

KEMPER Corp
Form 10-Q
October 31, 2013
Table of Contents

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2013

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 95-4255452
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One East Wacker Drive, Chicago, Illinois 60601
(Address of principal executive offices) (Zip Code)
(312) 661-4600
(Registrant's telephone number, including area code)

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 or a smaller reporting company. See definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller Reporting Company

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

55,682,955 shares of common stock, \$0.10 par value, were outstanding as of October 29, 2013.

Table of Contents

KEMPER CORPORATION
INDEX

	Page
<u>Caution Regarding Forward-Looking Statements</u>	<u>1</u>
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Income for the Nine and Three Months Ended September 30, 2013 and 2012 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Nine and Three Months Ended September 30, 2013 and 2012 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>59</u>
Item 4. <u>Controls and Procedures</u>	<u>61</u>
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>61</u>
Item 1A. <u>Risk Factors</u>	<u>61</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>63</u>
Item 5. <u>Other Information</u>	<u>63</u>
Item 6. <u>Exhibits</u>	<u>63</u>
<u>Signatures</u>	<u>64</u>
Exhibit Index	<u>65</u>

Table of Contents

Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), Quantitative and Qualitative Disclosures About Market Risk, 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" and other words and terms of similar meaning in connection with a discussion of future operating, financial performance or financial condition. 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, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. These statements are based on current expectations and the current economic environment. 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. Many such factors will be important in determining the Company's actual future results and financial condition. The reader should consider the following list of general factors that could affect the Company's future results and financial condition, as well as those 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, 2012 (the "2012 Annual Report") as updated by Item 1A. of Part II of subsequently-filed Quarterly Reports on Form 10-Q, including this Quarterly Report on Form 10-Q.

Among the general factors that could cause actual results and financial condition to differ materially from estimated results and financial condition are:

• 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) and their impact on the adequacy of loss reserves;

• Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses ("LAE") reserves;

• The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;

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

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

• The impact of residual market assessments and assessments for insurance industry insolvencies;

• Changes in industry trends and significant industry developments;

• Uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;

• 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;

• Changes in ratings by credit rating agencies;

• Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;

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- Developments in, and outcomes of, initiatives by state officials that could result in significant changes to unclaimed property laws and claims handling practices with respect to life insurance contracts, especially to the extent that such initiatives result in retroactive application of new requirements to existing life insurance policies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services;

1

Table of Contents

Caution Regarding Forward-Looking Statements (continued)

Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the “Health Care Acts”) and the Dodd-Frank Act, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;

Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;

Changes in general economic conditions, including performance of financial markets, interest rates, unemployment rates and fluctuating values of particular investments held by the Company;

The level of success and costs expended in realizing economies of scale and implementing significant business consolidations and technology initiatives;

Heightened competition, including, with respect to pricing, entry of new competitors and the development of new products by new and existing competitors;

Increased costs and risks related to data security;

Absolute and relative performance of the Company’s products or services; and

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

No assurances can be given that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable. The Company assumes no obligation to publicly correct or update any forward-looking statements as a result of events or developments subsequent to the date of this Quarterly Report on Form 10-Q. The reader is advised, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

Table of Contents

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)

	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Revenues:				
Earned Premiums	\$1,530.2	\$1,586.3	\$507.5	\$527.3
Net Investment Income	237.8	223.0	82.4	70.4
Other Income	0.5	0.6	0.1	0.2
Net Realized Gains on Sales of Investments	78.3	59.9	49.1	50.9
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(8.2)	(4.1)	(3.5)	(3.2)
Portion of Losses Recognized in Other Comprehensive Income	1.9	—	0.1	—
Net Impairment Losses Recognized in Earnings	(6.3)	(4.1)	(3.4)	(3.2)
Total Revenues	1,840.5	1,865.7	635.7	645.6
Expenses:				
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,041.7	1,169.1	338.3	368.7
Insurance Expenses	491.5	502.8	170.1	172.7
Interest and Other Expenses	74.3	65.4	25.3	22.7
Total Expenses	1,607.5	1,737.3	533.7	564.1
Income from Continuing Operations before Income Taxes	233.0	128.4	102.0	81.5
Income Tax Expense	(73.3)	(34.9)	(33.4)	(25.9)
Income from Continuing Operations	159.7	93.5	68.6	55.6
Income from Discontinued Operations	2.8	8.0	1.5	—
Net Income	\$162.5	\$101.5	\$70.1	\$55.6
Income from Continuing Operations Per Unrestricted Share:				
Basic	\$2.77	\$1.57	\$1.21	\$0.95
Diluted	\$2.76	\$1.56	\$1.21	\$0.95
Net Income Per Unrestricted Share:				
Basic	\$2.82	\$1.71	\$1.24	\$0.95
Diluted	\$2.81	\$1.70	\$1.23	\$0.95
Dividends Paid to Shareholders Per Share	\$0.72	\$0.72	\$0.24	\$0.24

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

Table of ContentsKEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sep 30,	Sep 30,	Sep 30,	Sep 30,
	2013	2012	2013	2012
Net Income	\$162.5	\$101.5	\$70.1	\$55.6
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses)	(316.4)	121.6	(33.4)	47.7
Foreign Currency Translation Adjustments	0.1	1.5	0.2	0.2
Amortization of Unrecognized Postretirement Benefit Costs	18.4	12.0	6.3	4.4
Other Comprehensive Income (Loss) Before Income Taxes	(297.9)	135.1	(26.9)	52.3
Other Comprehensive Income Tax Benefit (Expense)	106.3	(48.0)	9.5	(18.7)
Other Comprehensive Income (Loss)	(191.6)	87.1	(17.4)	33.6
Total Comprehensive Income (Loss)	\$(29.1)	\$188.6	\$52.7	\$89.2

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

Table of ContentsKEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	Sep 30, 2013	Dec 31, 2012
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2013 - \$4,391.4; 2012 - \$4,283.8)	\$4,645.0	\$4,860.2
Equity Securities at Fair Value (Cost: 2013 - \$501.7; 2012 - \$462.7)	567.4	521.9
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	231.4	253.0
Short-term Investments at Cost which Approximates Fair Value	286.8	327.5
Other Investments	446.2	497.5
Total Investments	6,176.8	6,460.1
Cash	76.1	96.3
Receivables from Policyholders	354.2	369.3
Other Receivables	203.9	206.1
Deferred Policy Acquisition Costs	308.5	303.4
Goodwill	311.8	311.8
Current and Deferred Income Tax Assets	61.6	5.4
Other Assets	253.0	256.7
Total Assets	\$7,745.9	\$8,009.1
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	\$3,201.5	\$3,161.6
Property and Casualty	884.6	970.6
Total Insurance Reserves	4,086.1	4,132.2
Unearned Premiums	635.3	650.9
Liabilities for Income Taxes	6.6	21.5
Notes Payable at Amortized Cost (Fair Value: 2013 - \$666.3; 2012 - \$675.5)	606.7	611.4
Accrued Expenses and Other Liabilities	402.1	431.4
Total Liabilities	5,736.8	5,847.4
Shareholders' Equity:		
Common Stock, \$0.10 Par Value, 100 Million Shares Authorized; 56,025,049 Shares Issued and Outstanding at September 30, 2013 and 58,454,390 Shares Issued and Outstanding at December 31, 2012	5.6	5.8
Paid-in Capital	698.0	725.0
Retained Earnings	1,184.4	1,118.2
Accumulated Other Comprehensive Income	121.1	312.7
Total Shareholders' Equity	2,009.1	2,161.7
Total Liabilities and Shareholders' Equity	\$7,745.9	\$8,009.1

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

Table of ContentsKEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine Months Ended	
	Sep 30,	Sep 30,
	2013	2012
Operating Activities:		
Net Income	\$162.5	\$101.5
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(5.1	) (12.7
Amortization of Life Insurance in Force Acquired and Customer Relationships Acquired	6.3	5.9
Equity in Earnings of Equity Method Limited Liability Investments	(19.9	) (7.2
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	15.1	10.7
Amortization of Investment Securities and Depreciation of Investment Real Estate	12.4	11.3
Net Realized Gains on Sales of Investments	(78.3	) (59.9
Net Impairment Losses Recognized in Earnings	6.3	4.1
Net Gain on Sale of Portfolio of Automobile Loan Receivables	—	(12.9
Benefit for Loan Losses	—	(2.0
Depreciation of Property and Equipment	12.7	11.1
Decrease in Receivables	13.5	4.6
Decrease in Insurance Reserves	(47.3	) (1.6
Increase (Decrease) in Unearned Premiums	(15.6	) 8.1
Change in Income Taxes	34.3	10.5
Decrease in Accrued Expenses and Other Liabilities	(36.2	) (1.0
Other, Net	32.2	29.1
Net Cash Provided by Operating Activities	92.9	99.6
Investing Activities:		
Sales, Paydowns and Maturities of Fixed Maturities	578.5	784.7
Purchases of Fixed Maturities	(667.4	) (574.0
Sales of Equity Securities	107.3	30.8
Purchases of Equity Securities	(136.0	) (118.7
Sales of and Return of Investment of Equity Method Limited Liability Investments	26.5	31.8
Acquisitions of Equity Method Limited Liability Investments	(8.3	) (18.5
Decrease (Increase) in Short-term Investments	39.7	(49.9
Improvements of Investment Real Estate	(4.9	) (3.7
Sales of Investment Real Estate	102.5	—
Increase in Other Investments	(6.5	) (8.5
Acquisition of Software	(12.5	) (20.9
Disposition of Business, Net of Cash Disposed	3.8	—
Net Proceeds from Sale of Portfolio of Automobile Loan Receivables	—	17.7
Receipts from Automobile Loan Receivables	—	2.0
Other, Net	(8.5	) (5.9
Net Cash Provided by Investing Activities	14.2	66.9
Financing Activities:		
Repayments of Notes Payable	(5.5) —
Common Stock Repurchases	(82.9	) (57.7
Cash Dividends Paid to Shareholders	(41.5) (42.9
Cash Exercise of Stock Options	0.6	—

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Excess Tax Benefits from Share-based Awards	0.9	0.2
Other, Net	1.1	1.4
Net Cash Used by Financing Activities	(127.3)	(99.0)
Increase (Decrease) in Cash	(20.2)	67.5
Cash, Beginning of Year	96.3	251.2
Cash, End of Period	\$76.1	\$318.7

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

6

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 (“Kemper”) and its subsidiaries (individually and collectively referred to herein as the “Company”) 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 2012 Annual Report.

Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board (“FASB”) issues Accounting Standard Updates (“ASUs”) to amend the authoritative literature in the FASB Accounting Standards Codification (“ASC”). There have been eleven ASUs issued in 2013 that amend the original text of the ASC. Except as described in the following paragraph and under the caption “Adoption of New Accounting Standard” below, the ASUs are not expected to have a material impact on the Company. In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The standard is effective for the first interim or annual period beginning on or after December 15, 2013 with early adoption permitted. The standard amends ASC Topic 740, Income Taxes, to provide guidance and reduce diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Except for the changes, if any, in the Company’s presentation, the initial application of the standard will not impact the Company.

Adoption of New Accounting Standard

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The new standard amends and enhances disclosure requirements by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in a statement of income. The Company adopted the standard in the first quarter of 2013. Except for the additional disclosure requirements, the initial application of the standard did not have an impact on the Company.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2013 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Government and Government Agencies and Authorities	\$357.2	\$28.4	\$(9.3)	) \$376.3
States and Political Subdivisions	1,334.9	66.9	(17.2)	) 1,384.6
Corporate Securities:				
Bonds and Notes	2,643.6	223.6	(41.7)	) 2,825.5
Redeemable Preferred Stocks	7.1	2.1	—	) 9.2
Mortgage and Asset-backed	48.6	1.4	(0.6)	) 49.4
Investments in Fixed Maturities	\$4,391.4	\$322.4	\$(68.8)	) \$4,645.0

Included in the fair value of Mortgage and Asset-backed investments at September 30, 2013 are \$41.3 million of collateralized loan obligations, \$6.7 million of collateralized debt obligations, \$1.1 million of non-governmental residential mortgage-backed securities and \$0.3 million of other asset-backed securities.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2012 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Government and Government Agencies and Authorities	\$384.0	\$45.1	\$(0.2)	) \$428.9
States and Political Subdivisions	1,251.0	150.5	(0.1)	) 1,401.4
Corporate Securities:				
Bonds and Notes	2,615.5	385.4	(7.5)	) 2,993.4
Redeemable Preferred Stocks	30.1	2.5	—	) 32.6
Mortgage and Asset-backed	3.2	1.0	(0.3)	) 3.9
Investments in Fixed Maturities	\$4,283.8	\$584.5	\$(8.1)	) \$4,860.2

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2012 are \$2.3 million of collateralized debt obligations, \$1.3 million of non-governmental residential mortgage-backed securities and \$0.3 million of other asset-backed securities.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2013 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	\$104.6	\$108.7
Due after One Year to Five Years	674.8	713.7
Due after Five Years to Ten Years	1,320.4	1,352.3
Due after Ten Years	2,075.5	2,243.3
Asset-backed Securities Not Due at a Single Maturity Date	216.1	227.0
Investments in Fixed Maturities	\$4,391.4	\$4,645.0

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 Asset-backed Securities Not Due at a Single Maturity Date at September 30, 2013 consisted of securities issued by the Government National Mortgage Association with a fair value of \$165.1 million, securities issued by the Federal National Mortgage Association with a fair value of \$12.1 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$0.4 million and securities of other non-governmental

issuers with a fair value of \$49.4 million.

8

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

There were no unsettled sales of Investments in Fixed Maturities at either September 30, 2013 or December 31, 2012. There were no unsettled purchases of Investments in Fixed Maturities at September 30, 2013. Accrued Expenses and Other Liabilities at December 31, 2012 includes a payable of \$1.5 million for purchases of Investments in Fixed Maturities that settled in January 2013.

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at September 30, 2013 were:

(Dollars in Millions)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Preferred Stocks:				
Finance, Insurance and Real Estate	\$85.4	\$2.8	\$(2.4)	) \$85.8
Other Industries	13.4	4.6	—	) 18.0
Common Stocks:				
Manufacturing	68.1	29.2	(0.2)	) 97.1
Other Industries	60.3	17.1	(0.9)	) 76.5
Other Equity Interests:				
Exchange Traded Funds	137.1	0.8	(1.9)	) 136.0
Limited Liability Companies and Limited Partnerships	137.4	19.9	(3.3)	) 154.0
Investments in Equity Securities	\$501.7	\$74.4	\$(8.7)	) \$567.4

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at December 31, 2012 were:

(Dollars in Millions)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Preferred Stocks:				
Finance, Insurance and Real Estate	\$75.4	\$3.9	\$(0.1)	) \$79.2
Other Industries	18.4	3.8	(0.9)	) 21.3
Common Stocks:				
Manufacturing	67.0	20.9	(0.4)	) 87.5
Other Industries	59.1	8.1	(0.5)	) 66.7
Other Equity Interests:				
Exchange Traded Funds	119.6	6.3	—	) 125.9
Limited Liability Companies and Limited Partnerships	123.2	19.5	(1.4)	) 141.3
Investments in Equity Securities	\$462.7	\$62.5	\$(3.3)	) \$521.9

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at September 30, 2013 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	\$89.4	\$(8.7)	\$4.6	\$(0.6)	\$94.0	\$(9.3)
States and Political Subdivisions	217.0	(17.2)	0.3	—	217.3	(17.2)
Corporate Securities:						
Bonds and Notes	704.4	(37.0)	63.0	(4.7)	767.4	(41.7)
Mortgage and Asset-backed	32.9	(0.6)	1.6	—	34.5	(0.6)
Total Fixed Maturities	1,043.7	(63.5)	69.5	(5.3)	1,113.2	(68.8)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	22.7	(2.3)	2.4	(0.1)	25.1	(2.4)
Other Industries	—	—	0.7	—	0.7	—
Common Stocks:						
Manufacturing	0.4	(0.2)	0.2	—	0.6	(0.2)
Other Industries	11.7	(0.8)	0.5	(0.1)	12.2	(0.9)
Other Equity Interests:						
Exchange Traded Funds	106.8	(1.9)	—	—	106.8	(1.9)
Limited Liability Companies and Limited Partnerships	59.5	(2.4)	5.7	(0.9)	65.2	(3.3)
Total Equity Securities	201.1	(7.6)	9.5	(1.1)	210.6	(8.7)
Total	\$1,244.8	\$(71.1)	\$79.0	\$(6.4)	\$1,323.8	\$(77.5)

The Company regularly reviews its 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 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 September 30, 2013, were \$68.8 million, of which \$5.3 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading "Less Than 12 Months" are unrealized losses of \$0.5 million at September 30, 2013 related to securities for which the Company has recognized credit losses in earnings. Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of \$0.5 million related to securities for which the Company has recognized credit losses in earnings. Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of \$0.1 million at September 30, 2013 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised \$63.1 million and below-investment-grade fixed maturity investments comprised \$5.7 million of the unrealized losses on investments in fixed maturities at September 30, 2013. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling \$0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 5% of the amortized cost basis of the investment. At September 30, 2013, 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 September 30, 2013 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.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

For equity securities, the Company considers various factors when determining whether a decline in the fair value is other than temporary, including, but not limited to:

- The financial condition and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The volatility of the investment;
- Analyst recommendations and near term price targets;
- Opinions of the Company's external investment managers;
- Market liquidity;
- Debt-like characteristics of perpetual preferred stocks and issuer ratings; and
- The Company's intentions to sell or ability to hold the investments until recovery.

The Company concluded that the unrealized losses on its investments in preferred and common stocks at September 30, 2013 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility. The Company's investments in other equity interests include investments in limited liability companies and limited partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in the limited liability companies and limited partnerships exhibit debt-like characteristics which, among other factors, the Company also considers when evaluating these investments for impairment. Based on evaluations of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company's investments in equity securities were temporary at September 30, 2013.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2012 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	\$40.8	\$(0.2)	\$—	\$—	\$40.8	\$(0.2)
States and Political Subdivisions	6.3	(0.1)	0.3	—	6.6	(0.1)
Corporate Securities:						
Bonds and Notes	268.5	(5.2)	38.1	(2.3)	306.6	(7.5)
Redeemable Preferred Stocks	—	—	0.4	—	0.4	—
Mortgage and Asset-backed	—	—	1.7	(0.3)	1.7	(0.3)
Total Fixed Maturities	315.6	(5.5)	40.5	(2.6)	356.1	(8.1)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	—	—	2.4	(0.1)	2.4	(0.1)
Other Industries	2.3	(0.8)	3.7	(0.1)	6.0	(0.9)
Common Stocks:						
Manufacturing	6.3	(0.4)	—	—	6.3	(0.4)
Other Industries	14.2	(0.4)	1.3	(0.1)	15.5	(0.5)
Other Equity Interests:						
Limited Liability Companies and Limited Partnerships	5.5	(0.5)	6.7	(0.9)	12.2	(1.4)
Total Equity Securities	28.3	(2.1)	14.1	(1.2)	42.4	(3.3)
Total	\$343.9	\$(7.6)	\$54.6	\$(3.8)	\$398.5	\$(11.4)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at December 31, 2012, were \$8.1 million, of which \$2.6 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading "Less Than 12 Months" were unrealized losses of \$0.3 million at December 31, 2012 related to securities for which the Company has recognized credit losses in earnings. There were no unrealized losses at December 31, 2012 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of \$0.1 million at December 31, 2012 related to securities for which the Company has previously recognized foreign currency losses in earnings.

Investment-grade fixed maturity investments comprised \$3.8 million and below-investment-grade fixed maturity investments comprised \$4.3 million of the unrealized losses on investments in fixed maturities at December 31, 2012. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling \$0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 3% of the amortized cost basis of the investment. At December 31, 2012, 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, 2012 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.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

The Company concluded that the unrealized losses on its investments in preferred and common stocks at December 31, 2012 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility. The Company's investments in other equity interests include investments in limited liability companies and limited partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in limited liability companies and limited partnerships also exhibit debt-like characteristics which, among other factors, the Company also considers when evaluating these investments for impairment. Based on evaluations of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company's investments in equity securities were temporary at December 31, 2012.

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 dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Balance at Beginning of Period	\$4.6	\$3.9	\$4.4	\$3.6
Additions for Previously Unrecognized OTTI Credit Losses	1.8	—	0.8	—
Increases to Previously Recognized OTTI Credit Losses	1.3	—	1.3	—
Reductions to Previously Recognized OTTI Credit Losses	—	(0.1)	—	—
Reductions for Change in Impairment Status:				
From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell	(3.2)	) —	(2.1)) —
Reductions for Investments Sold During Period	(0.1)	) (0.2)	—	—
Balance at End of Period	\$4.4	\$3.6	\$4.4	\$3.6

The carrying values of the Company's Other Investments at September 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Loans to Policyholders at Unpaid Principal	\$272.8	\$266.3
Real Estate at Depreciated Cost	168.1	226.2
Trading Securities at Fair Value	4.8	4.5
Other	0.5	0.5
Total	\$446.2	\$497.5

In the third quarter of 2013, the Company sold the 41-story office building where Kemper's corporate offices are headquartered for a gain of \$43.6 million before income taxes. Proceeds from the sale, net of transaction costs, were \$101.5 million.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 3 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the nine months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended	
	Sep 30, 2013	Sep 30, 2012
Property and Casualty Insurance Reserves:		
Gross of Reinsurance at Beginning of Year	\$970.6	\$1,029.1
Less Reinsurance Recoverables at Beginning of Year	66.2	74.5
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	904.4	954.6
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	811.1	925.0
Prior Years:		
Continuing Operations	(43.2	) (23.2
Discontinued Operations	(4.5	) (0.5
Total Incurred Losses and LAE Related to Prior Years	(47.7	) (23.7
Total Incurred Losses and LAE	763.4	901.3
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	485.8	545.0
Prior Years:		
Continuing Operations	354.4	382.0
Discontinued Operations	9.8	14.1
Total Paid Losses and LAE Related to Prior Years	364.2	396.1
Total Paid Losses and LAE	850.0	941.1
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	817.8	914.8
Plus Reinsurance Recoverables at End of Period	66.8	67.0
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	\$884.6	\$981.8

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 nine months ended September 30, 2013, the Company reduced its property and casualty insurance reserves by \$47.7 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by \$41.2 million and commercial lines insurance losses and LAE reserves developed favorably by \$6.5 million. The commercial lines insurance losses and LAE reserves included favorable development of \$2.0 million from continuing operations and \$4.5 million from discontinued operations. Personal automobile insurance losses and LAE reserves developed favorably by \$22.6 million, homeowners insurance losses and LAE reserves developed favorably by \$13.3 million and other personal lines losses and LAE reserves developed favorably by \$5.3 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the three most recent accident years.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 3 - Property and Casualty Insurance Reserves (continued)

For the nine months ended September 30, 2012, the Company reduced its property and casualty insurance reserves by \$23.7 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by \$10.4 million and commercial lines insurance losses and LAE reserves developed favorably by \$13.3 million. The commercial lines insurance losses and LAE reserves included favorable development of \$12.8 million from continuing operations and \$0.5 million from discontinued operations. Personal automobile insurance losses and LAE reserves developed adversely by \$3.6 million, homeowners insurance losses and LAE reserves developed favorably by \$11.3 million and other personal lines losses and LAE reserves developed favorably by \$2.7 million. The commercial lines insurance losses and LAE reserves from continuing operations developed favorably due primarily to the emergence of more favorable loss patterns than expected for the four most recent accident years.

The Company cannot predict whether losses and LAE will develop favorably or unfavorably 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 4 - Notes Payable

The amortized cost of debt outstanding at September 30, 2013 and December 31, 2012 was:

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Senior Notes:		
6.00% Senior Notes due May 15, 2017	\$357.8	\$357.3
6.00% Senior Notes due November 30, 2015	248.9	248.6
Mortgage Note Payable due September 1, 2013	—	5.5
Total Notes Payable	\$606.7	\$611.4

Kemper has a four-year, \$325.0 million, unsecured, revolving credit agreement, expiring March 7, 2016 (the "2016 Credit Agreement"), with a group of financial institutions. The 2016 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2016 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper's largest insurance subsidiaries, United Insurance Company of America ("United") and Trinity Universal Insurance Company ("Trinity"). Proceeds from advances under the 2016 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness. There were no outstanding borrowings under the 2016 Credit Agreement at either September 30, 2013 or December 31, 2012, and accordingly, \$325.0 million was available for future borrowings at such dates.

Interest Expense, including facility fees, accretion of discount and write-off of unamortized issuance costs from the former credit agreement, for the nine and three months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Notes Payable under Revolving Credit Agreements	\$0.9	\$1.6	\$0.3	\$0.3
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	16.6	16.6	5.5	5.5
6.00% Senior Notes due November 30, 2015	11.6	11.6	3.9	3.9
Mortgage Note Payable due September 1, 2013	0.2	0.3	—	0.1
Interest Expense before Capitalization of Interest	29.3	30.1	9.7	9.8
Capitalization of Interest	(0.7) (1.6) (0.2) (0.2

Total Interest Expense	\$28.6	\$28.5	\$9.5	\$9.6
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15

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 4 - Notes Payable (continued)

Interest paid, including facility fees and credit agreement issuance costs, for the nine and three months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Notes Payable under Revolving Credit Agreements	\$0.6	\$1.9	\$0.4	\$0.2
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	10.8	10.8	—	—
6.00% Senior Notes due November 30, 2015	7.5	7.5	—	—
Mortgage Note Payable due September 1, 2013	0.3	0.3	0.1	0.1
Total Interest Paid	\$19.2	\$20.5	\$0.5	\$0.3

Note 5 - Long-term Equity-based Compensation Plans

As of September 30, 2013, there were 8,722,865 common shares available for future grants under Kemper's long-term equity-based compensation plan, of which 540,000 shares were reserved for future grants based on the achievement of performance goals under the terms of outstanding performance-based restricted stock awards. Equity-based compensation expense was \$4.4 million and \$4.8 million for the nine months ended September 30, 2013 and 2012, respectively. Total unamortized compensation expense related to nonvested awards at September 30, 2013 was \$5.9 million, which is expected to be recognized over a weighted-average period of 1.5 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The assumptions used in the Black-Scholes pricing model for options granted during the nine months ended September 30, 2013 and 2012 were as follows:

Range of Valuation Assumptions	Nine Months Ended			
	Sep 30, 2013		Sep 30, 2012	
Expected Volatility	39.10	%- 48.23	% 29.36	%- 53.84
Risk-free Interest Rate	0.62	- 1.38	0.16	- 1.26
Expected Dividend Yield	2.83	- 3.00	2.92	- 3.26
Weighted-Average Expected Life in Years				
Employee Grants	4	- 7	1	- 7
Director Grants	6		6	

Option and stock appreciation right activity for the nine months ended September 30, 2013 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (\$ in Millions)
Outstanding at Beginning of the Year	3,192,054	\$40.53		
Granted	283,750	33.20		
Exercised	(190,000)	) 24.77		
Forfeited or Expired	(493,756)	) 42.55		
Outstanding at September 30, 2013	2,792,048	\$40.50	3.89	\$4.3
Vested and Expected to Vest at September 30, 2013	2,759,163	\$40.61	3.84	\$4.2
Exercisable at September 30, 2013	2,466,795	\$41.72	3.26	\$3.5

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 5 - Long-term Equity-based Compensation Plans (continued)

The weighted-average grant-date fair values of options granted during the nine months ended September 30, 2013 and 2012 were \$10.20 per option and \$9.40 per option, respectively. Total intrinsic value of stock options exercised was \$1.8 million and \$0.1 million for the nine months ended September 30, 2013 and 2012, respectively. The total tax benefit realized for tax deductions from option exercises was \$0.6 million for the nine months ended September 30, 2013. The total tax benefit realized for tax deductions from option exercises was insignificant for the nine months ended September 30, 2012. Cash received from option exercises was \$0.6 million for the nine months ended September 30, 2013. Cash received from option exercises were insignificant for the nine months ended September 30, 2012.

Information pertaining to options and stock appreciation rights outstanding at September 30, 2013 is presented below:

Range of Exercise Prices	Outstanding			Exercisable		
	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)	Weighted-Average Remaining Contractual Life (in Years)	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)	
\$ 10.00 - \$ 15.00	26,750	\$ 13.55	5.35	26,750	\$ 13.55	
15.01 - 20.00	8,000	16.48	5.60	8,000	16.48	
20.01 - 25.00	116,250	23.58	6.34	111,250	23.63	
25.01 - 30.00	475,250	28.74	7.68	322,062	28.61	
30.01 - 35.00	262,750	33.17	9.37	95,685	32.67	
35.01 - 40.00	326,000	37.22	4.11	326,000	37.22	
40.01 - 45.00	360,618	43.58	0.86	360,618	43.58	
45.01 - 50.00	979,722	48.64	2.07	979,722	48.64	
50.01 - 55.00	236,708	50.51	0.61	236,708	50.51	
10.00 - 55.00	2,792,048	40.50	3.89	2,466,795	41.72	

The grant-date fair values of time-based restricted stock awards are determined using the closing price of Kemper common stock on the date of grant. Activity related to nonvested time-based restricted stock for the nine months ended September 30, 2013 was as follows:

	Time-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	126,349	\$26.19
Granted	71,625	29.95
Vested	(57,990)	25.03
Forfeited	(31,694)	26.88
Nonvested Balance at End of Period	108,290	29.10

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 5 - Long-term Equity-based Compensation Plans (continued)

The grant-date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method. Activity related to nonvested performance-based restricted stock for the nine months ended September 30, 2013 was as follows:

	Performance-Based Restricted Shares	Weighted- Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	187,075	\$36.70
Granted	70,675	42.12
Vested	(53,118)	33.14
Forfeited	(24,632)	38.95
Nonvested Balance at End of Period	180,000	39.57

The initial number of shares awarded to each participant of a performance-based restricted stock award represents the shares that would vest if the performance goals were achieved at the “target” performance level. The final payout of these awards will be determined based on Kemper’s total shareholder return over a three-year performance period relative to a peer group comprised of all the companies in the S&P Supercomposite Insurance Index. The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares for the 2013, 2012, and 2011 three-year performance periods was 62,600 common shares, 60,025 common shares and 57,375 common shares, respectively, at September 30, 2013. For the 2010 three-year performance period, the Company exceeded target performance levels with a payout percentage of 114%. Accordingly, an additional 6,996 shares of stock were issued to award recipients on February 2, 2013 (the “2010 Additional Shares”).

The total fair value of the shares of restricted stock that vested during the nine months ended September 30, 2013 and the 2010 Additional Shares that were issued was \$4.0 million and the tax benefits for tax deductions realized from such shares was \$1.4 million. The total fair value of the shares of restricted stock that vested during the nine months ended September 30, 2012 and the additional shares that were issued in connection with the 2009 performance-based restricted stock awards was \$4.0 million and the tax benefits for tax deductions realized from such shares was \$1.4 million.

The compensation of each member of the Board of Directors who is not employed by the Company (“Non-employee Director”) includes equity-based compensation awards. Each new Non-employee Director receives an initial option to purchase 4,000 shares of Kemper common stock immediately upon becoming a director at an exercise price equal to the fair market value of Kemper’s common stock on the date of grant. Thereafter, on the date of each annual meeting of Kemper’s shareholders, Non-employee Directors automatically receive annual grants of options to purchase 4,000 shares of common stock. Prior to May 1, 2013, such options granted to Non-employee Directors were exercisable one year from the date of grant at an exercise price equal to the fair market value of Kemper’s common stock on the date of grant and would expire 10 years from the date of grant. Effective May 1, 2013, new grants of such options are fully vested and exercisable on the date of grant at an exercise price equal to the fair market value of Kemper’s common stock on the date of grant. In addition to the option awards, effective May 1, 2013, annual awards to each Non-employee Director include 500 deferred stock units (“DSUs”). DSUs give the recipient the right to receive one share of Kemper common stock for each DSU issued. The DSUs granted to Non-employee Directors are fully vested on the date of grant. Holders of DSUs are entitled to receive dividend equivalents in cash in the amount and at the time that dividends would have been payable if the DSUs were shares of Kemper common stock. Conversion of the DSUs into shares of Kemper’s common stock is deferred until the date a director’s board service terminates. On May 1,

2013, the Company issued 4,000 DSUs at a fair value of \$31.50 per DSU.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 6 - Income from Continuing Operations Per Unrestricted Share

The Company's awards of restricted stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. 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 nine and three months ended September 30, 2013 and 2012 is as follows:

	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
(Dollars in Millions)				
Income from Continuing Operations	\$ 159.7	\$ 93.5	\$ 68.6	\$ 55.6
Less Income from Continuing Operations Attributed to Restricted Shares	0.8	0.5	0.3	0.3
Income from Continuing Operations Attributed to Unrestricted Shares	158.9	93.0	68.3	55.3
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	\$ 158.9	\$ 93.0	\$ 68.3	\$ 55.3
(Number of Shares in Thousands)				
Weighted-average Unrestricted Shares Outstanding	57,374.4	59,155.5	56,365.8	58,299.7
Equity-based Compensation Equivalent Shares	118.8	146.6	135.7	171.9
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	57,493.2	59,302.1	56,501.5	58,471.6
(Per Unrestricted Share in Whole Dollars)				
Basic Income from Continuing Operations Per Unrestricted Share	\$ 2.77	\$ 1.57	\$ 1.21	\$ 0.95
Diluted Income from Continuing Operations Per Unrestricted Share	\$ 2.76	\$ 1.56	\$ 1.21	\$ 0.95

The number of shares of Kemper common stock that were excluded from the calculations of Equity-based Compensation Equivalent Shares and Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the nine and three months ended September 30, 2013 and 2012 because the exercise prices for the options exceeded the average market price is presented below:

	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
(Number of Shares in Thousands)				
Equity-based Compensation Equivalent Shares	2,194.0	2,835.2	2,125.8	2,529.6
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	2,194.0	2,835.2	2,125.8	2,529.6

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

The components of Other Comprehensive Income (Loss) Before Income Taxes for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	\$(291.5)	\$180.2	\$(33.8)	\$98.3
Reclassification Adjustment for Amounts Included in Net Income	(24.9)	(58.6)	0.4	(50.6)
Unrealized Holding Gains (Losses)	(316.4)	121.6	(33.4)	47.7
Foreign Currency Translation Adjustments	0.1	1.5	0.2	0.2
Amortization of Unrecognized Postretirement Benefit Costs	18.4	12.0	6.3	4.4
Other Comprehensive Income (Loss) Before Income Taxes	\$(297.9)	\$135.1	\$(26.9)	\$52.3

The components of Other Comprehensive Income Tax Benefit (Expense) for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Other Comprehensive Income Tax Benefit (Expense):				
Unrealized Holding (Gains) Losses Arising During the Period Before Reclassification Adjustment	\$104.1	\$(63.8)	\$11.9	\$(34.8)
Reclassification Adjustment for Amounts Included in Net Income	8.7	20.6	(0.1)	17.8
Unrealized Holding (Gains) Losses	112.8	(43.2)	11.8	(17.0)
Foreign Currency Translation Adjustment	—	(0.5)	—	(0.1)
Amortization of Unrecognized Postretirement Benefit Costs	(6.5)	(4.3)	(2.3)	(1.6)
Other Comprehensive Income Tax Benefit (Expense)	\$106.3	\$(48.0)	\$9.5	\$(18.7)

The components of Accumulated Other Comprehensive Income ("AOCI") at September 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	\$0.3	\$1.4
Other Unrealized Gains on Investments	205.6	408.1
Foreign Currency Translation Adjustments, Net of Income Taxes	0.8	0.7
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(85.6)	(97.5)
Accumulated Other Comprehensive Income	\$121.1	\$312.7

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (continued)

Components of AOCI were reclassified to the following lines of the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2013 and 2012:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Reclassification of AOCI from Unrealized Gains and Losses on Available For Sale Securities to:				
Net Realized Gains on Sales of Investments	\$31.2	\$59.6	\$3.0	\$50.7
Net Impairment Losses Recognized in Earnings	(6.3)	(1.0)	(3.4)	(0.1)
Total Before Income Taxes	24.9	58.6	(0.4)	50.6
Income Tax Benefit (Expense)	(8.7)	(20.6)	0.1	(17.8)
Reclassification from AOCI, Net of Income Taxes	16.2	38.0	(0.3)	32.8
Reclassification of AOCI from Amortization of Unrecognized Postretirement Benefit Costs to:				
Interest and Other Expenses	(18.4)	(12.0)	(6.3)	(4.4)
Income Tax Benefit	6.5	4.3	2.3	1.6
Reclassification from AOCI, Net of Income Taxes	(11.9)	(7.7)	(4.0)	(2.8)
Total Reclassification from AOCI to Net Income	\$4.3	\$30.3	\$(4.3)	\$30.0

Note 8 - Income Taxes

Current and Deferred Income Tax Assets at September 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Current Income Tax Assets	\$2.0	\$5.4
Deferred Income Tax Assets	59.6	6.6
Valuation Allowance for State Income Taxes	—	(6.6)
Current and Deferred Income Tax Assets	\$61.6	\$5.4

In 2013, the Company wrote off \$6.6 million of deferred state income tax assets that had been previously reserved for in the Valuation Allowance for State Income Taxes at December 31, 2012.

The components of Liabilities for Income Taxes at September 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Deferred Income Tax Liabilities	\$—	\$15.1
Unrecognized Tax Benefits	6.6	6.4
Liabilities for Income Taxes	\$6.6	\$21.5

Income taxes paid were \$39.6 million and \$29.4 million for the nine months ended September 30, 2013 and 2012, respectively.

During the second quarter of 2013, the Company extended the federal statute of limitations related to its 2007 through 2010 tax years to December 31, 2014. The extension was requested by the Internal Revenue Service (“IRS”) to provide additional time for the IRS to finish processing its audit of the Company’s 2009 and 2010 federal income tax returns and related refund claims and for the IRS to prepare the necessary documentation for the Joint Committee of Taxation’s review required by statute. The Company does not anticipate a material modification to the filed returns or the related refunds that have been received.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 9 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Service Cost Earned	\$8.1	\$8.2	\$2.7	\$2.6
Interest Cost on Projected Benefit Obligation	16.8	16.8	5.6	5.6
Expected Return on Plan Assets	(22.3)	(22.3)	(7.4)	(7.4)
Amortization of Accumulated Unrecognized Actuarial Loss	19.7	14.1	6.6	4.7
Total Pension Expense Recognized	\$22.3	\$16.8	\$7.5	\$5.5

On September 3, 2013, the Company made a voluntary cash contribution of \$55.0 million to its defined benefit pension plan.

The components of Postretirement Benefits Other than Pensions Expense for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Service Cost on Benefits Earned	\$0.1	\$0.2	\$—	\$0.1
Interest Cost on Projected Benefit Obligation	0.9	1.2	0.3	0.4
Amortization of Accumulated Unrecognized Actuarial Gain	(0.9)	(0.9)	(0.3)	(0.3)
Total Postretirement Benefits Other than Pensions Expense	\$0.1	\$0.5	\$—	\$0.2

Note 10 - Business Segments

The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance businesses. The Company conducts its operations through four operating segments: Kemper Preferred, Kemper Specialty, Kemper Direct and Life and Health Insurance.

The Kemper Preferred segment provides preferred and standard risk personal automobile insurance, homeowners insurance and other personal insurance through independent agents. The Kemper Specialty segment provides automobile insurance to individuals and businesses in the non-standard and specialty market through independent agents. The non-standard automobile insurance market consists of individuals and companies that have difficulty obtaining standard or preferred risk insurance, usually because of their adverse driving records or claim or credit histories. The Kemper Direct segment distributes personal automobile insurance and homeowners insurance products through employer-sponsored voluntary benefit programs and other affinity relationships. The Life and Health Insurance segment provides individual life, accident, health and property insurance.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 10 - Business Segments (continued)

Segment Revenues for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Revenues:				
Kemper Preferred:				
Earned Premiums	\$661.2	\$655.9	\$220.5	\$222.9
Net Investment Income	41.4	33.6	13.2	10.8
Other Income	0.2	0.3	0.1	0.1
Total Kemper Preferred	702.8	689.8	233.8	233.8
Kemper Specialty:				
Earned Premiums	297.9	317.3	98.1	103.9
Net Investment Income	16.4	14.4	5.0	4.5
Other Income	0.2	0.2	—	0.1
Total Kemper Specialty	314.5	331.9	103.1	108.5
Kemper Direct:				
Earned Premiums	95.6	131.2	30.1	40.3
Net Investment Income	10.1	10.7	3.1	3.4
Total Kemper Direct	105.7	141.9	33.2	43.7
Life and Health Insurance:				
Earned Premiums	475.5	481.9	158.8	160.2
Net Investment Income	159.3	153.5	56.5	48.1
Other Income	0.1	0.1	—	—
Total Life and Health Insurance	634.9	635.5	215.3	208.3
Total Segment Revenues	1,757.9	1,799.1	585.4	594.3
Net Realized Gains on Sales of Investments	78.3	59.9	49.1	50.9
Net Impairment Losses Recognized in Earnings	(6.3)	(4.1)	(3.4)	(3.2)
Other	10.6	10.8	4.6	3.6
Total Revenues	\$1,840.5	\$1,865.7	\$635.7	\$645.6

Segment Operating Profit for the nine and three months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Segment Operating Profit (Loss):				
Kemper Preferred	\$55.0	\$4.4	\$14.9	\$10.4
Kemper Specialty	11.7	2.5	7.2	3.2
Kemper Direct	31.3	(6.9)	10.1	1.6
Life and Health Insurance	98.3	102.7	35.2	29.4
Total Segment Operating Profit	196.3	102.7	67.4	44.6
Corporate and Other Operating Loss	(35.3)	(30.1)	(11.1)	(10.8)
Total Operating Profit	161.0	72.6	56.3	33.8
Net Realized Gains on Sales of Investments	78.3	59.9	49.1	50.9
Net Impairment Losses Recognized in Earnings	(6.3)	(4.1)	(3.4)	(3.2)
Income from Continuing Operations before Income Taxes	\$233.0	\$128.4	\$102.0	\$81.5

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 10 - Business Segments (continued)

Segment Net Operating Income for the nine and three months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Segment Net Operating Income (Loss):				
Kemper Preferred	\$40.5	\$8.5	\$11.2	\$8.4
Kemper Specialty	9.5	4.0	5.3	2.7
Kemper Direct	21.5	(2.7)	6.9	1.5
Life and Health Insurance	64.4	66.5	22.9	19.2
Total Segment Net Operating Income	135.9	76.3	46.3	31.8
Corporate and Other Net Operating Loss	(23.0)	(19.1)	(7.4)	(7.2)
Consolidated Net Operating Income	112.9	57.2	38.9	24.6
Unallocated Net Income (Loss) From:				
Net Realized Gains on Sales of Investments	50.9	38.9	31.9	33.0
Net Impairment Losses Recognized in Earnings	(4.1)	(2.6)	(2.2)	(2.0)
Income from Continuing Operations	\$159.7	\$93.5	\$68.6	\$55.6

Earned Premiums by product line for the nine and three months ended September 30, 2013 and 2012 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Life	\$294.9	\$296.0	\$98.4	\$98.4
Accident and Health Property and Casualty:	121.2	124.2	40.7	41.3
Personal Lines:				
Automobile	729.4	794.6	239.1	261.3
Homeowners	244.8	236.6	82.3	80.8
Other Personal	101.2	103.2	33.5	34.5
Total Personal Lines	1,075.4	1,134.4	354.9	376.6
Commercial Automobile	38.7	31.7	13.5	11.0
Total Earned Premiums	\$1,530.2	\$1,586.3	\$507.5	\$527.3

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 11 - Discontinued Operations

Summary financial information included in Income from Discontinued Operations for the nine and three months ended September 30, 2013 and 2012 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Revenues Included in Discontinued Operations:				
Net Gain on Sale of Loan Portfolio	\$—	\$12.9	\$—	\$0.5
Income (Loss) from Discontinued Operations before Income Taxes:				
Results of Operations	\$—	\$(0.2)	\$—	\$—
Net Gain on Sale of Loan Portfolio	—	12.9	—	0.5
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	4.3	0.5	2.2	(0.6)
Income (Loss) from Discontinued Operations before Income Taxes	4.3	13.2	2.2	(0.1)
Income Tax Benefit (Expense)	(1.5)	(5.2)	(0.7)	0.1
Income from Discontinued Operations	\$2.8	\$8.0	\$1.5	\$—
Income from Discontinued Operations Per Unrestricted Share:				
Basic	\$0.05	\$0.14	\$0.03	\$—
Diluted	\$0.05	\$0.14	\$0.02	\$—

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 12 - Fair Value Measurements

The Company classifies its investments in Fixed Maturities and Equity Securities as available for sale and reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has no material liabilities that are measured and reported at fair value.

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at September 30, 2013 is summarized below:

(Dollars in Millions)	Fair Value Measurements			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	\$122.9	\$253.4	\$—	\$376.3
States and Political Subdivisions	—	1,384.6	—	1,384.6
Corporate Securities:				
Bonds and Notes	—			