KEMPER Corp
Form 10-Q
November 08, 2012
Table of Contents

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

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2012
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 0-18298

Kemper Corporation
(Exact name of registrant as specified in its charter)

Delaware	95-4255452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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 x 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 x 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	x	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 x
58,353,230 shares of common stock, $0.10 par value, were outstanding as of October 31, 2012.

Table of Contents

KEMPER CORPORATION
INDEX

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 ot 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, 2011 (the "2011 Annual Report") as updated by Item 1A. of Part II of this Quarterly Report on Form 10-Q and Kemper's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

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 concentration, 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 such issues arising with respect to losses incurred in connection with hurricanes and other catastrophes;
- Changes in ratings by credit ratings agencies;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;

- 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 policies, especially to the extent that such initiatives result in retroactive application of new standards 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, the Health Care and Education Reconciliation Act of 2010 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, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Revenues:				
Earned Premiums	$1,586.3	$1,637.1	$527.3	$543.0
Net Investment Income	223.0	222.7	70.4	58.6
Other Income	0.6	0.8	0.2	0.4
Net Realized Gains (Losses) on Sales of Investments	59.9	27.8	50.9	(4.2)
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(4.1)	(6.7)	(3.2)	(5.0)
Portion of Losses Recognized in Other Comprehensive Income	—	—	—	—
Net Impairment Losses Recognized in Earnings	(4.1)	(6.7)	(3.2)	(5.0)
Total Revenues	1,865.7	1,881.7	645.6	592.8
Expenses:				
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,169.1	1,269.0	368.7	399.6
Insurance Expenses	502.8	513.5	172.7	176.8
Interest and Other Expenses	65.4	62.0	22.7	21.4
Total Expenses	1,737.3	1,844.5	564.1	597.8
Income (Loss) from Continuing Operations before Income Taxes	128.4	37.2	81.5	(5.0)
Income Tax Benefit (Expense)	(34.9)	(0.5)	(25.9)	6.1
Income from Continuing Operations	93.5	36.7	55.6	1.1
Income from Discontinued Operations	8.0	13.5	—	0.9
Net Income	$101.5	$50.2	$55.6	$2.0
Income from Continuing Operations Per Unrestricted Share:				
Basic	$1.57	$0.61	$0.95	$0.01
Diluted	$1.56	$0.61	$0.95	$0.01
Net Income Per Unrestricted Share:				
Basic	$1.71	$0.83	$0.95	$0.03
Diluted	$1.70	$0.83	$0.95	$0.03
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 Contents

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Net Income	$101.5	$50.2	$55.6	$2.0
Other Comprehensive Income Before Income Taxes:				
Unrealized Holding Gains	121.6	164.8	47.7	141.5
Foreign Currency Translation Adjustments	1.5	0.6	0.2	—
Amortization of Unrecognized Postretirement Benefit Costs	12.0	6.5	4.4	2.1
Other Comprehensive Income Before Income Taxes	135.1	171.9	52.3	143.6
Other Comprehensive Income Tax Expense	(48.0)	(61.2)	(18.7)	(51.0)
Other Comprehensive Income	87.1	110.7	33.6	92.6
Total Comprehensive Income	$188.6	$160.9	$89.2	$94.6

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

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except per share amounts)
(Unaudited)

	Sep 30, 2012	Dec 31, 2011
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2012 - $4,129.5; 2011 - $4,266.1)	$4,725.6	$4,773.4
Equity Securities at Fair Value (Cost: 2012 - $481.4; 2011 - $367.3)	545.7	397.3
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	267.3	306.3
Short-term Investments at Cost which Approximates Fair Value	297.3	247.4
Other Investments	500.1	498.3
Total Investments	6,336.0	6,222.7
Cash	318.7	251.2
Receivables from Policyholders	385.6	379.2
Other Receivables	207.6	218.7
Deferred Policy Acquisition Costs	306.8	294.0
Goodwill	311.8	311.8
Current and Deferred Income Tax Assets	0.1	6.4
Other Assets	254.2	250.7
Total Assets	$8,120.8	$7,934.7
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	$3,149.8	$3,102.7
Property and Casualty	981.8	1,029.1
Total Insurance Reserves	4,131.6	4,131.8
Unearned Premiums	674.3	666.2
Liabilities for Income Taxes	59.1	6.2
Notes Payable at Amortized Cost (Fair Value: 2012 - $678.5; 2011 - $638.7)	611.2	610.6
Accrued Expenses and Other Liabilities	440.1	403.3
Total Liabilities	5,916.3	5,818.1
Shareholders' Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 58,353,230 Shares Issued and Outstanding at September 30, 2012 and 60,248,582 Shares Issued and Outstanding at December 31, 2011	5.8	6.0
Paid-in Capital	722.8	743.9
Retained Earnings	1,130.8	1,108.7
Accumulated Other Comprehensive Income	345.1	258.0
Total Shareholders' Equity	2,204.5	2,116.6
Total Liabilities and Shareholders' Equity	$8,120.8	$7,934.7

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

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Nine Months Ended	
	Sep 30, 2012	Sep 30, 2011
Operating Activities:		
Net Income	$101.5	$50.2
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(12.7)	(10.2)
Amortization of Life Insurance in Force Acquired and Customer Relationships Acquired	5.9	8.6
Equity in Earnings of Equity Method Limited Liability Investments	(7.2)	(7.2)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	10.7	—
Amortization of Investment Securities and Depreciation of Investment Real Estate	11.3	12.2
Net Realized Gains on Sales of Investments	(59.9)	(28.2)
Net Impairment Losses Recognized in Earnings	4.1	6.7
Net Gain on Sale of Portfolio of Automobile Loan Receivables	(12.9)	(4.5)
Benefit for Loan Losses	(2.0)	(34.1)
Depreciation of Property and Equipment	11.1	10.4
Decrease (Increase) in Other Receivables	4.6	(2.8)
Decrease in Insurance Reserves	(1.6)	(25.6)
Increase in Unearned Premiums	8.1	8.5
Change in Income Taxes	10.5	(12.1)
Decrease in Accrued Expenses and Other Liabilities	(1.0)	(8.3)
Other, Net	29.1	26.3
Net Cash Provided (Used) by Operating Activities	99.6	(10.1)
Investing Activities:		
Sales and Maturities of Fixed Maturities	784.7	547.8
Purchases of Fixed Maturities	(574.0)	(577.1)
Sales of Equity Securities	30.8	236.6
Purchases of Equity Securities	(118.7)	(181.3)
Improvements of Investment Real Estate	(3.7)	(4.0)
Sales of Investment Real Estate	—	0.3
Return of Investment of Equity Method Limited Liability Investments	31.8	47.7
Acquisitions of Equity Method Limited Liability Investments	(18.5)	(17.5)
Decrease (Increase) in Short-term Investments	(49.9)	282.1
Net Proceeds from Sale of Portfolio of Automobile Loan Receivables	17.7	220.7
Receipts from Automobile Loan Receivables	2.0	158.6
Increase in Other Investments	(8.5)	(10.2)
Other, Net	(26.8)	(19.1)
Net Cash Provided by Investing Activities	66.9	684.6
Financing Activities:		
Repayments of Certificates of Deposits	—	(321.8)
Proceeds from Issuance of Notes Payable	—	95.0
Repayments of Notes Payable	—	(30.0)
Common Stock Repurchases	(57.7)	(21.7)
Cash Dividends Paid to Shareholders	(42.9)	(43.7)
Cash Exercise of Stock Options	—	0.1

Excess Tax Benefits from Share-based Awards	0.2	0.2
Other, Net	1.4	1.2
Net Cash Used by Financing Activities	(99.0)	(320.7)
Increase in Cash	67.5	353.8
Cash, Beginning of Year	251.2	117.2
Cash, End of Period	$318.7	$471.0

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

Table of Contents

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.

As discussed below, the Company adopted Accounting Standards Update (“ASU”) 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, on January 1, 2012 and retrospectively adjusted its financial statements for prior periods for the impact of the adoption. On January 1, 2012, the Company also implemented a new model for allocating capital and net investment income to its business segments. Accordingly, the Company has also reclassified certain amounts in its segment results in the retrospectively adjusted financial statements to conform to the current presentation. The Company accounts for Fireside Auto Finance, Inc. (“Fireside”), formerly known as Fireside Bank, and Kemper’s former Unitrin Business Insurance operations as discontinued operations. See Note 2, “Discontinued Operations,” to the Condensed Consolidated Financial Statements.

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 2011 Annual Report.

Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board (“FASB”) issues ASUs to amend the authoritative literature in the FASB Accounting Standards Codification (“ASC”). There have been seven ASUs issued in 2012 that amend the original text of the ASC. The ASUs are not expected to have a material impact on the Company.

Adoption of New Accounting Standards

In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The standard is effective for interim and annual reporting periods beginning after December 15, 2011. The provisions of the standard can be applied either prospectively or retrospectively. The standard amends ASC Topic 944, Financial Services—Insurance, and modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The Company adopted the standard on January 1, 2012 and applied its provisions retrospectively. The adoption of the standard reduced consolidated shareholders’ equity by $99.5 million on January 1, 2012. The Company’s financial statements have been retrospectively adjusted as if ASU 2010-26 had been adopted prior to all periods presented.

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 1 - Basis of Presentation (continued)
The impact of the adoption of the new accounting standard on Income from Continuing Operations and Net Income and the related basic and diluted per share amounts for the nine and three months ended September 30, 2012 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2012
Decrease in:		
Income from Continuing Operations	$(7.5)	$(2.5)
Net Income	$(7.5)	$(2.5)
Income from Continuing Operations per Unrestricted Share:		
Basic	$(0.13)	$(0.04)
Diluted	$(0.13)	$(0.04)
Net Income Per Unrestricted Share:		
Basic	$(0.13)	$(0.04)
Diluted	$(0.13)	$(0.04)

The following line items presented in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2011 were affected by the adoption of the new accounting standard:

(Dollars in Millions, Except Per Share Amounts)	Nine Months Ended Sep 30, 2011			Three Months Ended Sep 30, 2011		
	As Originally Reported	As Adjusted	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Insurance Expenses	$500.8	$513.5	$12.7	$172.6	$176.8	$4.2
Income Tax Benefit (Expense)	$(5.1)	$(0.5)	$4.6	$4.6	$6.1	$1.5
Income from Continuing Operations	$44.8	$36.7	$(8.1)	$3.8	$1.1	$(2.7)
Net Income	$58.3	$50.2	$(8.1)	$4.7	$2.0	$(2.7)
Income from Continuing Operations per Unrestricted Share:						
Basic	$0.74	$0.61	$(0.13)	$0.06	$0.01	$(0.05)
Diluted	$0.74	$0.61	$(0.13)	$0.06	$0.01	$(0.05)
Net Income Per Unrestricted Share:						
Basic	$0.96	$0.83	$(0.13)	$0.08	$0.03	$(0.05)
Diluted	$0.96	$0.83	$(0.13)	$0.08	$0.03	$(0.05)

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements. The standard is effective for the first interim or annual period beginning on or after December 15, 2011. The new standard amends the existing fair value definition and enhances disclosure requirements. The Company adopted the standard in the first quarter of 2012 and, except for the additional disclosure requirements, the initial application of the standard did not have an impact on the Company.

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 1 - Basis of Presentation (continued)
In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment. The standard is effective for the first interim or annual period beginning on or after December 15, 2011. The standard amends ASC Topic 350, Intangibles—Goodwill and Other, and gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company adopted the standard in the first quarter of 2012. The initial application of the standard did not have an impact on the Company.
In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The standard deferred certain paragraphs in ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, related to the presentation of reclassification adjustments but also required companies to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company adopted the standard in the first quarter of 2012. Other than the inclusion of the Condensed Consolidated Statement of Comprehensive Income, the initial application of the standard did not have an impact on the Company.
Note 2 - Discontinued Operations
The Company accounts for Fireside and the Company’s former Unitrin Business Insurance operations as discontinued operations. Summary financial information included in Income from Discontinued Operations for the nine and three months ended September 30, 2012 and 2011 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Nine Months Ended Sep 30, 2012	Nine Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2011
Interest, Loan Fees and Earned Discounts	$—	$31.8	$—	$3.8
Other Income	—	1.4	—	1.1
Net Gain on Sale of Loan Portfolios	12.9	4.5	0.5	4.5
Net Investment Income	—	0.5	—	—
Net Realized Gains on Sales of Investments	—	0.4	—	—
Total Revenues Included in Discontinued Operations	$12.9	$38.6	$0.5	$9.4
Income (Loss) from Discontinued Operations before Income Taxes:				
Fireside:				
Results of Operations	$(0.2)	$17.8	$—	$(2.0)
Net Gain on Sale of Loan Portfolios	12.9	4.5	0.5	4.5
Unitrin Business Insurance:				
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	0.5	(3.0)	(0.6)	(1.9)
Income (Loss) from Discontinued Operations before Income Taxes	13.2	19.3	(0.1)	0.6
Income Tax Benefit (Expense)	(5.2)	(5.8)	0.1	0.3
Income from Discontinued Operations	$8.0	$13.5	$—	$0.9
Income from Discontinued Operations Per Unrestricted Share:				
Basic	$0.14	$0.22	$—	$0.02
Diluted	$0.14	$0.22	$—	$0.02

During 2011, Fireside sold its active portfolio of automobile loan receivables at a gain of $4.5 million, net of transaction and other costs, while retaining its inactive portfolio of loans that had been previously charged-off (the

"Inactive Portfolio"). The Inactive Portfolio was not carried on the Company's Condensed Consolidated Balance Sheet. During 2012, Fireside sold $283 million of loans in the Inactive Portfolio at a gain of $12.9 million, net of transaction, shutdown and other costs of $13.3 million, of which $4.7 million was unpaid at September 30, 2012.

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 2 - Discontinued Operations (continued)

The Company has retained Property and Casualty Insurance Reserves for unpaid insured losses of its former Unitrin Business Insurance operations that occurred prior to June 1, 2008, the effective date of the sale of such operations. Property and Casualty Insurance Reserves reported in the Company’s Condensed Consolidated Balance Sheets include $110.0 million and $125.6 million at September 30, 2012 and December 31, 2011, respectively, for such retained liabilities. Changes in the Company’s estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations.

Note 3 - Investments

The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at September 30, 2012 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$406.3	$50.6	$(0.3)	$456.6
States and Political Subdivisions	1,280.6	155.4	—	1,436.0
Corporate Securities:				
Bonds and Notes	2,399.8	393.2	(6.4)	2,786.6
Redeemable Preferred Stocks	38.6	3.3	(0.2)	41.7
Mortgage and Asset-backed	4.2	1.0	(0.5)	4.7
Investments in Fixed Maturities	$4,129.5	$603.5	$(7.4)	$4,725.6

Included in the fair value of Mortgage and Asset-backed investments at September 30, 2012 are $2.9 million of collateralized debt obligations, $1.5 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, 2011 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$439.4	$52.3	$—	$491.7
States and Political Subdivisions	1,705.0	148.4	(0.8)	1,852.6
Corporate Securities:				
Bonds and Notes	2,040.1	311.6	(9.4)	2,342.3
Redeemable Preferred Stocks	76.7	5.1	(0.1)	81.7
Mortgage and Asset-backed	4.9	1.0	(0.8)	5.1
Investments in Fixed Maturities	$4,266.1	$518.4	$(11.1)	$4,773.4

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2011 are $2.9 million of collateralized debt obligations, $1.7 million of non-governmental residential mortgage-backed securities, $0.4 million of other asset-backed securities and $0.1 million of commercial mortgage-backed securities.

The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at September 30, 2012 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$49.8	$49.9
Due after One Year to Five Years	549.1	581.8
Due after Five Years to Ten Years	1,045.6	1,160.7
Due after Ten Years	2,271.1	2,695.9
Asset-backed Securities Not Due at a Single Maturity Date	213.9	237.3

Investments in Fixed Maturities	$4,129.5	$4,725.6

Note 3 - Investments (continued)

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, 2012 consisted of securities issued by the Government National Mortgage Association with a fair value of $209.9 million, securities issued by the Federal National Mortgage Association with a fair value of $22.0 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $0.7 million and securities of other issuers with a fair value of $4.7 million.

Other Receivables at September 30, 2012 includes a receivable of $5.1 million for sales of Investments in Fixed Maturities that settled in October 2012. Accrued Expenses and Other Liabilities at September 30, 2012 includes a payable of $23.3 million for purchases of Investments in Fixed Maturities that settled in October 2012. There were no unsettled sales or purchases of Investments in Fixed Maturities at December 31, 2011.

Gross unrealized gains and gross unrealized losses on the Company’s Investments in Equity Securities at September 30, 2012 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$80.4	$4.5	$(0.2)	$84.7
Other Industries	18.4	3.9	(0.1)	22.2
Common Stocks:				
Manufacturing	66.5	23.9	(0.2)	90.2
Other Industries	65.0	13.0	(0.9)	77.1
Other Equity Interests:				
Exchange Traded Funds	144.6	7.2	—	151.8
Limited Liability Companies and Limited Partnerships	106.5	15.0	(1.8)	119.7
Investments in Equity Securities	$481.4	$67.5	$(3.2)	$545.7

Gross unrealized gains and gross unrealized losses on the Company’s Investments in Equity Securities at December 31, 2011 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$94.4	$1.0	$(8.7)	$86.7
Other Industries	18.0	2.6	(0.1)	20.5
Common Stocks:				
Manufacturing	64.6	18.9	(0.1)	83.4
Other Industries	41.4	7.4	(1.8)	47.0
Other Equity Interests:				
Exchange Traded Funds	66.0	0.6	—	66.6
Limited Liability Companies and Limited Partnerships	82.9	11.7	(1.5)	93.1
Investments in Equity Securities	$367.3	$42.2	$(12.2)	$397.3

Note 3 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at September 30, 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	$40.0	$(0.3)	$—	$—	$40.0	$(0.3)
States and Political Subdivisions	—	—	0.7	—	0.7	—
Corporate Securities:						
Bonds and Notes	172.3	(3.3)	40.3	(3.1)	212.6	(6.4)
Redeemable Preferred Stocks	—	—	0.7	(0.2)	0.7	(0.2)
Mortgage and Asset-backed	0.1	—	2.5	(0.5)	2.6	(0.5)
Total Fixed Maturities	212.4	(3.6)	44.2	(3.8)	256.6	(7.4)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	—	—	2.3	(0.2)	2.3	(0.2)
Other Industries	0.9	—	3.7	(0.1)	4.6	(0.1)
Common Stocks:						
Manufacturing	2.3	(0.2)	—	—	2.3	(0.2)
Other Industries	4.7	(0.3)	2.8	(0.6)	7.5	(0.9)
Other Equity Interests:						
Limited Liability Companies and Limited Partnerships	8.0	(0.8)	11.1	(1.0)	19.1	(1.8)
Total Equity Securities	15.9	(1.3)	19.9	(1.9)	35.8	(3.2)
Total	$228.3	$(4.9)	$64.1	$(5.7)	$292.4	$(10.6)

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, 2012, were $7.4 million, of which $3.8 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at September 30, 2012 related to securities for which the Company has recognized credit losses in earnings in the preceding table under either the heading “Less Than 12 Months” or 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 September 30, 2012 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $2.3 million and below-investment-grade fixed maturity investments comprised $5.1 million of the unrealized losses on investments in fixed maturities at September 30, 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 4% of the amortized cost basis of the investment. At September 30, 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 September 30, 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.

Note 3 - 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 majority of the Company’s preferred stocks in an unrealized loss position at September 30, 2012 were perpetual preferred stocks of financial institutions and public utilities. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at September 30, 2012. The Company concluded that the unrealized losses on its investments in common stocks at September 30, 2012 were temporary based on 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 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 partnerships also exhibit debt-like characteristics which, among other factors, the Company 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, 2012.

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 3 - Investments (continued)
An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2011 is presented below:

(Dollars in Millions)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$1.3	$—	$—	$—	$1.3	$—
States and Political Subdivisions	2.0	—	12.0	(0.8)	14.0	(0.8)
Corporate Securities:						
Bonds and Notes	169.6	(5.1)	74.7	(4.3)	244.3	(9.4)
Redeemable Preferred Stocks	0.6	(0.1)	0.1	—	0.7	(0.1)
Mortgage and Asset-backed	—	—	2.7	(0.8)	2.7	(0.8)
Total Fixed Maturities	173.5	(5.2)	89.5	(5.9)	263.0	(11.1)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	54.9	(8.1)	2.2	(0.6)	57.1	(8.7)
Other Industries	1.8	—	2.8	(0.1)	4.6	(0.1)
Common Stocks:						
Manufacturing	1.5	(0.1)	0.1	—	1.6	(0.1)
Other Industries	10.7	(1.8)	—	—	10.7	(1.8)
Other Equity Interests:						
Limited Liability Companies and Limited Partnerships	17.1	(1.5)	—	—	17.1	(1.5)
Total Equity Securities	86.0	(11.5)	5.1	(0.7)	91.1	(12.2)
Total	$259.5	$(16.7)	$94.6	$(6.6)	$354.1	$(23.3)

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2011, were $11.1 million, of which $5.9 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Unrealized losses at December 31, 2011 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months" were insignificant. There were no unrealized losses at December 31, 2011 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 $0.2 million at December 31, 2011 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $5.7 million and below-investment-grade fixed maturity investments comprised $5.4 million of the unrealized losses on investments in fixed maturities at December 31, 2011. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.2 million for one issuer that the Company recognized foreign currency impairment losses in earnings for the year ended December 31, 2011. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At December 31, 2011, 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, 2011 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.

Note 3 - Investments (continued)

The vast majority of the Company's preferred stocks in an unrealized loss position at December 31, 2011 were perpetual preferred stocks of financial institutions. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at December 31, 2011. The Company concluded that the unrealized losses on its investments in common stocks at December 31, 2011 were temporary based on the relative short length and magnitude of the losses. The Company's investments in other equity interests include investments in limited liability 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 partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations of the factors described above that the Company considers when determining whether a decline in the fair value of an investment in equity securities is other than temporary, the Company concluded that the declines in the fair values of the Company's investments in equity securities were temporary at December 31, 2011.

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, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Balance at Beginning of Period	$3.9	$2.4	$3.6	$2.1
Reductions to Previously Recognized OTTI Credit Losses	(0.1)	(0.5)	—	(0.2)
Reductions for Investments Sold During Period	(0.2)	—	—	—
Balance at End of Period	$3.6	$1.9	$3.6	$1.9

The carrying values of the Company's Other Investments at September 30, 2012 and December 31, 2011 were:

(Dollars in Millions)	Sep 30, 2012	Dec 31, 2011
Loans to Policyholders at Unpaid Principal	$262.4	$253.9
Real Estate at Depreciated Cost	232.6	239.4
Trading Securities at Fair Value	4.5	4.4
Other	0.6	0.6
Total	$500.1	$498.3

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 4 - Property and Casualty Insurance Reserves
Property and Casualty Insurance Reserve activity for the nine months ended September 30, 2012 and 2011 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2012	Nine Months Ended Sep 30, 2011
Property and Casualty Insurance Reserves:		
Gross of Reinsurance and Indemnification at Beginning of Year	$1,029.1	$1,118.7
Less Reinsurance and Indemnification Recoverables at Beginning of Year	74.5	78.1
Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at Beginning of Year	954.6	1,040.6
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	925.0	1,038.4
Prior Years:		
Continuing Operations	(23.2)	(30.1)
Discontinued Operations	(0.5)	1.9
Total Incurred Losses and LAE Related to Prior Years	(23.7)	(28.2)
Total Incurred Losses and LAE	901.3	1,010.2
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	545.0	636.7
Prior Years:		
Continuing Operations	382.0	399.9
Discontinued Operations	14.1	22.1
Total Paid Losses and LAE Related to Prior Years	396.1	422.0
Total Paid Losses and LAE	941.1	1,058.7
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	914.8	992.1
Plus Reinsurance Recoverables at End of Period	67.0	71.5
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$981.8	$1,063.6

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, 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 $3.5 million, homeowners insurance losses and LAE reserves developed favorably by $11.2 million and other personal lines losses and LAE reserves developed favorably by $2.7 million. The commercial lines insurance losses and LAE reserves developed favorably from continuing operations due primarily to the emergence of more favorable loss patterns than expected for the four most recent accident years.

For the nine months ended September 30, 2011, the Company reduced its property and casualty insurance reserves by $28.2 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $27.6 million and commercial lines insurance losses and LAE reserves developed

16

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 4 - Property and Casualty Insurance Reserves (continued)
favorably by $0.6 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 2010, 2009 and 2008 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 5 - Notes Payable
Total debt outstanding at September 30, 2012 and December 31, 2011 was:

(Dollars in Millions)	Sep 30, 2012	Dec 31, 2011
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	$357.2	$356.8
6.00% Senior Notes due November 30, 2015	248.5	248.2
Mortgage Note Payable at Amortized Cost	5.5	5.6
Notes Payable at Amortized Cost	$611.2	$610.6

On March 7, 2012, Kemper entered into a new 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 replaced Kemper’s $245.0 million, unsecured, revolving credit agreement which was scheduled to expire on October 30, 2012 (the “Former Credit Agreement”) and was terminated on March 7, 2012. There were no borrowings under the Former Credit Agreement at either December 31, 2011 or at its termination. 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 September 30, 2012, and accordingly, $325.0 million was available for future borrowings.
In the first quarter of 2012, the Company wrote off $0.5 million of unamortized issuance costs related to the Former Credit Agreement.
Interest Expense, including facility fees, accretion of discount and write-off of unamortized credit agreement issuance costs, for the nine and three months ended September 30, 2012 and 2011 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Notes Payable under Revolving Credit Agreements	$1.6	$1.5	$0.3	$0.6
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	16.6	16.5	5.5	5.5
6.00% Senior Notes due November 30, 2015	11.6	11.5	3.9	3.8
Mortgage Note Payable	0.3	0.3	0.1	0.1
Interest Expense before Capitalization of Interest	30.1	29.8	9.8	10.0
Capitalization of Interest	(1.6)	(1.8)	(0.2)	(0.7)
Total Interest Expense	$28.5	$28.0	$9.6	$9.3

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 5 - Notes Payable (continued)
Interest paid, including facility fees and credit agreement issuance costs, for the nine and three months ended September 30, 2012 and 2011 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2012	Nine Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2011
Notes Payable under Revolving Credit Agreements	$1.9	$0.5	$0.2	$0.3
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	7.8	—	—
Mortgage Note Payable	0.3	0.3	0.1	0.1
Total Interest Paid	$20.5	$19.4	$0.3	$0.4

Note 6 - Long-term Equity-based Compensation Plans
On May 4, 2011, Kemper's shareholders approved the 2011 Omnibus Equity Plan ("Omnibus Plan"). The Omnibus Plan replaced the Company's previous employee stock option plans, director stock option plan and restricted stock plan (collectively, the "Prior Plans"). Awards previously granted under the Prior Plans remain outstanding in accordance with their original terms. Beginning May 4, 2011, equity-based compensation awards may only be granted under the Omnibus Plan. A maximum number of 10,000,000 shares of Kemper common stock may be issued under the Omnibus Plan (the "Share Authorization"). As of September 30, 2012, there were 9,249,581 common shares available for future grants under the Omnibus Plan, of which 561,825 shares were reserved for future grants based upon the achievement of performance goals under the terms of outstanding performance-based restricted stock awards.
The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to "full value awards" will reduce the number of shares available for future grant under the Share Authorization by three shares. "Full value awards" are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include restricted stock, restricted stock units, performance shares, performance units, if settled with stock, and other stock-based awards.
Outstanding awards under the Omnibus Plan and Prior Plans at September 30, 2012 consisted of stand-alone stock options, tandem stock option and stock appreciation rights, time-vested restricted stock and performance-based restricted stock. Recipients of restricted stock are entitled to full dividend and voting rights on the same basis as all other outstanding shares of Kemper common stock and all awards are subject to forfeiture until certain restrictions have lapsed. Equity-based compensation expense was $4.8 million and $4.4 million for the nine months ended September 30, 2012 and 2011, respectively. Total unamortized compensation expense related to nonvested awards at September 30, 2012 was $6.4 million, which is expected to be recognized over a weighted-average period of 1.4 years.

Note 6 - Long-term Equity-based Compensation Plans (continued)

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, 2012 and 2011 were as follows:

	Nine Months Ended					
	Sep 30, 2012			Sep 30, 2011		
Range of Valuation Assumptions						
Expected Volatility	29.36	%-	53.84 %	41.26	%-	55.16 %
Risk-free Interest Rate	0.16	-	1.26	1.30	-	2.87
Expected Dividend Yield	2.92	-	3.26	3.15	-	3.38
Weighted-Average Expected Life in Years						
Employee Grants	1	-	7	3.5	-	7
Director Grants	6			6		

Option and stock appreciation right activity for the nine months ended September 30, 2012 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	3,632,398	$40.70		
Granted	265,451	29.81		
Exercised	(15,199)	22.08		
Forfeited or Expired	(452,846)	48.36		
Outstanding at September 30, 2012	3,429,804	$38.93	4.42	$7.2
Vested and Expected to Vest at September 30, 2012	3,394,413	$39.04	4.38	$7.1
Exercisable at September 30, 2012	2,944,739	$40.79	3.73	$5.7

The weighted-average grant-date fair values of options granted during the nine months ended September 30, 2012 and 2011 were $9.40 per option and $9.11 per option, respectively. Total intrinsic value of stock options exercised was $0.1 million for both the nine months ended September 30, 2012 and 2011. Cash received from option exercises and the total tax benefits realized for tax deductions from option exercises were insignificant for both the nine months ended September 30, 2012 and 2011. Information pertaining to options and stock appreciation rights outstanding at September 30, 2012 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	204,500	$ 13.55	6.35	204,500	$ 13.55
15.01	-	20.00	8,000	16.48	6.60	8,000	16.48
20.01	-	25.00	313,750	23.74	7.52	176,312	23.64
25.01	-	30.00	636,000	28.56	8.29	292,373	28.03
30.01	-	35.00	6,614	31.92	6.09	2,614	31.18
35.01	-	40.00	340,577	37.25	5.19	340,577	37.25
40.01	-	45.00	400,084	43.56	1.81	400,084	43.56

45.01	-	50.00	1,185,747	48.62	2.72	1,185,747	48.62
50.01	-	55.00	334,532	50.85	1.28	334,532	50.85
10.00	-	55.00	3,429,804	38.93	4.42	2,944,739	40.79

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 6 - Long-term Equity-based Compensation Plans (continued)
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, 2012 was as follows:

	Time-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	116,784	$23.33
Granted	72,125	29.90
Vested	(42,824)	24.41
Forfeited	(14,979)	25.79
Nonvested Balance at End of Period	131,106	$26.31

Prior to February 3, 2009, only awards of time-vested restricted stock had been granted. Beginning on February 3, 2009, in addition to time-vested restricted stock granted to certain employees and officers, the Company began awarding performance-based restricted stock to certain officers and employees. 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.
Performance-based restricted stock awards are earned over a three-year performance period. If, at the end of the performance period, the Company's relative performance:

- exceeds the "target" performance level, additional shares of stock will be issued to the award recipient;
- is below the "target" performance level, only a portion of the shares of performance-based restricted stock originally issued to the award recipient will vest; or
- is below a "minimum" performance level, none of the shares of performance-based restricted stock originally issued to the award recipient will vest.

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, 2012 was as follows:

	Performance-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	172,875	$29.86
Granted	68,575	36.65
Vested	(51,596)	14.04
Forfeited	(2,579)	30.68
Nonvested Balance at End of Period	187,275	$36.70

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 6 - Long-term Equity-based Compensation Plans (continued)

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 was 187,275 shares (as "full value awards," the equivalent of 561,825 shares under the Share Authorization) at September 30, 2012. 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 2012, 2011, and 2010 three-year performance periods was 68,475 common shares, 63,725 common shares and 55,075 common shares, respectively, at September 30, 2012. For the 2009 three-year performance period, the Company exceeded target performance levels with a payout percentage of 183%. Accordingly, an additional 40,727 shares of stock were issued to award recipients on January 31, 2012 (the "2009 Additional Shares"). The preceding table excludes activity related to the 2009 Additional Shares.

The total fair value of restricted stock, including the 2009 Additional Shares, that vested during the nine months ended September 30, 2012 was $4.0 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was $1.4 million. The total fair value of restricted stock that vested during the nine months ended September 30, 2011 was $1.4 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was $0.5 million.

Note 7 - 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, 2012 and 2011 is as follows:

	Nine Months Ended		Three Months Ended	
	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
(Dollars in Millions)				
Income from Continuing Operations	$93.5	$36.7	$55.6	$1.1
Less Income from Continuing Operations Attributed to Restricted Shares	0.5	0.2	0.3	—
Income from Continuing Operations Attributed to Unrestricted Shares	93.0	36.5	55.3	1.1
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$93.0	$36.5	$55.3	$1.1
(Shares in Thousands)				
Weighted-Average Unrestricted Shares Outstanding	59,155.5	60,312.6	58,299.7	60,141.4
Equity-based Compensation Equivalent Shares	146.6	106.2	171.9	88.0
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	59,302.1	60,418.8	58,471.6	60,229.4
(Per Unrestricted Share in Whole Dollars)				
Basic Income from Continuing Operations Per Unrestricted Share	$1.57	$0.61	$0.95	$0.01
Diluted Income from Continuing Operations Per Unrestricted Share	$1.56	$0.61	$0.95	$0.01

Options outstanding to purchase 2.8 million and 2.5 million shares of Kemper common stock were excluded from the computation 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, 2012, respectively, because their exercise prices exceeded the average market price. Options outstanding to purchase 3.4 million and 3.3 million shares of Kemper common stock were excluded from the computation 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, 2011, respectively, because their exercise prices exceeded the average market price.

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 8 - Other Comprehensive Income and Accumulated Other Comprehensive Income

The components of Other Comprehensive Income Before Income Taxes for the nine and three months ended September 30, 2012 and 2011 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2012	Nine Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2011
Other Comprehensive Income Before Income Taxes:				
Unrealized Holding Gains Arising During the Period Before Reclassification Adjustment	$180.2	$192.0	$98.3	$138.0
Reclassification Adjustment for Amounts Included in Net Income	(58.6)	(27.2)	(50.6)	3.5
Unrealized Holding Gains	121.6	164.8	47.7	141.5
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	1.5	0.6	0.2	—
Reclassification Adjustment for Amounts Included in Net Income	—	—	—	—
Foreign Currency Translation Adjustments	1.5	0.6	0.2	—
Amortization of Unrecognized Postretirement Benefit Costs	12.0	6.5	4.4	2.1
Other Comprehensive Income Before Income Taxes	$135.1	$171.9	$52.3	$143.6

The components of Other Comprehensive Income Tax Benefit (Expense) for the nine and three months ended September 30, 2012 and 2011 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2012	Nine Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2011
Income Tax Benefit (Expense):				
Unrealized Holding (Gains) Losses Arising During the Period Before Reclassification Adjustment	$(63.8)	$(68.4)	$(34.8)	$(49.2)
Reclassification Adjustment for Amounts Included in Net Income	20.6	9.6	17.8	(1.2)
Unrealized Holding (Gains) Losses	(43.2)	(58.8)	(17.0)	(50.4)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(0.5)	(0.2)	(0.1)	—
Reclassification Adjustment for Amounts Included in Net Income	—	—	—	—
Foreign Currency Translation Adjustment	(0.5)	(0.2)	(0.1)	—
Amortization of Unrecognized Postretirement Benefit Costs	(4.3)	(2.2)	(1.6)	(0.6)
Other Comprehensive Income Tax Benefit (Expense)	$(48.0)	$(61.2)	$(18.7)	$(51.0)

The components of Accumulated Other Comprehensive Income at September 30, 2012 and December 31, 2011 were:

(Dollars in Millions)	Sep 30, 2012	Dec 31, 2011
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$1.6	$1.5
Other Unrealized Gains on Investments	424.0	345.7
Foreign Currency Translation Adjustments, Net of Income Taxes	0.7	(0.3)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(81.2)	(88.9)
Accumulated Other Comprehensive Income	$345.1	$258.0

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9 - Income Taxes

Current and Deferred Income Tax Assets at September 30, 2012 and December 31, 2011 were:

(Dollars in Millions)	Sep 30, 2012	Dec 31, 2011
Current Income Tax Assets	$0.1	$2.5
Deferred Income Tax Assets	6.7	10.7
Valuation Allowance for State Income Taxes	(6.7)	(6.8)
Current and Deferred Income Tax Assets	$0.1	$6.4

The components of Liabilities for Income Taxes at September 30, 2012 and December 31, 2011 were:

(Dollars in Millions)	Sep 30, 2012	Dec 31, 2011
Current Income Tax Liabilities	$8.3	$—
Deferred Income Tax Liabilities	44.5	—
Unrecognized Tax Benefits	6.3	6.2
Liabilities for Income Taxes	$59.1	$6.2

During the first quarter of 2012, the Internal Revenue Service (“IRS”) began an audit of the Company’s 2009 and 2010 federal income tax returns. The Company reported a capital loss and a net operating loss in its 2009 federal income tax return and a net operating loss in its 2010 federal income tax return. The Company has carried these losses back to earlier tax years. Even though the Company has already received the refunds from carrying these losses back to such earlier tax years, approval by the Joint Committee on Taxation (“JCT”) is still required by law. The JCT has requested that the IRS perform an audit of these years before approving the refunds. In connection with the audit, the Company extended the federal statute of limitations related to the 2007 and 2008 tax years until December 31, 2013. The Company does not anticipate a material modification to the filed returns or the refunds that were received.

During the third quarter of 2012, the Illinois Department of Revenue began an audit of the 2009 and 2010 tax years. The Company does not anticipate a material modification to the filed returns.

Income taxes paid were $29.4 million for the nine months ended September 30, 2012. Income taxes paid, net of income tax refunds received of $24.9 million, were $18.2 million for the nine months ended September 30, 2011.

Table of Contents
KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the nine and three months ended September 30, 2012 and 2011 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Service Cost Earned	$8.2	$7.7	$2.6	$2.6
Interest Cost on Projected Benefit Obligation	16.8	17.2	5.6	5.7
Expected Return on Plan Assets	(22.3)	(18.3)	(7.4)	(6.1)
Amortization of Accumulated Unrecognized Actuarial Loss	14.1	7.0	4.7	2.3
Total Pension Expense Recognized	$16.8	$13.6	$5.5	$4.5

The components of Postretirement Benefits Other than Pensions Expense for the nine and three months ended September 30, 2012 and 2011 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Service Cost on Benefits Earned	$0.2	$0.1	$0.1	$—
Interest Cost on Projected Benefit Obligation	1.2	1.4	0.4	0.5
Amortization of Accumulated Unrecognized Actuarial Gain	(0.9)	(0.5)	(0.3)	(0.2)
Total Postretirement Benefits Other than Pensions Expense	$0.5	$1.0	$0.2	$0.3

Table of Contents

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11 - 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. Kemper Direct provides personal automobile, homeowners and renters insurance through a variety of direct-to-consumer websites, including its own websites, marketing partners, employer and other affinity relationships. The Life and Health Insurance segment provides individual life, accident, health and property insurance.

Segment Revenues for the nine and three months ended September 30, 2012 and 2011 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Revenues:				
Kemper Preferred:				
Earned Premiums	$655.9	$642.8	$222.9	$216.5
Net Investment Income	33.6	37.8	10.8	8.2
Other Income	0.3	0.2	0.1	0.1
Total Kemper Preferred	689.8	680.8	233.8	224.8