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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

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."