

Edgar Filing: KEMPER Corp - Form 10-Q

KEMPER Corp
Form 10-Q
April 29, 2019

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

FORM 10-Q

**X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended March 31, 2019
OR**

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

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

Delaware (State or other jurisdiction of incorporation or organization)	95-4255452 (I.R.S. Employer Identification No.)
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200 E. Randolph Street, Suite 3300, Chicago, Illinois 60601 (Address of principal executive offices) (312) 661-4600 (Registrant's telephone number, including area code)	60601 (Zip Code)
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(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Smaller Reporting Company Emerging Growth Company

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

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

64,930,663 shares of common stock, \$0.10 par value, were outstanding as of April 22, 2019.

**KEMPER CORPORATION
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Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including, but not limited to, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), Risk Factors and the accompanying unaudited Condensed Consolidated Financial Statements (including the notes thereto) of Kemper Corporation ("Kemper") and its subsidiaries (individually and collectively referred to herein as the "Company") may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "believe(s)," "goal(s)," "target(s)," "estimate(s)," "anticipate(s)," "forecast(s)," "project(s)," "plan(s)," "intend(s)," "expect(s)," "might," "may," "could" terms of similar meaning. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results. Any or all forward-looking statements may turn out to be wrong, and, accordingly, Kemper cautions readers not to place undue reliance on such statements. Kemper bases these statements on current expectations and the current economic environment as of the date of this Quarterly Report on Form 10-Q. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that may be important in determining the Company's actual future results and financial condition.

In addition to those factors discussed under Item 1A., "Risk Factors," of Part I of Kemper's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the "SEC"), for the year ended December 31, 2018 (the "2018 Annual Report") as updated by Item 1A. of Part II of this Quarterly Report on Form 10-Q, the reader should consider the following list of general factors that, among others, could cause the Company's actual results and financial condition to differ materially from estimated results and financial condition.

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

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

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

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

catastrophes;

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

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

Factors related to the Company's ability to compete

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

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

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

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 that could materially affect the Company's operations, including, but not limited to, data breaches, cyber-attacks, virus or malware installation or other system hazards or infiltrations affecting system integrity, availability and performance, and actions taken to minimize and remediate the risks thereof; and

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

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

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****KEMPER CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Dollars in millions, except per share amounts)****(Unaudited)**

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Revenues:		
Earned Premiums	\$1,074.8	\$609.8
Net Investment Income	82.7	79.2
Other Income	1.9	1.2
Income from Change in Fair Value of Equity and Convertible Securities	64.4	0.7
Net Realized Gains on Sales of Investments	16.1	2.6
Other-than-temporary Impairment Losses:		
Total Other-than-temporary Impairment Losses	(3.5)	(0.5)
Portion of Losses Recognized in Other Comprehensive Income	(0.1)	—
Net Impairment Losses Recognized in Earnings	(3.6)	(0.5)
Total Revenues	1,236.3	693.0
Expenses:		
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	765.4	436.9
Insurance Expenses	234.8	160.1
Interest and Other Expenses	41.4	29.0
Total Expenses	1,041.6	626.0
Income from Continuing Operations before Income Taxes	194.7	67.0
Income Tax Expense	(39.4)	(13.4)
Income from Continuing Operations	155.3	53.6
Income from Discontinued Operations	—	0.2
Net Income	\$155.3	\$53.8
Income from Continuing Operations Per Unrestricted Share:		
Basic	\$2.38	\$1.03
Diluted	\$2.35	\$1.02
Net Income Per Unrestricted Share:		
Basic	\$2.38	\$1.03
Diluted	\$2.35	\$1.02

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

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)
(Unaudited)

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Net Income	\$ 155.3	\$ 53.8
Other Comprehensive Income (Loss) Before Income Taxes:		
Unrealized Holding Gains (Losses)	162.8	(121.4)
Foreign Currency Translation Adjustments	—	(0.9)
Decrease in Net Unrecognized Postretirement Benefit Costs	0.6	0.3
Gain on Cash Flow Hedges	0.1	0.9
Other Comprehensive Income (Loss) Before Income Taxes	163.5	(121.1)
Other Comprehensive Income Tax Benefit (Expense)	(34.4)	25.4
Other Comprehensive Income (Loss)	129.1	(95.7)
Total Comprehensive Income (Loss)	\$284.4	\$(41.9)

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

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except per share amounts)
(Unaudited)

	Mar 31, 2019	Dec 31, 2018
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2019 - \$6,266.9; 2018 - \$6,284.5)	\$6,573.1	\$6,424.2
Equity Securities at Fair Value	916.9	684.4
Equity Securities at Modified Cost	39.2	41.5
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	197.8	187.0
Convertible Securities at Fair Value	33.8	31.5
Short-term Investments at Cost which Approximates Fair Value	350.4	286.1
Other Investments	425.6	414.8
Total Investments	8,536.8	8,069.5
Cash	107.0	75.1
Receivables from Policyholders	1,048.6	1,007.1
Other Receivables	254.6	245.4
Deferred Policy Acquisition Costs	499.2	470.0
Goodwill	1,111.5	1,112.4
Current Income Tax Assets	19.7	38.9
Other Assets	604.8	526.5
Total Assets	\$12,182.2	\$11,544.9
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	\$3,568.5	\$3,558.7
Property and Casualty	1,868.7	1,874.9
Total Insurance Reserves	5,437.2	5,433.6
Unearned Premiums	1,499.5	1,424.3
Deferred Income Tax Liabilities	82.6	26.2
Liabilities for Unrecognized Tax Benefits	3.9	4.4
Collateralized Investment Borrowings at Cost (Fair Value: 2019 - \$187.7; 2018 - \$10.0)	187.7	10.0
Long-term Debt, Current and Non-current, at Amortized Cost (Fair Value: 2019 - \$933.8; 2018 - \$911.2)	908.5	909.0
Accrued Expenses and Other Liabilities	742.7	687.3
Total Liabilities	8,862.1	8,494.8
Shareholders' Equity:		
Common Stock, \$0.10 Par Value, 100 Million Shares Authorized; 64,930,663 Shares Issued and Outstanding at March 31, 2019 and 64,756,833 Shares Issued and Outstanding at December 31, 2018	6.5	6.5
Paid-in Capital	1,673.0	1,666.3
Retained Earnings	1,489.7	1,355.5
Accumulated Other Comprehensive Income	150.9	21.8
Total Shareholders' Equity	3,320.1	3,050.1
Total Liabilities and Shareholders' Equity	\$12,182.2	\$11,544.9

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

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Operating Activities:		
Net Income	\$ 155.3	\$ 53.8
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(29.2)	(12.7)
Amortization of Intangible Assets Acquired	8.7	0.3
Equity in Earnings of Equity Method Limited Liability Investments	(3.6)	(7.1)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	4.3	1.1
Increase in Value of Equity and Convertible Securities at Fair Value	(64.4)	(0.7)
Amortization of Investment Securities and Depreciation of Investment Real Estate	1.6	2.3
Net Realized Gains on Sales of Investments	(16.1)	(2.6)
Net Impairment Losses Recognized in Earnings	3.6	0.5
Depreciation of Property and Equipment	3.1	5.0
Increase in Receivables	(56.1)	(14.5)
Increase in Insurance Reserves	3.8	2.1
Increase in Unearned Premiums	75.2	36.3
Change in Income Taxes	40.1	18.1
Change in Accrued Expenses and Other Liabilities	(42.4)	(13.5)
Other, Net	5.1	5.6
Net Cash Provided by Operating Activities	89.0	74.0
Investing Activities:		
Sales, Paydowns and Maturities of Fixed Maturities	402.6	397.8
Purchases of Fixed Maturities	(368.4)	(408.6)
Sales of Equity and Convertible Securities	39.6	32.4
Purchases of Equity and Convertible Securities	(207.6)	(51.1)
Acquisition and Improvements of Investment Real Estate	(0.4)	(0.7)
Sale of and Return of Investment of Equity Method Limited Liability Investments	7.1	1.6
Acquisitions of Equity Method Limited Liability Investments	(18.6)	(3.5)
Decrease (Increase) in Short-term Investments	(53.3)	47.2
Increase (Decrease) in Other Investments	(10.6)	2.1
Acquisition and Development of Software	(9.3)	(22.1)
Other, Net	(0.8)	2.9
Net Cash Used by Investing Activities	(219.7)	(2.0)
Financing Activities:		
Proceeds from Collateralized Investment Borrowings	187.7	10.0
Repayment of Collateralized Investment Borrowings	(10.0)	—
Dividends and Dividend Equivalents Paid	(16.4)	(12.5)
Cash Exercise of Stock Options	1.3	0.6
Other, Net	—	(0.4)
Net Cash Provided (Used) by Financing Activities	162.6	(2.3)
Increase in Cash	31.9	69.7
Cash, Beginning of Year	75.1	45.7
Cash, End of Period	\$ 107.0	\$ 115.4

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

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in millions)
(Unaudited)

(Dollars and Shares in Millions, Except Per Share Amounts)	Three Months Ended March 31, 2019					
	Number Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2018	64.7	\$ 6.5	\$ 1,666.3	\$ 1,355.5	\$ 21.8	\$ 3,050.1
Net Income	—	—	—	155.3	—	155.3
Other Comprehensive Income (Note 8)	—	—	—	—	129.1	129.1
Cash Dividends and Dividend Equivalents to Shareholders (\$0.25 per share)	—	—	—	(16.4)	—	(16.4)
Equity-based Compensation Cost	—	—	7.6	—	—	7.6
Equity-based Awards, Net of Shares Exchanged	0.2	—	(0.9)	(4.7)	—	(5.6)
Balance, March 31, 2019	64.9	\$ 6.5	\$ 1,673.0	\$ 1,489.7	\$ 150.9	\$ 3,320.1
	Three Months Ended March 31, 2018					
(Dollars and Shares in Millions, Except Per Share Amounts)	Number Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2017 As Reported	51.5	\$ 5.1	\$ 673.1	\$ 1,243.0	\$ 194.4	\$ 2,115.6
Cumulative Effect of Adoption of New Accounting Standard	—	—	—	(18.2)	18.2	—
Balance, January 1, 2018 As Adjusted	51.5	\$ 5.1	\$ 673.1	\$ 1,224.8	\$ 212.6	\$ 2,115.6
Net Income	—	—	—	53.8	—	53.8
Other Comprehensive Income (Note 8)	—	—	—	—	(95.7)	(95.7)
Cash Dividends and Dividend Equivalents to Shareholders (\$0.24 per share)	—	—	—	(12.5)	—	(12.5)
Equity-based Compensation Cost	—	—	3.4	—	—	3.4
Equity-based Awards, Net of Shares Exchanged	—	—	0.4	(1.2)	—	(0.8)
Balance, March 31, 2018	51.5	\$ 5.1	\$ 676.9	\$ 1,264.9	\$ 116.9	\$ 2,063.8

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**(Unaudited)****Note 1 - Basis of Presentation**

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the SEC and include the accounts of Kemper Corporation and its subsidiaries and are unaudited. All significant intercompany accounts and transactions have been eliminated.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) is not required by the rules and regulations of the SEC for interim financial reporting and has been condensed or omitted. In the opinion of the Company’s management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company’s Consolidated Financial Statements and related notes included in the 2018 Annual Report.

Adoption of New Accounting Guidance***Guidance Adopted in 2019***

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, *Leases—(Topic 842)*. ASU 2016-02 introduced a lessee model that requires the recognition of a right-of-use (“ROU”) asset and a lease liability for all leases with terms greater than twelve months. The Company adopted ASC 842 using the modified retrospective method at the beginning of the period of the adoption and elected the permitted practical expedients to not reassess whether any expired or existing contracts contain leases, the lease classification for any expired or existing leases and initial direct costs for any existing leases. The adoption of ASU 2016-02 had no impact on the Company’s Shareholders’ Equity as of January 1, 2019, but resulted in the establishment of a ROU asset of \$78.0 million, a lease liability of \$82.5 million and an adjustment to deferred rent liability of \$4.5 million. The ROU Asset and related liabilities were reflected in Other Assets and Accrued Expenses and Other Liabilities, respectively, on the Condensed Consolidated Balance Sheets as of March 31, 2019.

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

Guidance Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that utilizes expected credit losses to provide for an allowance for credit losses for financial instruments and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement includes the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. Credit losses on available-for-sale debt securities are measured in a manner similar to current GAAP, although the ASU requires that they be presented as an allowance

rather than as a write-down. In situations where the estimate of credit loss on an available-for-sale debt security declines, entities will be able to record the reversal to income in the current period, which GAAP currently prohibits. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted for fiscal years beginning after December 31, 2018 and interim periods within such year. The Company is currently evaluating the impact of this guidance on its financial statements.

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

Note 1 - Basis of Presentation (continued)

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

The Company has adopted all other recently issued accounting pronouncements with effective dates prior to January 1, 2019. Other than the adoption of ASU 2016-02, 2016-02, *Leases—(Topic 842)* there were no adoptions of such accounting pronouncements during the three months ended March 31, 2019 that had a material impact on the Company's Condensed Consolidated Financial Statements. With the possible exceptions of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts*, the Company does not expect the adoption of recently issued accounting pronouncements with effective dates after March 31, 2019 to have a material impact on the Company's financial statements and/or disclosures.

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

Note 2 - Acquisition of Business

Acquisition of Infinity Property and Casualty Corporation

On July 2, 2018, Kemper acquired 100% of the outstanding common stock of Infinity Property and Casualty Corporation (“Infinity”), pursuant to the terms of the merger agreement dated February 13, 2018.

The Company has not yet completed the process of estimating the fair value of assets acquired and liabilities assumed, including, but not limited to, receivables, intangible assets, unearned premium reserves, certain tax-related balances and certain other asset and liabilities. Accordingly, the Company’s preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as the Company completes the process, which would also likely impact the Company’s allocation of the purchase price to Goodwill. In accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*, changes if any, to the preliminary estimates and allocation as a result of events or conditions as of the acquisition date, will be reported in the Company’s financial statements as an adjustment to the assets acquired and liabilities assumed. During the first quarter of 2019, the Company further refined its estimate of certain bonus accruals, other liabilities and related tax-related balances, decreasing liabilities assumed by \$0.9 million and decreasing goodwill by \$0.9 million. The Company has allocated all of the goodwill associated with the Infinity acquisition to the Specialty Property & Casualty Insurance segment. The factors that contributed to the recognition of goodwill include synergies from economies of scale within the underwriting and claims operations, acquiring a talented workforce and cost savings opportunities.

Based on the Company’s preliminary allocation of the purchase price as of March 31, 2019, the fair value of the assets acquired and liabilities assumed were:

(Dollars in Millions)

Investments	\$1,569.3
Short Term Investments	98.8
Cash	4.0
Receivables from Policyholders	583.4
Other Receivables	31.7
Value of Intangible Assets Acquired (Reported in Other Assets)	262.7
Current Income Tax Assets	0.8
Goodwill ¹	788.5
Other Assets	102.1
Property and Casualty Insurance Reserves	(713.6)
Unearned Premiums	(715.6)
Debt	(282.1)
Deferred Income Tax Liabilities	(11.7)
Accrued Expenses and Other Liabilities	(169.6)
Total Purchase Price	1,548.7

¹Non-deductible for tax-purposes.

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

Note 3 - Investments

Fixed Maturities

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

(Dollars in Millions)	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Government and Government Agencies and Authorities	\$845.9	\$20.2	\$(7.7)	\$858.4
States and Political Subdivisions	1,582.2	101.4	(1.7)	1,681.9
Foreign Governments	5.8	—	(0.6)	5.2
Corporate Securities:				
Bonds and Notes	3,281.5	216.4	(17.8)	3,480.1
Collateralized Loan Obligations	536.8	1.5	(6.8)	531.5
Other Mortgage- and Asset-backed	14.7	1.3	—	16.0
Investments in Fixed Maturities	\$6,266.9	\$340.8	\$(34.6)	\$6,573.1

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

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

Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of \$15.5 million and \$10.5 million at March 31, 2019 and December 31, 2018, respectively.

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

Note 3 - Investments (continued)

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

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	\$ 90.1	\$ 90.9
Due after One Year to Five Years	905.9	921.6
Due after Five Years to Ten Years	1,658.4	1,731.8
Due after Ten Years	2,434.4	2,649.2
Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date	1,178.1	1,179.6
Investments in Fixed Maturities	\$ 6,266.9	\$ 6,573.1

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

Investments in Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date at March 31, 2019 consisted of securities issued by the Government National Mortgage Association with a fair value of \$616.4 million, securities issued by the Federal National Mortgage Association with a fair value of \$8.1 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$7.6 million and securities of other non-governmental issuers with a fair value of \$547.5 million.

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

(Dollars in Millions)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	\$13.2	\$(0.2)	\$262.2	\$(7.5)	\$275.4	\$(7.7)
States and Political Subdivisions	1.6	(0.3)	77.8	(1.4)	79.4	(1.7)
Foreign Governments	4.4	(0.5)	0.5	(0.1)	4.9	(0.6)
Corporate Securities:						
Bonds and Notes	222.6	(5.2)	321.4	(12.6)	544.0	(17.8)
Collateralized Loan Obligations	406.6	(6.0)	28.7	(0.8)	435.3	(6.8)
Other Mortgage- and Asset-backed	—	—	4.6	—	4.6	—
Total Fixed Maturities	648.4	(12.2)	695.2	(22.4)	1,343.6	(34.6)

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

Unrealized losses on fixed maturities, which the Company has determined to be temporary at March 31, 2019, were \$34.6 million, of which \$22.4 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at March 31, 2019 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months." There were no unrealized losses at March 31, 2019 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Investment-grade fixed maturity investments comprised \$23.1 million and below-investment-grade fixed maturity investments comprised \$11.5 million of the unrealized losses on investments in fixed maturities at March 31, 2019. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was approximately 4% of the amortized cost basis of the investment. At March 31, 2019, the Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell these investments before it recovered the amortized cost of such investments, which may be at maturity. Based on the Company's

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

Note 3 - Investments (continued)

evaluation of the prospects of the issuers at March 31, 2019, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before it recovered the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

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

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

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

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

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

Note 3 - Investments (continued)

(Dollars in Millions)	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at Beginning of Period	\$ 1.1	\$ 1.6
Pre-tax Credit Losses on Fixed Maturities without Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Period	0.1	—
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at End of Period	\$ 1.2	\$ 1.6

Equity Securities

Investments in Equity Securities at Fair Value were \$916.9 million and \$684.4 million at March 31, 2019 and December 31, 2018, respectively. Net unrealized gains arising during the three months ended March 31, 2019 and recognized in earnings, related to such investments still held as of March 31, 2019, were \$63.4 million.

For Equity Securities at Modified Cost, the Company performs a qualitative impairment analysis on a quarterly basis consisting of various factors such as earnings performance, current market conditions, changes in credit ratings, changes in the regulatory environment and other factors. If the qualitative analysis identifies the presence of impairment indicators, the Company estimates the fair value of the investment. If the estimated fair value is below the carrying value, the Company records an other-than-temporary impairment in the Condensed Consolidated Statement of Income to reduce the carrying value to the estimated fair value. When the Company identifies observable transactions of the same or similar securities to those held by the Company, the Company increases or decreases the carrying value to the observable transaction price. The Company did not recognize any increases or decreases in the carrying value due to observable transactions. The Company recognized an impairment of \$0.2 million on Equity Securities at Modified Cost in other comprehensive income for the three months ended March 31, 2019 as a result of the Company's qualitative impairment analysis. The Company has recognized no cumulative increases in the carrying value due to observable transactions, no cumulative decreases in the carrying value due to observable transactions and \$5.1 million of cumulative impairments on Equity Securities at Modified Cost held as of March 31, 2019.

There were no unsettled sales of Investments in Equity Securities at March 31, 2019 and December 31, 2018. There were no unsettled purchases of Investments in Equity Securities at March 31, 2019 and December 31, 2018.

Equity Method Limited Liability Investments include investments in limited liability investment companies and limited partnerships in which the Company's interests are not deemed minor and are accounted for under the equity method of accounting. The Company's investments in Equity Method Limited Liability Investments are generally of a passive nature in that the Company does not take an active role in the management of the investment entity. The Company's maximum exposure to loss at March 31, 2019 is limited to the total carrying value of \$197.8 million. In addition, the Company had outstanding commitments totaling approximately \$105.2 million to fund Equity Method Limited Liability Investments at March 31, 2019.

Other Investments

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

(Dollars in Millions)	Mar 31, 2019	Dec 31, 2018
Loans to Policyholders at Unpaid Principal	\$301.4	\$300.6
Real Estate at Depreciated Cost	113.6	114.2
Mortgage Loans	10.6	—
Total	\$425.6	\$414.8

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

Note 3 - Investments (continued)

Net Investment Income

Net Investment Income for the three months ended March 31, 2019 and 2018 was:

(Dollars in Millions)	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Investment Income:		
Interest on Fixed Income Securities	\$76.4	\$62.4
Dividends on Equity Securities Excluding Alternative Investments	2.5	1.9
Alternative Investments:		
Equity Method Limited Liability Investments	(3.6)	7.1
Limited Liability Investments Included in Equity Securities	2.6	3.9
Total Alternative Investments	(1.0)	11.0
Short-term Investments	1.8	0.8
Loans to Policyholders	5.3	5.5
Real Estate	2.5	2.4
Total Investment Income	87.5	84.0
Investment Expenses:		
Real Estate	2.4	2.3
Other Investment Expenses	2.4	2.5
Total Investment Expenses	4.8	4.8
Net Investment Income	\$82.7	\$79.2

Gross gains and losses on sales of investments in fixed maturities for the three months ended March 31, 2019 and 2018 were:

(Dollars in Millions)	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Fixed Maturities:		
Gains on Sales	\$15.1	\$4.1
Losses on Sales	(2.6)	(2.1)

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

Note 4 - Property and Casualty Insurance Reserves

Property and casualty insurance reserve activity for the three months ended March 31, 2019 and 2018 was:

(Dollars in Millions)	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Property and Casualty Insurance Reserves:		
Gross of Reinsurance and Indemnification at Beginning of Year	\$1,874.9	\$1,016.8
Less Reinsurance and Indemnification Recoverables at Beginning of Year	101.9	53.1
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	1,773.0	963.7
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	687.6	339.3
Prior Years:		
Continuing Operations	(21.4)	(1.0)
Discontinued Operations	—	(0.3)
Total Incurred Losses and LAE Related to Prior Years	(21.4)	(1.3)
Total Incurred Losses and LAE	666.2	338.0
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	223.5	125.3
Prior Years:		
Continuing Operations	444.5	222.2
Discontinued Operations	0.9	0.7
Total Paid Losses and LAE Related to Prior Years	445.4	222.9
Total Paid Losses and LAE	668.9	348.2
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	1,770.3	953.5
Plus Reinsurance Recoverables at End of Period	98.4	51.6
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	\$1,868.7	\$1,005.1

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

For the three months ended March 31, 2019, the Company decreased its property and casualty insurance reserves by \$21.4 million to recognize favorable development of loss and LAE reserves from prior accident years. Preferred Personal automobile insurance loss and LAE reserves developed favorably by \$1.3 million due primarily to the emergence of favorable loss patterns for liability insurance related to 2018 and 2017 accident years. Other personal lines loss and LAE reserves developed favorably by \$1.8 million due primarily to the emergence of more favorable loss patterns than expected for the 2017, 2016 and 2015 accident years. Specialty Personal automobile insurance loss and LAE reserves developed favorably by \$14.3 million due primarily to the emergence of favorable loss patterns for liability insurance related to the 2018 accident year and, to a lesser extent the 2016 and 2015 accident years. Commercial automobile insurance loss and LAE reserves developed favorably by \$3.8 million due primarily to the emergence of favorable loss patterns for liability insurance related to the 2018 accident year.

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

Note 4 - Property and Casualty Insurance Reserves (continued)

For the three months ended March 31, 2018, the Company decreased its property and casualty insurance reserves by \$1.3 million to recognize favorable development of loss and LAE reserves from prior accident years. Preferred Personal automobile insurance loss and LAE reserves developed adversely by \$0.5 million due primarily to the emergence of loss patterns that were worse than expected for liability insurance for the 2016 and prior accident years, partially offset by the emergence of more favorable loss patterns than expected for both physical damage and liability insurance lines for the 2017 accident year. Homeowners insurance non-catastrophe loss and LAE reserves developed adversely by \$5.6 million due primarily to the emergence of loss patterns that were worse than expected for the 2017 and 2016 accident years, partially offset by favorable development on catastrophes of \$5.1 million related to the 2017 accident year. Other personal lines loss and LAE reserves developed favorably by \$1.2 million due primarily to the emergence of more favorable loss patterns than expected for the 2016 and 2015 accident years. Commercial automobile loss and LAE reserves developed favorably by \$0.7 million due primarily to the emergence of loss patterns that were more favorable than expected for the 2014 accident year and, to a lesser extent, the 2017 and 2016 accident years.

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

Note 5 - Debt

Amended and Extended Credit Agreement and Term Loan Facility

On June 29, 2018, the Company borrowed \$250.0 million under the delayed draw term loan facility to facilitate the funding of the acquisition of Infinity. The proceeds from the term loan facility, net of debt issuance costs, were \$249.4 million. On December 28, 2018, the Company repaid \$215.0 million of the outstanding term loan facility. There were no outstanding borrowings at March 31, 2019 and December 31, 2018 under the revolving credit agreement.

Infinity Debt

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

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

Note 5 - Debt (continued)

Long-term Debt

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

(Dollars in Millions)	Mar 31, 2019	Dec 31, 2018
Term Loan due June 29, 2020	\$34.9	\$34.9
5.0% Senior Notes due September 19, 2022	281.0	281.5
4.35% Senior Notes due February 15, 2025	448.4	448.4
7.375% Subordinated Debentures due February 27, 2054	144.2	144.2
Total Long-term Debt Outstanding	\$908.5	\$909.0

Collateralized Investment Borrowings

Kemper's subsidiaries, United Insurance Company of America ("United Insurance") and Trinity Universal Insurance Company ("Trinity"), are members of the Federal Home Loan Bank ("FHLB") of Chicago and Dallas, respectively. As a requirement of membership in the FHLB, United Insurance and Trinity maintain a certain level of investment in FHLB stock and additional amounts based on the level of outstanding borrowings. The Company's investments in FHLB common stock are reported at cost and included in Equity Securities at Modified Cost. The carrying value of FHLB of Chicago common stock was \$3.8 million and \$0.8 million at March 31, 2019 and December 31, 2018, respectively. The carrying value of FHLB of Dallas common stock was \$3.3 million at March 31, 2019 and December 31, 2018.

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

In March of 2019, United Insurance received advances of \$187.7 million from the FHLB of Chicago. These advances were made in connection with the Company's collateralized investment borrowings program. The proceeds related to these advances were used to purchase fixed maturity securities to earn incremental net investment income. With respect to these advances, United Insurance held pledged municipal securities in a custodial account with the FHLB of Chicago with a fair value of \$198.0 million as of March 31, 2019. The fair value of the collateral pledged must be maintained at certain specified levels above the borrowed amount, which can vary depending on the assets pledged. If the fair value of the collateral declines below these specified levels of the amount borrowed, United Insurance would be required to pledge additional collateral or repay outstanding borrowings.

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

Note 5 - Debt (continued)

The following summarizes the terms of the Company's Collateralized Investment Borrowings at March 31, 2019:

(Dollars in Millions)	Principal Borrowings	Weighted-average Interest Rate	
Due in One Year or Less	\$ 93.1	2.61	%
Due after One Year to Two Years	92.0	2.73	%
Due after Two Years to Three Years	2.6	2.71	%
	\$ 187.7		

Interest Expense and Interest Paid

Interest Expense, including facility fees, accretion of discount, amortization of premium and amortization of issuance costs, was \$11.5 million for the three months ended March 31, 2019. Interest paid, including facility fees, was \$19.8 million for the three months ended March 31, 2019, respectively. Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, was \$8.0 million for the three months ended March 31, 2018. Interest paid, including facility fees, was \$12.5 million for the three months ended March 31, 2018.

Note 6 - Leases

The Company leases certain office space under non-cancelable operating leases, with initial terms typically ranging from one to 10 years, along with options that permit renewals for additional periods. The Company also leases certain equipment under non-cancelable operating leases, with initial terms typically ranging from one to five years. Minimum rent is expensed on a straight-line basis over the term of the lease. See Note 1 - Adoption of New Accounting Guidance - New Guidance Adopted in 2019 for additional information regarding the accounting for leases.

Lease expenses are primarily included in insurance expenses in the condensed consolidated statement of income. Additional information regarding the Company's operating leases is presented below.

(Dollars in Millions)	Three Months Ended Mar 31, 2019
Lease Cost:	
Amortization of Right-of-Use Assets	\$0.2
Operating Lease Cost	5.7
Short-Term Lease Cost (1)	0.1
Total Expense	6.0
Less: Sublease Income (2)	(0.1)
Total Lease Cost	\$5.9

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

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

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

Note 6 - Leases (continued)

Other Information on Operating Leases

Supplemental cash flow information related to the Company's operating leases for the three months ended March 31, 2019 is as follows:

(Dollars in Millions)

Operating Cash Flows from Operating Lease (Fixed Payments)	\$5.2
Operating Cash Flows from Operating Lease (Liability Reduction)	4.7
Financing Cash Flows from Finance Leases	0.2
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	9.1

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

Weighted-average Remaining Lease Term - Finance Leases	1.9 years
Weighted-average Remaining Lease Term - Operating Leases	6.8 years
Weighted-average Discount Rate - Finance Leases	4.0 %
Weighted-average Discount Rate - Operating Leases	4.0 %

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

Future minimum lease payments under capital and operating leases at December 31, 2018 are presented below.

(Dollars in Millions)	Capital Leases	Operating Leases
2019	\$ 0.7	\$ 20.5
2020	0.7	18.4
2021	0.3	16.9
2022	0.2	15.0
2023	—	12.5
2024 and Thereafter	—	27.1
Total Future Payments	\$ 1.9	\$ 110.4
Less Imputed Interest	—	
Present Value of Minimum Capital Lease Payments	\$ 1.9	

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

Note 7 - Income from Continuing Operations Per Unrestricted Share

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

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
<u>(Dollars in Millions)</u>		
Income from Continuing Operations	\$ 155.3	\$ 53.6
Less Income from Continuing Operations Attributed to Participating Awards	0.7	0.5
Income from Continuing Operations Attributed to Unrestricted Shares	154.6	53.1
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	\$ 154.6	\$ 53.1
<u>(Number of Shares in Thousands)</u>		
Weighted-average Unrestricted Shares Outstanding	64,815.0	61,502.9
Equity-based Compensation Equivalent Shares	791.0	365.3
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	65,606.0	61,868.2
<u>(Per Unrestricted Share in Whole Dollars)</u>		
Basic Income from Continuing Operations Per Unrestricted Share		