

**PROGRAM DIVISION
BULLETIN**

2003-02

January 22, 2003

With the release of the A.M. Best Press Bulletin, the decision has been made to NOT Accept Kemper Group Companies for underlying coverages for our Umbrella or Excess Policies until further notice .

A.M. Best Lowers Rating of Kemper Insurance Companies Intercompany Pool

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FOR IMMEDIATE RELEASE

OLDWICK, N.J., DECEMBER 24, 2002

A.M. Best Co. has lowered the financial strength rating to B+ (Very Good) from A- (Excellent) of the participants in the **Kemper Insurance Companies** intercompany pool, Long Grove, Ill. In addition, A.M. Best has lowered the rating of the surplus notes issued by **Lumbermens Mutual Casualty Company**, the lead member of the group, to "bb-" from "bbb-". All ratings have been placed under review with negative implications.

These rating actions follow the recently announced business decision to repurchase \$125 million of Berkshire Hathaway's minority equity investment in a Kemper subsidiary company and its implications for Kemper's overall capitalization and liquidity. A.M. Best is also concerned with the potential for additional charges, including the potential for further adverse development in loss reserves in more recent accident years across most major lines of business.

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The decision to repurchase the minority equity investment in the subsidiary comes shortly following Berkshire Hathaway's investment of \$125 million in Kemper's portfolio of commercial casualty and specialty insurance operations through a newly formed stock subsidiary. After considering current capitalization, the impact of the repurchase, the potential for additional charges and the impact of continued restructuring on future operating performance, A.M. Best expects capitalization will no longer support an Excellent rating. Accordingly, the overall financial strength of the pool faces increased risk considering Kemper's limited financial flexibility.

The ratings have been placed under review given the uncertainty of Kemper's financial strength. A.M. Best will be meeting with Kemper management early in 2003 and will closely monitor Kemper's financial results in the near-term. Depending upon the impact of operating performance on future capitalization, the financial strength rating of Kemper could be lowered further.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source.

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