



July, 2010

To our former policyholders and their representatives:

First, we'd like to call your attention to our new trade name – Lumbermens Mutual Group. As you may have heard, Lumbermens Mutual Casualty Company and its subsidiaries and affiliates, formerly known as the Kemper Insurance Companies, have discontinued their use of the “Kemper” name. In connection with this change, we have a new web site – www.lmcco.com – and a new mailing address at *One Corporate Drive, Suite 200, Lake Zurich, IL, 60047*. Please update your records to reflect these changes.

Over the course of the past several years, we and our former insureds have explored and completed policy buybacks, novations, significant claim settlements, and other transactions that have allowed those policyholders to realize immediate and tangible value from legacy Lumbermens insurance programs and have, in turn, contributed to the successful and sustained run-off of Lumbermens' operations.

Though we have attempted to accommodate all policyholder inquiries and requests, we have primarily focused our limited resources on transactions in which the risks and benefits to both Lumbermens and its former policyholders were most significant. However, as we begin to take a closer look at Lumbermens' remaining accounts – many of which may not be prominent on the radar screens of those policyholders – we want to issue this reminder of the transactions that have historically been, and continue to be, available, and to mention a couple of new opportunities that may be of interest:

(1) *Liability Policy Buybacks.*

We are now extending to every former policyholder the offer to buy back its general liability, automobile liability and/or excess workers compensation policies, *regardless of whether the policyholder is also pursuing a novation of its workers compensation program*. In turn, we will release collateral securing the policyholder's deductible reimbursement and other obligations under these policies, including any collateral securing losses incurred but not reported.

To the extent there exist reserves on open claims in the Lumbermens insurance layer – in other words, excess of the retention – we also generally will be in a position to make an immediate cash payment to the policyholder representing a portion of those reserves.

Given the high cost and limited availability of credit in the current economy, these transactions may be attractive for many policyholders, especially those with programs with little or no recent liability claim activity. Specifically, a transaction of this nature:

- frees up collateral and increases the policyholder’s credit capacity;
- reduces the policyholder’s overall cost of credit;
- allows the policyholder to immediately monetize Lumbermens’ reserves on open liability claims; and
- returns total control of liability claim management to the policyholder.

We may in certain instances need to charge a modest transaction fee to cover Lumbermens’ administrative expenses in completing these transactions.

(2) *Workers Compensation Retained Loss “Buy-Up” Transactions.*

In exchange for the policyholder’s agreement to *prospectively increase the loss retention* on workers’ compensation policies, Lumbermens will make an immediate cash payment, in an amount representing a portion of the reserves in the Lumbermens insurance layer, to an escrow account established by the insured. At the same time, Lumbermens will cede direction and control of the claim handling process back to the policyholder to allow the policyholder to address the claims, through settlement structures or other means, as appropriate.

As an added benefit to these “buy-up” transactions, Lumbermens and the policyholder will also fully and finally settle up on deferred premiums, dividend recalls, and any other financial obligations actually or potentially due and owing to each other (excepting, of course, the policyholder’s obligation to fund losses). This provides additional certainty and finality to, and eases administration for, both parties.

These are new transactions for us, and the potential benefits to policyholders, as we see them, include the following:

- creates immediate, tangible, fixed value from the Lumbermens reserves;
- infuses cash in exchange for a manageable balance sheet risk;
- allows all other financial obligations to be “closed out” with finality;
- returns control of all workers compensation claims to the policyholder;
- potentially allows the policyholder to avoid liquidation entanglements; and
- is effected through simple documentation in a two-party transaction that can be closed quickly and inexpensively.

In most cases, Lumbermens also will be in a position to release existing letters of credit.

(3) *Workers Compensation Program Novations With Reduced Transaction Costs.*

As has been the case throughout its managed run-off, Lumbermens continues to pursue complete novations of workers compensation programs to replacement insurance markets. Given the smaller exposures relating to the remaining potential novations, Lumbermens is now willing to work with policyholders in absorbing a portion of the policyholder’s transaction costs, which – for these programs – may otherwise have been prohibitive.

Novations have long been the preferred transactions for Lumbermens and its former workers compensation policyholders in that they:

- allow for complete separation between the policyholder and Lumbermens;
- completely extinguish the risk of entanglements with a potential Lumbermens liquidation;
- permit the policyholder to monetize reserves in the insurance layer; and
- when combined with the buyback of liability policies, provide absolute certainty and finality as respects the entire Lumbermens program.

We invite all our former policyholders to take a close look at each of these options and to contact Jack McGregor by e-mail (jack.mcgregor@lmcco.com) or telephone (847-320-2774) with questions or for additional details. Also, we have template transaction documents available for each transaction described above, and we can make those documents available for review upon the request of, and a specific expression of interest by, a former Lumbermens policyholder or its representative. We also encourage every former policyholder to regularly monitor Lumbermens' financial situation through the quarterly and annual statutory financial reports available on the company's public website.

We look forward to working with you on these and other matters as we enter the seventh year of our run-off and as we continue to wind down our affairs.

Very truly yours,

Lumbermens Mutual Casualty Company
and its subsidiaries and affiliates