7 | \$ 341.7 |
| Combined Ratio as Reported                        | 99.4%                      | 94.6%    | 90.0%    | 92.6%    | 91.3%    |
| Current Year Catastrophe Loss and LAE Ratio       | (0.5%)                     | (4.4%)   | 0.3%     | 0.0%     | (0.4%)   |
| Prior Years Non-Catastrophe Losses and LAE Ratio  | 2.0%                       | 1.2%     | 0.4%     | 2.5%     | 1.0%     |
| Prior Years Catastrophe Losses and LAE Ratio      | 0.0%                       | 0.0%     | 0.0%     | 0.0%     | 0.0%     |
| Underlying Combined Ratio                         | 100.9%                     | 91.4%    | 90.7%    | 95.1%    | 91.9%    |



# Non-GAAP Financial Measures

## Underlying Combined Ratio – Continued

|   | For the Three Months Ended |          |          |          |          |
|---|----------------------------|----------|----------|----------|----------|
|   | 2Q17                       | 3Q17     | 4Q17     | 1Q18     | 2Q18     |
| <b>Total Kemper NSA<sup>1</sup> Pro Forma with Infinity</b> |                            |          |          |          |          |
| Earned Premiums   | \$ 585.4                   | \$ 604.6 | \$ 616.6 | \$ 632.4 | \$ 694.3 |
| Current Year Non-Catastrophe Loss and LAE                   | 472.4                      | 449.1    | 463.0    | 485.9    | 524.6    |
| Current Year Catastrophe Loss and LAE                       | 4.5                        | 16.8     | (1.7)    | 0.1      | 3.5      |
| Prior Years Non-Catastrophe Losses and LAE                  | (6.1)                      | (3.3)    | 0.4      | (9.4)    | 0.5      |
| Prior Years Catastrophe Losses and LAE                      | -                          | (0.2)    | -        | (0.3)    | -        |
| Incurring Losses and LAE as Reported                        | \$ 470.8                   | \$ 462.4 | \$ 461.7 | \$ 476.3 | \$ 528.6 |
| Insurance Expenses  | 103.2                      | 106.0    | 109.3    | 111.0    | 115.5    |
| Total Underwriting Losses, LAE & Expenses                   | \$ 574.0                   | \$ 568.4 | \$ 571.0 | \$ 587.3 | \$ 644.1 |
| Combined Ratio as Reported                                  | 98.1%                      | 94.0%    | 92.6%    | 92.9%    | 92.8%    |
| Current Year Catastrophe Loss and LAE Ratio                 | (0.8%)                     | (2.8%)   | 0.3%     | (0.0%)   | (0.5%)   |
| Prior Years Non-Catastrophe Losses and LAE Ratio            | 1.0%                       | 0.5%     | (0.1%)   | 1.5%     | (0.1%)   |
| Prior Years Catastrophe Losses and LAE Ratio                | 0.0%                       | 0.0%     | 0.0%     | 0.0%     | 0.0%     |
| Underlying Combined Ratio                                   | 98.3%                      | 91.8%    | 92.8%    | 94.4%    | 92.2%    |

## Non-GAAP Financial Measures

**Diluted Adjusted Consolidated Net Operating Income (Loss) Per Unrestricted Share** is a non-GAAP financial measure computed by dividing Adjusted Consolidated Net Operating Income (Loss) attributed to unrestricted shares by the weighted-average unrestricted shares and equivalent shares outstanding. The most directly comparable GAAP financial measure is Diluted Income (Loss) from Continuing Operations Per Unrestricted Share.

Kemper believes that Diluted Adjusted Consolidated Net Operating Income (Loss) Per Unrestricted Share provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Income from change in fair value of equity securities, net realized gains on sales of investments and net impairment losses recognized in earnings related to investments included in Kemper'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.

| Per Unrestricted Share                                | For the Three Months Ended |                |                |                |                |
|---|----------------------------|----------------|----------------|----------------|----------------|
|   | 2Q18                       | 1Q18           | 4Q17           | 3Q17           | 2Q17           |
| Adj. Consolidated Net Operating Income - Diluted      | \$ 0.70                    | \$ 1.10        | \$ 0.60        | \$ 0.85        | \$ 0.41        |
| Net Income From:                                      |                            |                |                |                |                |
| Income from Change in Fair Value of Equity Securities | 0.01                       | 0.01           | -              | -              | -              |
| Net Realized Gains on Sales of Investments            | 0.06                       | 0.04           | 0.14           | 0.10           | 0.33           |
| Net Impairment Losses Recognized in Earnings          | -                          | (0.01)         | (0.05)         | (0.03)         | (0.03)         |
| Acquisition Related Transaction and Integration Costs | (0.04)                     | (0.12)         | -              | -              | -              |
| Income from Continuing Operations - Diluted           | <u>\$ 0.73</u>             | <u>\$ 1.02</u> | <u>\$ 0.69</u> | <u>\$ 0.92</u> | <u>\$ 0.71</u> |