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CONFIDENTIAL

\$400,000,000



## Lumbermens Mutual Casualty Company

### 9.15% Surplus Notes due July 1, 2026

Interest on the 9.15% Surplus Notes due July 1, 2026 (the "Notes") of Lumbermens Mutual Casualty Company ("Lumbermens") is scheduled to be paid on January 1 and July 1 of each year, commencing January 1, 1997. The Notes may not be redeemed at the option of Lumbermens or any holder of the Notes prior to maturity and will not be entitled to any sinking fund. The Notes are unsecured and subordinated to all present and future indebtedness, Policy Claims and Prior Claims (each as defined in "Description of the Notes—Subordination") of Lumbermens and rank *pari passu*, with any other future surplus notes of Lumbermens and with any other similarly subordinated obligations. The Director (the "Director") of the Department of Insurance of the State of Illinois (the "Department") has approved the issuance of the Notes and has determined that, for statutory accounting purposes, the Notes are not part of the legal liabilities of Lumbermens. Such approval by the Director is hereinafter referred to as the "Approval." Each payment of interest on and repayment of principal of the Notes may be made only with the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, the financial condition of Lumbermens warrants the making of such payments and Lumbermens' Surplus (as defined in "Offering Summary—Surplus Notes") reflects sufficient funds to cover the amount of such payment. In addition, pursuant to the Approval, any payment of interest on or repayment of principal of the Notes will reduce the Surplus of Lumbermens. See "Investment Considerations—Restrictions on Payment" and "Description of the Notes—Restrictions on Payment."

The Notes are being offered to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to a limited number of institutional accredited investors within the meaning of Rule 501 under the Securities Act. Notes sold to qualified institutional buyers will be represented by one or more global Notes in definitive, fully registered form, without interest coupons, deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC") in New York, New York. Notes sold to institutional accredited investors will be issued in certificated, fully registered form without interest coupons. Notes offered hereby to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of \$150,000 and integral multiples of \$1,000 in excess thereof, and Notes offered hereby to institutional accredited investors will be issued in minimum denominations of \$250,000 and integral multiples of \$1,000 in excess thereof. See "Description of the Notes."

Certain insurance and other terms, unless otherwise defined herein, shall have the meanings ascribed to them in the "Glossary."

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Notes offered hereby.

Offering Price: 99.72% plus accrued interest, if any, from June 24, 1996.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON RULE 144A AND TO INSTITUTIONAL INVESTORS THAT ARE ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501 UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS THAT ARE QUALIFIED INSTITUTIONAL BUYERS ARE HEREBY NOTIFIED THAT THE SELLER OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Notes are offered severally by the Initial Purchasers named below, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Notes will be ready for delivery in certificated form, or in book-entry form through the facilities of DTC, in New York, New York on or about June 24, 1996, against payment therefor in immediately available funds.

Goldman, Sachs & Co.

Lehman Brothers

The date of this Offering Circular is June 19, 1996





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*Joe Kelly*  
*Donna de Wint*  
*12/12/12*

## Ratings

Lumbermens' claims-paying ability is rated A+ (Good) by Standard & Poor's Corporation ("S&P") and its financial strength is rated A2 (Good) by Moody's Investors Service ("Moody's") and A (Excellent) by A.M. Best Company, Inc. ("A.M. Best"). On April 30, 1996, S&P downgraded the Kemper National Insurance Companies, including Lumbermens, to A+ from AA- and placed the rating on "CreditWatch" with negative implications. On June 7, 1996, Moody's downgraded the Kemper National Insurance Companies, including Lumbermens, to A2 from A1 and announced the rating outlook is stable. See "Investment Considerations—Ratings" and "Business—Ratings."

On June 6, 1996, S&P announced it has assigned an A- rating to the Notes. S&P also announced that, pending the completion of the offering of the Notes, this rating will remain on "CreditWatch" and, when this rating is removed from "CreditWatch", the outlook will be stable.

## Surplus Notes

The Notes will constitute subordinated debt obligations of Lumbermens and are of the type generally referred to in the insurance industry as "surplus notes." In Illinois, there is no statute that specifically authorizes the issuance of the Notes offered hereby or addresses their accounting treatment or repayment terms, although the Illinois insurance laws do provide for the issuance by mutual and stock companies of instruments similar to the Notes. Thus, the Notes are being issued pursuant to the general borrowing power available to mutual insurance companies under Illinois law and in accordance with the Approval. Proceeds of the issuance of the Notes in the amount of \$400 million, less costs of issuance of the Notes, will be recorded by Lumbermens as additional admitted assets and Surplus. As a result of contemporaneous environmental and asbestos reserve additions at Lumbermens, Kemper Re and AMICO totaling approximately \$550 million and other reserve-related actions, the cumulative effect of the offering and such actions will be a net reduction in Surplus of approximately \$225 million from March 31, 1996 levels. See "Capitalization of Lumbermens" and "Use of Proceeds."

The Notes will be issued pursuant to a Fiscal Agency Agreement, to be dated as of June 24, 1996 (the "Fiscal Agency Agreement"), between Lumbermens and Harris Trust and Savings Bank, as Fiscal Agent (the "Fiscal Agent"). Each payment of interest on and repayment of principal of the Notes is subject to the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, the financial condition of Lumbermens warrants the making of such payment and Lumbermens' "Surplus as regards policyholders" (line 25 of the "Liabilities, Surplus and Other Funds" page of Lumbermens' annual statements and quarterly statements filed with the Department, referred to herein as "Surplus") reflects sufficient funds to cover the amount of such payment, and there can be no assurance any such payments will be made. At March 31, 1996, Lumbermens' Surplus was \$1,740.4 million. The funds available to make payments on the Notes on any given date will be determined by the Director and may be limited because, among other things, Lumbermens is subject to various requirements under Illinois insurance laws affecting the availability of surplus, including minimum surplus requirements and risk-based capital standards specifying minimum capital levels. See "Investment Considerations—Restrictions on Payment."

For statutory accounting purposes, Lumbermens will not accrue any liability for payment of interest or repayment of principal before obtaining the Director's approval for payment. The Director will have broad discretion in determining whether to allow payments to be made on the Notes. There are no guidelines or interpretations as to the extent of the Director's discretion in determining whether the financial condition of Lumbermens warrants the making of such payments. See "Investment Considerations—Restrictions on Payment" and "Description of the Notes—Restrictions on Payment."

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# Lumbermens Mutual Casualty Company

**\$200,000,000 8.30% Surplus Notes due December 1, 2037**  
**\$100,000,000 8.45% Surplus Notes due December 1, 2097**

Interest on the 8.30% Surplus Notes due December 1, 2037 (the "40-Year Notes") of Lumbermens Mutual Casualty Company ("Lumbermens") and the 8.45% Surplus Notes due December 1, 2097 (the "100-Year Notes") and together with the 40-Year Notes, the "Notes") is scheduled to be paid on June 1 and December 1 of each year, commencing June 1, 1998. The maturity of the 40-Year Notes may not be shortened and the 40-Year Notes may not be redeemed at the option of Lumbermens or any holder of the 40-Year Notes. Upon the occurrence and during the continuation of a Tax Event (as defined in "Description of the Notes—Conditional Right to Shorten Maturity; Redemption"), Lumbermens has the right, if certain conditions are met, to shorten the maturity of the 100-Year Notes. In addition, upon the occurrence and during the continuation of a Tax Event, Lumbermens has the right, if certain conditions are met, to redeem the 100-Year Notes in whole (but not in part) within 90 days following the occurrence of such Tax Event, subject to the prior written approval of the Director (as defined below). Any such redemption shall be at a price equal to the Make-whole Amount (as defined in "Description of the Notes—Conditional Right to Shorten Maturity; Redemption") plus accrued and unpaid interest thereon to the redemption date. The Notes are not entitled to a sinking fund. See "Description of the Notes—Conditional Right to Shorten Maturity; Redemption."

The 40-Year Notes and the 100-Year Notes are unsecured and subordinated to all present and future indebtedness, Policy Claims and Prior Claims (each as defined in "Description of the Notes—Subordination") of Lumbermens and rank *pari passu* with each other, with the 8.15% Surplus Notes due July 1, 2026 of Lumbermens (the "1998 Surplus Notes"), with any other future surplus notes of Lumbermens and with any other similarly subordinated obligations. The Director (the "Director") of the Department of Insurance of the State of Illinois (the "Department") has approved the issuance of the Notes and has determined that, for the statutory accounting purposes, the Notes are not part of the legal liabilities of Lumbermens. Such approval by the Director is hereinafter referred to as the "Approval." Each payment of interest on and repayment of principal of the Notes, as well as any payments in connection with the redemption of the 100-Year Notes upon a Tax Event, may be made only with the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, the financial condition of Lumbermens warrants the making of such payments and the amount of such payment. In addition, pursuant to the Approval, any payment of interest on or repayment of principal of the Notes will reduce the Surplus of Lumbermens. See "Investment Considerations—Restrictions on Payment" and "Description of the Notes—Restrictions on Payment."

The Notes are being offered to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to a limited number of institutional accredited investors within the meaning of Rule 501 under the Securities Act. Notes sold to qualified institutional buyers will be represented by global Notes in definitive, fully registered form, without interest coupons, deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC") in New York, New York. Notes sold to institutional accredited investors will be issued in certificated, fully registered form without interest coupons. Notes offered hereby will be issued in minimum denominations of \$1,000 and integral multiples thereof (subject to a minimum initial purchase requirement of \$100,000 for Notes sold other than in reliance on Rule 144A). See "Description of the Notes."

Certain insurance and other terms, unless otherwise defined herein, shall have the meanings ascribed to them in the "Glossary."

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Notes offered hereby.

## Offering Price:

40-Year Notes: 99.715% plus accrued interest, if any, from November 21, 1997.  
100-Year Notes: 99.712% plus accrued interest, if any, from November 21, 1997.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON RULE 144A AND TO INSTITUTIONAL INVESTORS THAT ARE ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501 UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS THAT ARE QUALIFIED INSTITUTIONAL BUYERS ARE HEREBY NOTIFIED THAT THE SELLER OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Notes are offered severally by the Initial Purchasers named below, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Notes will be ready for delivery in certificated form, or in book-entry form through the facilities of DTC, in New York, New York on or about November 21, 1997, against payment therefore in immediately available funds.

**Goldman, Sachs & Co.**

**Lehman Brothers**

The date of this Offering Circular is November 18, 1997

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**NOTICE TO INVESTORS**

*Because of the following restrictions, purchasers of the Notes are advised to consult legal counsel prior to making any reseller, resale, pledge or other transfer of the Notes.*

Each purchaser of the Notes offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A ("Rule 144A"), Regulation D ("Regulation D") or Regulation S ("Regulation S") under the Securities Act are used herein as therein defined):

(1) The purchaser either (a) (i) is a qualified institutional buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (b) (i) is an institutional investor that is an accredited investor, (ii) is acquiring the Notes being sold to it for its own account and (iii) is not acquiring such Notes with a view to resale or distribution thereof other than in accordance with the restrictions set forth below.

(2) The purchaser understands that the Notes have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred by such purchaser except (a) (i) to a person who such purchaser reasonably believes is a qualified institutional buyer acquiring for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (b) in accordance with all applicable securities laws of the states of the United States and other jurisdictions. Securities owned by an initial investor that is not a qualified institutional buyer may not be held in book-entry form and may not be transferred without certification that the transfer complies with the foregoing restrictions, as provided in the Fiscal Agency Agreement between the issuer and Harris Trust and Savings Bank, as Fiscal Agent.

(3) The Notes will bear a legend to the following effect, unless Lumbermens determines otherwise in compliance with applicable law:

"THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) BY SUBSEQUENT INVESTORS AS SET FORTH IN (A) ABOVE OR TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) AND, IN EACH CASE (A) AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE FISCAL AGENCY AGREEMENT BETWEEN THE ISSUER AND HARRIS TRUST AND SAVINGS BANK, AS FISCAL AGENT."



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### Ratings

Lumbermens' claims-paying ability is rated A+ (Good) by Standard & Poor's Corporation ("S&P") and its financial strength is rated A2 (Good) by Moody's Investors Service ("Moody's") and A (Excellent) by A.M. Best Company, Inc. ("A.M. Best"). On April 30, 1996, S&P downgraded the Kemper National Insurance Companies, including Lumbermens, to A+ from AA- and placed the rating on "CreditWatch" with negative implications. On June 7, 1996, Moody's downgraded the Kemper National Insurance Companies, including Lumbermens, to A2 from A1 and announced the rating outlook is stable. See "Investment Considerations—Ratings" and "Business—Ratings."

On June 6, 1996, S&P announced it has assigned an A- rating to the Notes. S&P also announced that, pending the completion of the offering of the Notes, this rating will remain on "CreditWatch" and, when this rating is removed from "CreditWatch", the outlook will be stable.

### Surplus Notes

The Notes will constitute subordinated debt obligations of Lumbermens and are of the type generally referred to in the insurance industry as "surplus notes." In Illinois, there is no statute that specifically authorizes the issuance of the Notes offered hereby or addresses their accounting treatment or repayment terms, although the Illinois Insurance laws do provide for the issuance by mutual and stock companies of instruments similar to the Notes. Thus, the Notes are being issued pursuant to the general borrowing power available to mutual insurance companies under Illinois law and in accordance with the Approval. Proceeds of the issuance of the Notes in the amount of \$400 million, less costs of issuance of the Notes, will be recorded by Lumbermens as additional admitted assets and Surplus. As a result of contemporaneous environmental and asbestos reserve additions at Lumbermens, Kemper Re and AMICO totaling approximately \$650 million and other reserve-related actions, the cumulative effect of the offering and such actions will be a net reduction in Surplus of approximately \$225 million from March 31, 1996 levels. See "Capitalization of Lumbermens" and "Use of Proceeds."

The Notes will be issued pursuant to a Fiscal Agency Agreement, to be dated as of June 24, 1996 (the "Fiscal Agency Agreement"), between Lumbermens and Harris Trust and Savings Bank, as Fiscal Agent (the "Fiscal Agent"). Each payment of interest on and repayment of principal of the Notes is subject to the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, the financial condition of Lumbermens warrants the making of such payment and Lumbermens' "Surplus as regards policyholders" (line 25 of the "Liabilities, Surplus and Other Funds" page of Lumbermens' annual statements and quarterly statements filed with the Department, referred to herein as "Surplus") reflects sufficient funds to cover the amount of such payment, and there can be no assurance any such payments will be made. At March 31, 1996, Lumbermens' Surplus was \$1,740.4 million. The funds available to make payments on the Notes on any given date will be determined by the Director and may be limited because, among other things, Lumbermens is subject to various requirements under Illinois Insurance laws affecting the availability of surplus, including minimum surplus requirements and risk-based capital standards specifying minimum capital levels. See "Investment Considerations—Restrictions on Payment."

For statutory accounting purposes, Lumbermens will not accrue any liability for payment of interest or repayment of principal before obtaining the Director's approval for payment. The Director will have broad discretion in determining whether to allow payments to be made on the Notes. There are no guidelines or interpretations as to the extent of the Director's discretion in determining whether the financial condition of Lumbermens warrants the making of such payments. See "Investment Considerations—Restrictions on Payment" and "Description of the Notes—Restrictions on Payment."

investment portfolio for a significant portion of its revenues and earnings. Notwithstanding such writing losses in each of the years in the five-year period ended December 31, 1996, Lumbermens has reported operating profits. Accordingly, any significant decline in investment income or the recognition of capital losses could potentially have an adverse effect on Lumbermens' results of operations.

#### **Accounting Treatment of Surplus Notes for Insurance Company Investors**

The NAIC accounting procedures for surplus notes and any further proposals as to the RBC and AVR treatment of surplus notes (if adopted), or other similar regulatory developments, may reduce the attractiveness of the Notes as an investment for insurance companies, and, accordingly, may have an adverse effect on the liquidity and pricing of the Notes in any secondary market for the Notes. Insurance company investors are advised to consult their own advisors regarding the accounting treatment of an investment in the Notes.

#### **Lack of Public Market and Restrictions on Transfer of the Notes**

Before this offering, there has been no market for either series of Notes. The Notes are not and will not be registered under the Securities Act and are subject to certain restrictions on transfer. See "Notice to Investors." There can be no assurance that an active market for either series of Notes will develop. Moreover, even if a market for a series of Notes does develop, such Notes could trade at a substantial discount from their face amount. If a market for one or both series of Notes does not develop, purchasers may be unable to resell such Notes for an extended period of time, if at all.

*duration of  
illiquidity*

Additional competition, including alternative forms of risk protection, may emerge from other financial institutions, such as banks and savings and loan associations. Proposed federal legislation may also permit bank holding companies to be affiliated with insurance companies, which could increase competition for insurance business.

### Ratings

Claims-paying ability and financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies. This is especially true for companies, such as Lumbermens and the other Pool Companies, each of which deals with large national accounts, as well as Kemper Re. Each of the rating agencies reviews its ratings periodically, and there can be no assurance current ratings will be maintained in the future. Claims-paying ability and financial strength ratings are based upon factors relevant to policyholders and are not directed toward protection of investors. A significant downgrade in such ratings could have a material adverse effect on the results of operations of Lumbermens, the other Pool Companies and Kemper Re. Lumbermens' claims-paying ability is rated A+ (Good) by S&P and its financial strength is rated A2 (Good) by Moody's and A (Excellent) by A.M. Best.

On September 3, 1997, S&P revised Lumbermens' rating outlook to negative from stable reflecting S&P's belief Lumbermens will be challenged to meet its operating performance targets given the increased competition in its major lines of business. At the same time S&P revised Kemper Re's rating outlook to positive from stable. See "Business—Ratings" and "Business—Kemper Re."

} significant  
downgrade

### Fluctuation of Insurance Industry Results

As a writer of commercial and personal property-casualty insurance, Lumbermens' operations are affected, among other things, by (i) the number of claims reported ("frequency"), which is influenced in part by economic conditions, social trends and political climates; (ii) the cost of settling claims ("severity"), which is influenced in part by inflation (particularly in medical, automobile and building repair costs) and by court decisions expanding the extent and amount of compensation for injury and damages; (iii) the degree to which existing policyholders renew

## Form and Denomination .....

be used for general corporate purposes, including funding Lumbermens' strategic growth initiatives. See "Lumbermens Mutual Casualty Company—Strategy."

The Notes are being offered to qualified institutional buyers in reliance on Rule 144A under the Securities Act, and to a limited number of institutional accredited investors within the meaning of Rule 501 under the Securities Act. Notes sold to qualified institutional buyers will be represented by global Notes in definitive, fully registered form without interest coupons, initially deposited with DTC or a custodian for DTC and registered in the name of DTC or a nominee of DTC in New York, New York. Beneficial interests in such global Notes will trade in DTC's Same Day Funds Settlement System, and secondary market trading activity for the Notes will therefore settle in immediately available funds. Such interests will be shown only on, and transfers thereof will be effected only through, records maintained by DTC and its participants and such interests generally may not be exchanged for certificated Notes except in certain limited circumstances. Notes sold to institutional accredited investors will be issued in certificated, fully registered form without interest coupons. Notes will be issued in minimum denominations of \$1,000 and integral multiples thereof (subject to an initial purchase requirement of \$100,000 for Notes sold other than in reliance on Rule 144A). See "Description of the Notes." The Notes have not been registered under the Securities Act and are subject to restrictions on transfer. See "Notice to Investors." The Notes will not be listed on any trading system or on any exchange.

*no interest  
coupons*

## Listing .....

## Summary Statutory Financial Information

The following summary financial information for each of the years in the five-year period ended