KEMPER Corp
Form 10-Q
October 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

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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, 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;

- 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;

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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.

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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.

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

	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 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.

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

	Sep 30, 2013 (Unaudited)	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.

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

	Nine Months Ended	
	Sep 30, 2013	Sep 30, 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	—

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.

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.

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	Gross Unrealized 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	Gross Unrealized 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.

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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:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
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:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
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

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 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	$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.

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.

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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.

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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.

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	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.

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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.

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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:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	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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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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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:

	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012
Range of Valuation Assumptions		
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

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KEMPER CORPORATION AND SUBSIDIARIES
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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 Shares Subject to Options	Outstanding Weighted-Average Exercise Price Per Share ($)	Outstanding Weighted-Average Remaining Contractual Life (in Years)	Exercisable Shares Subject to Options	Exercisable Weighted-Average Exercise Price Per Share ($)
$ 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

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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.

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	
(Number of Shares in Thousands)	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
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

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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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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

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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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.

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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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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.

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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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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

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Note 10 - Business Segments (continued)
Segment Net Operating Income for the nine and three months ended September 30, 2013 and 2012 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	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:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Life	$294.9	$296.0	$98.4	$98.4
Accident and Health	121.2	124.2	40.7	41.3
Property and Casualty:				
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

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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 Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended 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	$—

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:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
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	—	2,476.1	349.4	2,825.5
Redeemable Preferred Stocks	—	—	9.2	9.2
Mortgage and Asset-backed	—	1.4	48.0	49.4
Total Investments in Fixed Maturities	122.9	4,115.5	406.6	4,645.0
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	85.8	—	85.8
Other Industries	—	10.4	7.6	18.0
Common Stocks:				
Manufacturing	88.4	7.0	1.7	97.1
Other Industries	68.3	1.4	6.8	76.5
Other Equity Interests:				
Exchange Traded Funds	136.0	—	—	136.0
Limited Liability Companies and Limited Partnerships	—	—	154.0	154.0
Total Investments in Equity Securities	292.7	104.6	170.1	567.4
Other Investments:				
Trading Securities	4.8	—	—	4.8
Total	$420.4	$4,220.1	$576.7	$5,217.2

At September 30, 2013, the Company had unfunded commitments to invest an additional $114.9 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests.

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Note 12 - Fair Value Measurements (continued)
The valuation of assets measured at fair value in the Company’s Condensed Consolidated Balance Sheet at December 31, 2012 is summarized below:

(Dollars in Millions)	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$135.8	$293.1	$—	$428.9
States and Political Subdivisions	—	1,401.4	—	1,401.4
Corporate Securities:				
Bonds and Notes	—	2,632.4	361.0	2,993.4
Redeemable Preferred Stocks	—	27.9	4.7	32.6
Mortgage and Asset-backed	—	3.8	0.1	3.9
Total Investments in Fixed Maturities	135.8	4,358.6	365.8	4,860.2
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	79.2	—	79.2
Other Industries	—	15.3	6.0	21.3
Common Stocks:				
Manufacturing	79.6	6.0	1.9	87.5
Other Industries	60.1	1.2	5.4	66.7
Other Equity Interests:				
Exchange Traded Funds	125.9	—	—	125.9
Limited Liability Companies and Limited Partnerships	—	—	141.3	141.3
Total Investments in Equity Securities	265.6	101.7	154.6	521.9
Other Investments:				
Trading Securities	4.5	—	—	4.5
Total	$405.9	$4,460.3	$520.4	$5,386.6

The Company’s investments in Fixed Maturities that are classified as Level 1 in the two preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company’s investments in Equity Securities that are classified as Level 1 in the two preceding tables consist of either investments in publicly-traded common stocks or exchange traded funds. The Company’s investments in Fixed Maturities that are classified as Level 2 in the two preceding tables primarily consist of investments in corporate bonds and redeemable preferred stocks, states and political subdivisions, and bonds and mortgage-backed securities of U.S. government agencies. The Company’s investments in Equity Securities that are classified as Level 2 in the two preceding tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company’s Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider’s evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. In addition, the provider uses model processes to develop prepayment and interest rate scenarios. The pricing provider's models and processes also take into account market convention. For each asset class, teams of its evaluators gather information from market sources and integrate relevant credit information, perceived market movements and sector

Note 12 - Fair Value Measurements (continued)
news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions or quotes in inactive markets or evaluations based on its own proprietary models.

The Company investigates significant differences related to the values provided. On completion of its investigation, management exercises judgment to determine the price selected and whether adjustments, if any, to the price obtained from the Company’s primary pricing provider would warrant classification of the price as Level 3. In instances where a measurement cannot be obtained from either pricing provider, the Company generally will evaluate bid prices from one or more binding quotes obtained from market makers to value investments in inactive markets and classified by the Company as Level 2. The Company generally classifies securities when it receives non-binding quotes or indications as Level 3 securities unless the Company can validate the quote or indication against recent transactions in the market. For securities classified as Level 3, the Company either uses valuations provided by third party fund managers, third party appraisers, the Company’s own internal valuations or net asset values provided for Limited Liability Companies and Limited Partnerships. These valuations typically employ various valuation techniques, including earnings multiples based on comparable public securities, comparable market yields as well as industry specific non-earnings based multiples or discounted cash flow models. Valuations classified as Level 3 by the Company generally consist of investments in various private placement securities of non-rated entities. In rare cases, if the private placement security has only been outstanding for a short amount of time, the Company, after considering the initial assumptions used in acquiring an investment, considers the original purchase price as representative of the fair value.

The majority of Investments in Fixed Maturities that are classified as Level 3 are priced using a market yield approach. A market yield approach uses a risk-free rate plus a credit spread depending on the underlying credit profile of the security. For floating rate securities, the risk-free rate used in the market yield is the contractual floating rate of the security. For each individual security, the Company or the Company’s third party appraiser gathers information from market sources, relevant credit information, perceived market movements and sector news and determines an appropriate market yield for each security. The market yield selected is then used to discount the estimated future cash flows of the security to determine the fair value. The Company separately evaluates market yields based upon asset class to assess the reasonableness of the recorded fair value. For Investments in Fixed Maturities that are classified as Level 3, the two primary asset classes are senior debt and junior debt. Senior debt includes those securities that receive first priority in a liquidation and junior debt includes any fixed maturity security with other than first priority in a liquidation.

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for investments in corporate bonds and notes classified as Level 3 at September 30, 2013.

(Dollars in Millions)	Unobservable Input	Total Fair Value	Range of Unobservable Inputs	Weighted Average Yield
Investment Grade	Market Yield	$ 115.7	1.1 % - 6.3 %	4.1 %
Non-investment Grade:				
Senior Debt	Market Yield	65.8	4.2 - 13.8	8.4
Junior Debt	Market Yield	146.1	9.1 - 21.5	14.2
Other Debt	Various	21.8		
Bonds and Notes Classified as Level 3		$ 349.4		

For an investment in a fixed maturity security, an increase in the yield used to determine the fair value of the security will decrease the fair value of the security. A decrease in the yield used to determine fair value will increase the fair value of the security, but the fair value increase is generally limited to par if the security is currently callable.

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Note 12 - Fair Value Measurements (continued)
Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the nine months ended September 30, 2013 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$361.0	$4.7	$0.1	$13.3	$141.3	$520.4
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(2.7)	(0.4)	0.1	(1.0)	0.1	(3.9)
Included in Other Comprehensive Income	(7.2)	(0.1)	(0.3)	3.9	(1.6)	(5.3)
Purchases	92.9	5.1	45.8	0.6	34.5	178.9
Settlements	(94.1)	(0.1)	(0.1)	—	(20.3)	(114.6)
Sales	(0.5)	—	—	(0.7)	—	(1.2)
Transfers into Level 3	5.8	—	2.4	—	—	8.2
Transfers out of Level 3	(5.8)	—	—	—	—	(5.8)
Balance at End of Period	$349.4	$9.2	$48.0	$16.1	$154.0	$576.7

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the three months ended September 30, 2013 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$351.5	$4.3	$36.5	$16.6	$147.3	$556.2
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(1.8)	—	—	(0.9)	0.3	(2.4)
Included in Other Comprehensive Income	0.9	(0.1)	0.3	0.8	(0.8)	1.1
Purchases	17.3	5.1	11.2	—	16.5	50.1
Settlements	(21.0)	(0.1)	—	—	(9.3)	(30.4)
Sales	(0.5)	—	—	(0.4)	—	(0.9)
Transfers into Level 3	3.0	—	—	—	—	3.0
Balance at End of Period	$349.4	$9.2	$48.0	$16.1	$154.0	$576.7

The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between Levels 1 and 2 or Levels 1 and 3 for the nine and three months ended September 30, 2013. The transfers into and out of Level 3 for the nine months ended September 30, 2013 were due to changes in the availability of market observable inputs. The transfers into Level 3 for the three months ended September 30, 2013 were due to changes in the availability of market observable inputs. There were no transfers out of Level 3 for the three months ended September 30, 2013.

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Note 12 - Fair Value Measurements (continued)
Information by security type pertaining to the changes in the fair value of the Company’s investments classified as Level 3 for the nine months ended September 30, 2012 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$235.1	$6.1	$0.3	$13.5	$93.1	$348.1
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	3.5	—	—	3.2	0.3	7.0
Included in Other Comprehensive Income	2.2	0.3	—	(0.3)	3.1	5.3
Purchases	123.1	—	—	1.3	33.5	157.9
Settlements	(52.2)	(1.6)	(0.1)	—	(10.3)	(64.2)
Sales	(0.5)	—	—	(3.7)	—	(4.2)
Transfers into Level 3	6.0	—	—	—	—	6.0
Transfers out of Level 3	(6.1)	—	—	—	—	(6.1)
Balance at End of Period	$311.1	$4.8	$0.2	$14.0	$119.7	$449.8

Information by security type pertaining to the changes in the fair value of the Company’s investments classified as Level 3 for the three months ended September 30, 2012 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$276.3	$4.6	$0.2	$13.4	$109.9	$404.4
Total Gains:						
Included in Condensed Consolidated Statement of Income	1.4	—	—	—	—	1.4
Included in Other Comprehensive Income	1.5	0.2	—	0.5	6.1	8.3
Purchases	37.6	—	—	0.1	6.5	44.2
Settlements	(10.8)	—	—	—	(2.8)	(13.6)
Transfers into Level 3	5.1	—	—	—	—	5.1
Balance at End of Period	$311.1	$4.8	$0.2	$14.0	$119.7	$449.8

There were no transfers between Levels 1 and 2 or Levels 1 and 3 for the nine and three months ended September 30, 2012. Transfers into and out of Level 3 for the nine months ended September 30, 2012 were due to changes in the availability of market observable inputs. The transfers into Level 3 for the three months ended September 30, 2012 were due to changes in the availability of market observable inputs. There were no transfers out of Level 3 for the three months ended September 30, 2012.

The fair value of Notes Payable is estimated using quoted prices for similar liabilities in markets that are not active. The inputs
used in the valuation are considered Level 2 measurements. The fair value of Short-term Investments is estimated using inputs that are considered either Level 1 or Level 2 measurements.

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Note 13 - Contingencies

In the ordinary course of its businesses, the Company is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries. Except with regard to the matter discussed below, based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company’s financial statements.

Certain state insurance regulators, legislators and treasurers/controllers are involved in an array of initiatives that could result in significant changes to unclaimed property laws and claims handling practices with respect to life insurance policies. These initiatives seek, in various ways, to impose new duties on the part of life insurance companies to proactively search for deaths of their insureds and contact the insureds’ beneficiaries prior to the submission of death claims by such beneficiaries as required under standard life insurance policy contracts.

Legislation enacted in Kentucky, Maryland, Montana, Nevada, New York, North Dakota and Vermont, with varying effective dates between January 1, 2013 and July 1, 2014 (the “DMF Statutes”), require life insurance companies to compare on a regular basis their records for all in-force policies (including those policies issued prior to the effective dates of the legislation) against the database of reported deaths maintained by the Social Security Administration or a similar database or resource (a “Death Master File”). In contrast, New Mexico has enacted legislation that also requires such comparisons, but exempts life insurance companies, like Kemper’s life insurance subsidiaries (the “Life Companies”), that have not previously utilized a Death Master File, and instead only requires that such companies conduct Death Master File comparisons for life insurance policies issued and delivered in New Mexico after the legislation’s July 1, 2013 effective date. Likewise, Alabama, which had previously enacted a statute similar to the DMF Statutes, has amended its statute to limit the policies required to be compared against a Death Master File only to policies issued on or after January 1, 2016. Kemper cannot predict whether or when other states might enact legislation similar to the DMF Statutes, or the exact form or approach that such legislation might take.

In November 2012, certain of the Life Companies filed a declaratory judgment action in state court in Kentucky asking the court to construe the Kentucky DMF Statute to apply only prospectively - i.e., only with respect to those life insurance policies issued in Kentucky on or after the effective date of the Kentucky DMF Statute - consistent with what the Life Companies believe are the requirements of applicable Kentucky statutory law and Kentucky and federal constitutional provisions. On April 1, 2013, the trial court denied the subject Life Companies’ motion for summary judgment and held that the requirements of the Kentucky DMF Statute apply to life insurance policies issued before the statute’s January 1, 2013 effective date. The subject Life Companies believe that the court did not correctly apply governing law and have appealed the trial court’s decision to the Kentucky Court of Appeals, which issued a stay of enforcement of the Kentucky DMF Statute against the subject Life Companies pending the appeal. A decision by the Court of Appeals is unlikely before the second half of 2014.

In July 2013, certain of the Life Companies filed a declaratory judgment action in state court in Maryland, asking the court to construe the Maryland DMF Statute to apply only to policies issued in Maryland after the effective date of the statute for essentially the same reasons asserted in the Kentucky proceeding. The State of Maryland defendants filed a motion to dismiss the action on the grounds that the subject Life Companies did not exhaust their administrative remedies before filing the court action. Kemper cannot predict when the trial court in Maryland might rule on the state’s motion to dismiss.

The Life Companies are the subject of an unclaimed property compliance audit (the “Treasurers’ Audit”) being conducted by a private audit firm retained by the treasurers/controllers of thirty-eight states (the “Audit Firm”). In July 2013, the California State Controller (the “CA Controller”) filed a complaint for injunctive relief against the Life Companies in state court in California, seeking an order requiring the Life Companies to produce all of their in-force policy records to the Audit Firm to enable the firm to perform a comparison of such records against a Death Master File and to ascertain whether any of the insureds under such policies may be deceased. As described below, the suit by the CA Controller is the subject of a counterclaim by the Life Companies.

The Life Companies are the subject of a multi-state market conduct examination by six state insurance regulators of their claim settlement and policy administration practices, and specifically regarding compliance with state unclaimed property statutes (the “Multi-state Exam”). The Multi-state Exam was originated in June 2012 as a single-state examination by the Illinois Insurance Director. Insurance regulators from five additional states - California, Florida, Pennsylvania, New Hampshire and North Dakota -- joined the examination in May 2013. In July 2013, the Life Companies received requests from the Illinois Department of Insurance, as the managing lead state for the Multi-state Exam, for a significant volume of additional information, including their records of in-force policies and other information requested by the Audit Firm as part of the Treasurers’ Audit and which is the subject of the CA Controller’s complaint.

Note 13 - Contingencies (continued)

During September 2013, certain of the Life Companies filed declaratory judgment actions against the insurance regulators in the states of California, Florida, Illinois and Pennsylvania, asking the courts in those states to declare that applicable law does not require life insurers to search a Death Master File to ascertain whether insureds are deceased. The subject Life Companies are also asking the courts to declare that regulators in those states do not have the legal authority to (i) obtain life insurers' policy records for the purpose of comparing those records against a Death Master File, and (ii) impose payment obligations on life insurers before a claim and due proof of death have been submitted. The declaratory judgment action in California was filed as a counterclaim to the CA Controller's complaint, joining the California Insurance Commissioner and the Audit Firm as parties to the action. Responses from the state regulators in the four declaratory judgment actions have not yet been filed.

The results of the Treasurers' Audit, Multi-state Exam and the litigation related to these matters and the DMF Statutes cannot currently be predicted. The Life Companies continue to maintain that states lack the legal authority to establish new requirements that have the effect of changing the terms of existing life insurance contracts with regard to basic claims handling obligations and processes. If these state officials are able to apply such new requirements retroactively to the Life Companies' existing life insurance policies, it will fundamentally alter the nature and timing of their responsibilities under such policies by effectively eliminating contractual terms that condition claim settlement and payment on the receipt of "due proof of death" of an insured. The outcome of the various state initiatives and related litigation could have a significant effect on, including acceleration of, the Life Companies' payment and/or escheatment of policy benefits, and significantly increase their claims handling costs. Kemper cannot reasonably estimate the amount of loss that it would recognize if the Life Companies were subjected to such requirements on a retroactive basis.

Note 14 - Related Parties

Mr. Fayez Sarofim, who served as a director of Kemper until May 1, 2013, is the Chairman of the Board, Chief Executive Officer and the majority shareholder of Fayez Sarofim & Co. ("FS&C"), a registered investment advisory firm. Mr. Christopher B. Sarofim, who was elected as a director of Kemper on May 1, 2013, is Vice Chairman of FS&C. Kemper's subsidiary, Trinity, had $143.2 million in assets managed by FS&C at September 30, 2013 under an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of Trinity for a fee based on the fair market value of the assets under management. Such agreement is terminable by either party at any time upon 30 days advance written notice. Investment expenses incurred in connection with such agreement were $0.3 million and $0.2 million for the nine months ended September 30, 2013 and 2012, respectively.

FS&C also provides investment management services with respect to certain assets of the Company's defined benefit pension plan. The Company's defined benefit pension plan had $136.0 million in assets managed by FS&C at September 30, 2013 under an agreement with FS&C whereby FS&C provides investment management services for a fee based on the fair market value of the assets under management. Such agreement is terminable by either party at any time upon 30 days advance written notice. Investment expenses incurred in connection with such agreement were $0.2 million and $0.2 million for the nine months ended September 30, 2013 and 2012, respectively.

With respect to the Company's defined contribution plans, one of the alternative investment choices afforded to participating employees is the Dreyfus Appreciation Fund, an open-end, diversified managed investment fund. FS&C provides investment management services to the Dreyfus Appreciation Fund as a sub-investment advisor. According to published reports filed by FS&C with the SEC, the Dreyfus Appreciation Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Dreyfus Appreciation Fund's average daily net assets. The Company does not compensate FS&C for services provided to the Dreyfus Appreciation Fund. Participants in the Company's defined contribution plans had allocated $21.3 million for investment in the Dreyfus Appreciation Fund at September 30, 2013, representing 6.4% of the total amount invested in the Company's defined contribution plans at September 30, 2013.

The Company believes that the services described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

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Note 15 - Relationships with Mutual Insurance Companies

Trinity and Capitol County Mutual Fire Insurance Company (“Capitol”) are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by Capitol, subject to a cap for ceded losses for dwelling coverage. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. Trinity and Old Reliable Casualty Company (“ORCC”), a subsidiary of Capitol, are also parties to a quota share reinsurance agreement whereby prior to 2013, Trinity assumed 100% of the business written by ORCC. In the second quarter of 2013, ORCC received regulatory approval to amend its agreement with Trinity, effective January 1, 2013, whereby Trinity continues to assume 100% of the business written by ORCC, subject to a cap for ceded losses for dwelling coverage.

Five employees of the Company serve as directors of Capitol’s five member board of directors. Nine employees of the Company also serve as directors of ORCC’s nine member board of directors. Kemper’s subsidiary, United, provides claims and administrative services to Capitol and ORCC. In addition, agents appointed by Kemper’s subsidiary, The Reliable Life Insurance Company, and who are employed by United, are also appointed by Capitol and ORCC to sell property insurance products for the Company’s Life and Health Insurance segment. The Company also provides certain investment services to Capitol and ORCC.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Summary of Results
Net Income
Net Income was $162.5 million ($2.82 per unrestricted common share) for the nine months ended September 30, 2013, compared to $101.5 million ($1.71 per unrestricted common share) for the same period in 2012. Net Income was $70.1 million ($1.24 per unrestricted common share) for the three months ended September 30, 2013, compared to $55.6 million ($0.95 per unrestricted common share) for the same period in 2012.
Income from Continuing Operations was $159.7 million ($2.77 per unrestricted common share) for the nine months ended September 30, 2013, compared to $93.5 million ($1.57 per unrestricted common share) for the same period in 2012. Income from Continuing Operations was $68.6 million ($1.21 per unrestricted common share) for the three months ended September 30, 2013, compared to $55.6 million ($0.95 per unrestricted common share) for the same period in 2012.
A reconciliation of Segment Net Operating Income to Net Income for the nine and three months ended September 30, 2013 and 2012 is presented below:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Increase (Decrease)	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012	Increase (Decrease)
Segment Net Operating Income (Loss):						
Kemper Preferred	$40.5	$8.5	$32.0	$11.2	$8.4	$2.8
Kemper Specialty	9.5	4.0	5.5	5.3	2.7	2.6
Kemper Direct	21.5	(2.7)	24.2	6.9	1.5	5.4
Life and Health Insurance	64.4	66.5	(2.1)	22.9	19.2	3.7
Total Segment Net Operating Income	135.9	76.3	59.6	46.3	31.8	14.5
Corporate and Other Net Operating Loss	(23.0)	(19.1)	(3.9)	(7.4)	(7.2)	(0.2)
Consolidated Net Operating Income	112.9	57.2	55.7	38.9	24.6	14.3
Net Income (Loss) From:						
Net Realized Gains on Sales of Investments	50.9	38.9	12.0	31.9	33.0	(1.1)
Net Impairment Losses Recognized in Earnings	(4.1)	(2.6)	(1.5)	(2.2)	(2.0)	(0.2)
Income from Continuing Operations	159.7	93.5	66.2	68.6	55.6	13.0
Income from Discontinued Operations	2.8	8.0	(5.2)	1.5	—	1.5
Net Income	$162.5	$101.5	$61.0	$70.1	$55.6	$14.5

Revenues
Earned Premiums were $1,530.2 million for the nine months ended September 30, 2013, compared to $1,586.3 million for the same period in 2012, a decrease of $56.1 million. Earned Premiums for the nine months ended September 30, 2013 decreased by $35.6 million, $19.4 million and $6.4 million in the Kemper Direct, Kemper Specialty and Life and Health Insurance segments, respectively, and increased by $5.3 million in the Kemper Preferred segment. Earned Premiums were $507.5 million for the three months ended September 30, 2013, compared to $527.3 million for the same period in 2012, a decrease of $19.8 million. Earned Premiums for the three months ended September 30, 2013 decreased by $10.2 million, $5.8 million, $2.4 million and $1.4 million in the Kemper Direct, Kemper Specialty, Kemper Preferred and Life and Health Insurance segments, respectively.
Net Investment Income increased by $14.8 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to higher income from Equity Method Limited Liability Investments and higher dividends on Equity Securities, partially offset by lower interest and dividends on Fixed Maturities. Net Investment Income increased by $12.0 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to higher income from Equity Method Limited Liability Investments and higher dividends on Equity Securities.

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Summary of Results (continued)

Net Realized Gains on Sales of Investments were $78.3 million for the nine months ended September 30, 2013, compared to $59.9 million for the same period in 2012. Net Realized Gains on Sales of Investments were $49.1 million for the three months ended September 30, 2013, compared to $50.9 million for the same period in 2012. Net Impairment Losses Recognized in Earnings were $6.3 million for the nine months ended September 30, 2013, compared to $4.1 million for the same period in 2012. Net Impairment Losses Recognized in Earnings were $3.4 million for the three months ended September 30, 2013, compared to $3.2 million for the same period in 2012. The Company cannot predict if or when similar investment gains or losses may occur in the future.

Catastrophes

Catastrophe losses and LAE (excluding loss and LAE reserve development from prior accident years) were $48.4 million and $10.3 million for the nine and three months ended September 30, 2013, compared to $79.5 million and $12.3 million for the same periods in 2012. Catastrophe losses and LAE (excluding loss and LAE reserve development) by business segment for the nine and three months ended September 30, 2013 and 2012 are presented below:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Kemper Preferred	$39.0	$62.7	$9.7	$9.4
Kemper Specialty	3.8	4.7	0.3	0.9
Kemper Direct	2.2	4.8	0.4	0.4
Life and Health Insurance	3.4	7.3	(0.1)	1.6
Total Catastrophe Losses and LAE	$48.4	$79.5	$10.3	$12.3

The number of catastrophic events and catastrophe losses and LAE (excluding loss and LAE reserve development) by range of loss for the nine months ended September 30, 2013 and 2012 are presented below:

(Dollars in Millions)	Nine Months Ended			
	Sep 30, 2013		Sep 30, 2012	
	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:				
Below $5	24	$41.9	18	$21.5
$5 - $10	1	6.5	6	46.7
$10 - $15	—	—	1	11.3
Total	25	$48.4	25	$79.5

As shown in the preceding table, catastrophe losses and LAE (excluding loss and LAE reserve development) decreased for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to lower severity. The six events in the $5 million to $10 million range and the one event in the $10 million to $15 million range for the nine months ended September 30, 2012 were related to hail and/or wind events in either Texas, Colorado or the midwest and mid-Atlantic states.

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Loss and LAE Reserve Development

Increases (decreases) in the Company’s property and casualty loss and LAE reserves for the nine and three months ended September 30, 2013 and 2012 to recognize adverse (favorable) loss and LAE reserve development from prior accident years in continuing operations, hereinafter also referred to as “reserve development” in the discussion of segment results, is presented below:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Kemper Preferred:				
Non-catastrophe	$(13.4)	$(3.1)	$(1.5)	$(0.8)
Catastrophe	(7.9)	(6.0)	(1.6)	(1.6)
Total	(21.3)	(9.1)	(3.1)	(2.4)
Kemper Specialty:				
Non-catastrophe	(1.8)	(2.5)	(3.0)	(2.9)
Catastrophe	—	0.1	(0.1)	—
Total	(1.8)	(2.4)	(3.1)	(2.9)
Kemper Direct:				
Non-catastrophe	(19.2)	(11.3)	(5.7)	(5.3)
Catastrophe	(0.5)	(0.2)	—	(0.1)
Total	(19.7)	(11.5)	(5.7)	(5.4)
Life and Health Insurance:				
Non-catastrophe	—	(0.3)	(0.2)	—
Catastrophe	(0.4)	0.1	—	(0.2)
Total	(0.4)	(0.2)	(0.2)	(0.2)
Decrease in Total Loss and LAE Reserves Related to Prior Years:				
Non-catastrophe	(34.4)	(17.2)	(10.4)	(9.0)
Catastrophe	(8.8)	(6.0)	(1.7)	(1.9)
Decrease in Total Loss and LAE Reserves Related to Prior Years	$(43.2)	$(23.2)	$(12.1)	$(10.9)

See MD&A, “Critical Accounting Estimates,” of the 2012 Annual Report for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

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Non-GAAP Financial Measures

Underlying Losses and LAE and Underlying Combined Ratio

The following discussions for the Kemper Preferred, Kemper Specialty and Kemper Direct segments use the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as "Current Year Non-catastrophe Losses and LAE") exclude the impact of catastrophe losses, and loss and LAE reserve development from prior years from the Company's Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Incurred Expense Ratio. The most directly comparable GAAP financial measure is the combined ratio, which uses total incurred losses and LAE, including the impact of catastrophe losses, and loss and LAE reserve development from prior years. The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and are used by management to reveal the trends in the Company's Property and Casualty insurance businesses that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company's loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on incurred losses and LAE and the combined ratio. Prior year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier periods, it has no bearing on the performance of the Company's insurance products in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company's underwriting performance.

Consolidated Net Operating Income

Consolidated Net Operating Income is an after-tax, non-GAAP financial measure and is computed by excluding from Income from Continuing Operations the after-tax impact of (i) Net Realized Gains on Sales of Investments, (ii) Net Impairment Losses Recognized in Earnings related to investments and (iii) other significant non-recurring or infrequent items that may not be indicative of ongoing operations. Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations.

The Company believes that Consolidated Net Operating Income provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings related to investments included in the Company's results may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions that impact the values of the Company's investments, the timing of which is unrelated to the insurance underwriting process. Significant non-recurring items are excluded because, by their nature, they are not indicative of the Company's business or economic trends.

A reconciliation of Consolidated Net Operating Income to Income from Continuing Operations for the nine and three months ended September 30, 2013 and 2012 is presented below:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Consolidated Net Operating Income	$112.9	$57.2	$38.9	$24.6
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

There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income for the nine and three months ended September 30, 2013 and 2012.

The preceding non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures, as they do not fully recognize the overall profitability of the Company's businesses.

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Kemper Preferred

Selected financial information for the Kemper Preferred segment follows:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Net Premiums Written	$654.6	$677.9	$222.5	$237.9
Earned Premiums:				
Automobile	$381.1	$385.1	$126.5	$130.5
Homeowners	238.4	229.4	80.2	78.4
Other Personal	41.7	41.4	13.8	14.0
Total 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 Revenues	702.8	689.8	233.8	233.8
Incurred Losses and LAE related to:				
Current Year:				
Non-catastrophe Losses and LAE	441.4	448.8	148.9	154.0
Catastrophe Losses and LAE	39.0	62.7	9.7	9.4
Prior Years:				
Non-catastrophe Losses and LAE	(13.4)	(3.1)	(1.5)	(0.8)
Catastrophe Losses and LAE	(7.9)	(6.0)	(1.6)	(1.6)
Total Incurred Losses and LAE	459.1	502.4	155.5	161.0
Insurance Expenses	188.7	183.0	63.4	62.4
Operating Profit	55.0	4.4	14.9	10.4
Income Tax Benefit (Expense)	(14.5)	4.1	(3.7)	(2.0)
Segment Net Operating Income	$40.5	$8.5	$11.2	$8.4
Ratios Based On Earned Premiums				
Current Year Non-catastrophe Losses and LAE Ratio	66.7 %	68.4 %	67.5 %	69.1 %
Current Year Catastrophe Losses and LAE Ratio	5.9	9.6	4.4	4.2
Prior Years Non-catastrophe Losses and LAE Ratio	(2.0)	(0.5)	(0.7)	(0.4)
Prior Years Catastrophe Losses and LAE Ratio	(1.2)	(0.9)	(0.7)	(0.7)
Total Incurred Loss and LAE Ratio	69.4	76.6	70.5	72.2
Incurred Expense Ratio	28.5	27.9	28.8	28.0
Combined Ratio	97.9 %	104.5 %	99.3 %	100.2 %
Underlying Combined Ratio				
Current Year Non-catastrophe Losses and LAE Ratio	66.7 %	68.4 %	67.5 %	69.1 %
Incurred Expense Ratio	28.5	27.9	28.8	28.0
Underlying Combined Ratio	95.2 %	96.3 %	96.3 %	97.1 %
Non-GAAP Measure Reconciliation				
Underlying Combined Ratio	95.2 %	96.3 %	96.3 %	97.1 %
Current Year Catastrophe Losses and LAE Ratio	5.9	9.6	4.4	4.2
Prior Years Non-catastrophe Losses and LAE Ratio	(2.0)	(0.5)	(0.7)	(0.4)
Prior Years Catastrophe Losses and LAE Ratio	(1.2)	(0.9)	(0.7)	(0.7)
Combined Ratio as Reported	97.9 %	104.5 %	99.3 %	100.2 %

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Kemper Preferred (continued)

Catastrophe Frequency and Severity

	Nine Months Ended			
	Sep 30, 2013		Sep 30, 2012	
(Dollars in Millions)	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:				
Below $5	25	$39.0	20	$28.9
$5 - $10	—	—	4	33.8
Total	25	$39.0	24	$62.7

Insurance Reserves

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Insurance Reserves:		
Automobile	$279.2	$287.6
Homeowners	115.5	123.7
Other Personal	38.6	41.0
Insurance Reserves	$433.3	$452.3
Insurance Reserves:		
Loss Reserves:		
Case	$270.9	$284.7
Incurred but Not Reported	103.8	105.5
Total Loss Reserves	374.7	390.2
LAE Reserves	58.6	62.1
Insurance Reserves	$433.3	$452.3

Earned Premiums in the Kemper Preferred segment increased by $5.3 million for the nine months ended September 30, 2013, compared to the same period in 2012. Higher average premium contributed $27.8 million to the increase, while lower volume accounted for a decrease of $22.5 million. Earned premiums in homeowners insurance increased by $9.0 million as higher average premium increased earned premiums by $18.4 million, while lower volume of homeowners insurance accounted for a decrease of $9.4 million in earned premiums. Earned premiums in automobile insurance decreased by $4.0 million as lower volume accounted for a decrease of $11.9 million in earned premiums, while higher average premium accounted for an increase of $7.9 million in earned premiums.

Earned Premiums in the Kemper Preferred segment decreased by $2.4 million for the three months ended September 30, 2013, compared to the same period in 2012. Lower volume accounted for a decrease of $14.3 million in earned premiums, while higher average premium accounted for an increase of $11.9 million in earned premiums. Earned premiums in homeowners insurance increased by $1.8 million as higher average premium increased earned premiums by $7.4 million, while lower volume of homeowners insurance accounted for a decrease of $5.6 million in earned premiums. Earned premiums in automobile insurance decreased by $4.0 million as lower volume accounted for a decrease of $8.1 million in earned premiums, while higher average premium accounted for an increase of $4.1 million in earned premiums.

Net Investment Income in the Kemper Preferred segment increased by $7.8 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments, higher dividends on equity securities and higher levels of investments allocated to the Kemper Preferred segment, partially offset by lower yields on investments in fixed maturities. The Kemper Preferred segment reported net investment income from Equity Method Limited Liability Investments of $7.0 million in 2013, compared to $2.7 million in 2012.

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Kemper Preferred (continued)
Net Investment Income in the Kemper Preferred segment increased by $2.4 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments, higher dividends on equity securities and higher levels of investments allocated to the Kemper Preferred segment, partially offset by lower yields on investments in fixed maturities. The Kemper Preferred segment reported net investment income from Equity Method Limited Liability Investments of $2.1 million in 2013, compared to $0.5 million in 2012.
Operating Profit in the Kemper Preferred segment increased by $50.6 million before taxes for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to lower incurred catastrophe losses and LAE, higher levels of favorable loss and LAE reserve development, lower underlying losses and LAE as a percentage of earned premiums and higher net investment income, partially offset by higher insurance expenses as a percentage of earned premiums. Catastrophe losses and LAE (excluding development) were $39.0 million in 2013, compared to $62.7 million in 2012. Favorable loss and LAE reserve development (including catastrophe development) was $21.3 million in 2013, compared to $9.1 million in 2012. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums improved due to lower underlying losses as a percentage of earned premiums in homeowners insurance and other personal insurance, offset by higher underlying losses and LAE as a percentage of earned premiums in automobile insurance. The Kemper Preferred segment continues to take actions intended to improve profitability, including additional rate increases, enhanced pricing segmentation, higher deductibles, especially for wind or hail events, and other underwriting actions.
Operating Profit in the Kemper Preferred segment increased by $4.5 million before taxes for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to lower underlying losses and LAE as a percentage of earned premiums, higher net investment income and higher levels of favorable loss and LAE reserve development, partially offset by higher insurance expenses as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums improved due primarily to lower underlying losses as a percentage of earned premiums in homeowners insurance and other personal insurance. Favorable loss and LAE reserve development (including catastrophe development) was $3.1 million in 2013, compared to $2.4 million in 2012. Catastrophe losses and LAE (excluding development) were $9.7 million in 2013, compared to $9.4 million in 2012.
Automobile insurance incurred losses and LAE were $287.4 million, or 75.4% of automobile insurance earned premiums, for the nine months ended September 30, 2013, compared to $292.1 million, or 75.9% of automobile insurance earned premiums, for the same period in 2012. Automobile insurance incurred losses and LAE as a percentage of automobile earned premiums decreased due primarily to a favorable impact from the change in the level of loss and LAE reserve development and lower incurred catastrophe losses and LAE (excluding development), partially offset by higher underlying losses and LAE as a percentage of automobile insurance earned premiums. Favorable loss and LAE reserve development was $3.5 million in 2013, compared to adverse loss and LAE reserve development of $2.6 million in 2012. Catastrophe losses and LAE (excluding development) were $3.4 million in 2013, compared to $6.1 million in 2012. Underlying losses and LAE as a percentage of automobile insurance earned premiums were 75.4% in 2013, compared to 73.6% in 2012. Underlying losses and LAE as a percentage of automobile insurance earned premiums increased due primarily to higher severity of bodily injury losses, higher frequency of collision claims and higher severity of collision losses, partially offset by higher average premium, lower frequency of bodily injury claims, lower severity of comprehensive losses and lower frequency of comprehensive claims.
Automobile insurance incurred losses and LAE were $97.4 million, or 77.0% of automobile insurance earned premiums, for the three months ended September 30, 2013, compared to $100.6 million, or 77.1% of automobile insurance earned premiums, for the same period in 2012. Automobile insurance incurred losses and LAE as a percentage of automobile earned premiums decreased due primarily to a favorable impact from the change in the level of loss and LAE reserve development, partially offset by higher underlying losses and LAE as a percentage of automobile insurance earned premiums. Adverse loss and LAE reserve development was $0.1 million in 2013, compared to $1.1 million in 2012. Underlying losses and LAE as a percentage of automobile insurance earned

premiums were 76.3% in 2013, compared to 75.7% in 2012. Underlying losses and LAE as a percentage of automobile insurance earned premiums increased due primarily to higher frequency of bodily injury claims and higher severity of bodily injury losses, partially offset by higher average premium, lower frequency of comprehensive claims and lower severity of comprehensive losses.

Homeowners insurance incurred losses and LAE were $157.9 million, or 66.2% of homeowners insurance earned premiums, for the nine months ended September 30, 2013, compared to $187.8 million, or 81.9% of homeowners insurance earned premiums, for the same period in 2012. Homeowners insurance incurred losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to lower catastrophe losses and LAE (excluding development), lower underlying losses and LAE as a percentage of homeowners insurance earned premiums and a higher level of favorable loss and

Kemper Preferred (continued)
LAE reserve development. Catastrophe losses and LAE (excluding development) were $34.3 million in 2013, compared to $53.6 million in 2012. Underlying losses and LAE as a percentage of homeowners insurance earned premiums were 57.1% in 2013, compared to 62.6% in 2012. Underlying losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to higher average premium and lower frequency of claims. Favorable loss and LAE reserve development was $12.6 million in 2013, compared to $9.3 million in 2012.
Homeowners insurance incurred losses and LAE were $53.1 million, or 66.2% of homeowners insurance earned premiums, for the three months ended September 30, 2013, compared to $53.2 million, or 67.9% of homeowners insurance earned premiums, for the same period in 2012. Homeowners insurance incurred losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of homeowners insurance earned premiums and lower catastrophe losses and LAE (excluding development), partially offset by a lower level of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of homeowners insurance earned premiums were 58.7% in 2013, compared to 61.0% in 2012. Underlying losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to higher average premium and lower frequency of claims, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding development) were $8.3 million in 2013, compared to $8.7 million in 2012. Favorable loss and LAE reserve development was $2.2 million in 2013, compared to $3.3 million in 2012.
Other personal insurance incurred losses and LAE were $13.8 million, or 33.1% of other personal insurance earned premiums, for the nine months ended September 30, 2013, compared to $22.5 million, or 54.3% of other personal insurance earned premiums, for the same period in 2012. Other personal insurance incurred losses and LAE as a percentage of other personal insurance earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of other personal insurance earned premiums, a higher level of favorable loss and LAE reserve development and lower catastrophe losses and LAE (excluding development). Underlying losses and LAE as a percentage of other personal insurance earned premiums decreased due primarily to lower frequency of claims in umbrella liability insurance and other insurance lines, lower severity of losses in other insurance lines (excluding umbrella liability) and higher average premium, partially offset by higher severity of umbrella liability insurance losses. Favorable loss and LAE reserve development was $5.2 million in 2013, compared to $2.4 million in 2012. Underlying losses and LAE as a percentage of other personal insurance earned premiums were 42.5% in 2013, compared to 52.9% in 2012. Catastrophe losses and LAE (excluding development) were $1.3 million in 2013, compared to $3.0 million in 2012.
Other personal insurance incurred losses and LAE were $5.0 million, or 36.2% of other personal insurance earned premiums, for the three months ended September 30, 2013, compared to $7.2 million, or 51.4% of other personal insurance earned premiums, for the same period in 2012. Other personal insurance incurred losses and LAE as a percentage of other personal insurance earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of other personal insurance earned premiums and a higher level of favorable loss and LAE reserve development, partially offset by higher catastrophe losses and LAE (excluding development). Underlying losses and LAE as a percentage of other personal insurance earned premiums were 38.3% in 2013, compared to 52.1% in 2012. Underlying losses and LAE as a percentage of other personal insurance earned premiums decreased due primarily to lower severity of losses in other insurance lines (excluding umbrella liability), lower frequency of umbrella liability insurance claims and higher average premium, partially offset by higher frequency of claims in other insurance lines (excluding umbrella liability) and higher severity of losses in umbrella liability insurance. Favorable loss and LAE reserve development was $1.0 million in 2013, compared to $0.2 million in 2012. Catastrophe losses and LAE (excluding development) were $0.7 million in 2013, compared to $0.1 million in 2012.
Insurance Expenses increased by $5.7 million and $1.0 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to higher employee compensation and agent incentives related to improved performance and higher regulatory audit and examination costs.
The Kemper Preferred segment reported Segment Net Operating Income of $40.5 million and $11.2 million for the nine and three months ended September 30, 2013, respectively, compared to $8.5 million and $8.4 million for the same periods in 2012. The Kemper Preferred segment's effective income tax rate differs from the federal statutory

income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $12.9 million for the nine months ended September 30, 2013, compared to $16.0 million for the same period in 2012. Tax-exempt investment income and dividends received deductions were $4.0 million for the three months ended September 30, 2013, compared to $4.6 million for the same period in 2012.

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Kemper Specialty

Selected financial information for the Kemper Specialty segment follows:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Sep 30, 2012	Three Months Ended Sep 30, 2013	Sep 30, 2012
Net Premiums Written	$298.5	$320.2	$95.0	$103.9
Earned Premiums:				
Personal Automobile	$259.2	$285.6	$84.6	$92.9
Commercial Automobile	38.7	31.7	13.5	11.0
Total 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 Revenues	314.5	331.9	103.1	108.5
Incurred Losses and LAE related to:				
Current Year:				
Non-catastrophe Losses and LAE	235.5	259.4	76.5	84.2
Catastrophe Losses and LAE	3.8	4.7	0.3	0.9
Prior Years:				
Non-catastrophe Losses and LAE	(1.8)	(2.5)	(3.0)	(2.9)
Catastrophe Losses and LAE	—	0.1	(0.1)	—
Total Incurred Losses and LAE	237.5	261.7	73.7	82.2
Insurance Expenses	65.3	67.7	22.2	23.1
Operating Profit	11.7	2.5	7.2	3.2
Income Tax Benefit (Expense)	(2.2)	1.5	(1.9)	(0.5)
Segment Net Operating Income	$9.5	$4.0	$5.3	$2.7
Ratios Based On Earned Premiums				
Current Year Non-catastrophe Losses and LAE Ratio	79.0 %	81.8 %	78.0 %	81.0 %
Current Year Catastrophe Losses and LAE Ratio	1.3	1.5	0.3	0.9
Prior Years Non-catastrophe Losses and LAE Ratio	(0.6)	(0.8)	(3.1)	(2.8)
Prior Years Catastrophe Losses and LAE Ratio	—	—	(0.1)	—
Total Incurred Loss and LAE Ratio	79.7	82.5	75.1	79.1
Incurred Expense Ratio	21.9	21.3	22.6	22.2
Combined Ratio	101.6 %	103.8 %	97.7 %	101.3 %
Underlying Combined Ratio				
Current Year Non-catastrophe Losses and LAE Ratio	79.0 %	81.8 %	78.0 %	81.0 %
Incurred Expense Ratio	21.9	21.3	22.6	22.2
Underlying Combined Ratio	100.9 %	103.1 %	100.6 %	103.2 %
Non-GAAP Measure Reconciliation				
Underlying Combined Ratio	100.9 %	103.1 %	100.6 %	103.2 %
Current Year Catastrophe Losses and LAE Ratio	1.3	1.5	0.3	0.9
Prior Years Non-catastrophe Losses and LAE Ratio	(0.6)	(0.8)	(3.1)	(2.8)
Prior Years Catastrophe Losses and LAE Ratio	—	—	(0.1)	—
Combined Ratio as Reported	101.6 %	103.8 %	97.7 %	101.3 %

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Kemper Specialty (continued)
Insurance Reserves

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Insurance Reserves:		
Personal Automobile	$146.2	$164.8
Commercial Automobile	49.3	43.9
Other	6.7	7.2
Insurance Reserves	$202.2	$215.9
Insurance Reserves:		
Loss Reserves:		
Case	$123.4	$130.9
Incurred but Not Reported	45.8	48.3
Total Loss Reserves	169.2	179.2
LAE Reserves	33.0	36.7
Insurance Reserves	$202.2	$215.9

Earned Premiums in the Kemper Specialty segment decreased by $19.4 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to lower earned premiums for personal automobile insurance, partially offset by higher earned premiums for commercial automobile insurance. Earned premiums in personal automobile insurance decreased by $26.4 million in 2013, compared to 2012, as lower volume of personal automobile insurance decreased personal automobile insurance earned premiums by $47.4 million, while higher average premium accounted for a $21.0 million increase in earned premiums. Personal automobile insurance policies in force were approximately 237,000 at September 30, 2013, compared to 260,000 at the beginning of 2013 and 302,000 at the beginning of 2012. Commercial automobile insurance earned premiums increased by $7.0 million in 2013, compared to 2012, due primarily to higher volume from an increase in new business production.

Earned Premiums in the Kemper Specialty segment decreased by $5.8 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to lower earned premiums for personal automobile insurance, partially offset by higher earned premiums for commercial automobile insurance. Personal automobile insurance earned premiums decreased by $8.3 million in 2013, compared to 2012, as lower volume of personal automobile insurance decreased earned premiums by $16.5 million, while higher average premium accounted for an $8.2 million increase in earned premiums. Commercial automobile insurance earned premiums increased by $2.5 million in 2013, compared to 2012, due primarily to higher volume of insurance.

Net Investment Income in the Kemper Specialty segment increased by $2.0 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments and higher dividends on equity securities, partially offset by lower yields on investments in fixed maturities. The Kemper Specialty segment reported net investment income of $2.8 million from Equity Method Limited Liability Investments in 2013, compared to $1.2 million for 2012.

Net Investment Income in the Kemper Specialty segment increased by $0.5 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments. The Kemper Specialty segment reported net investment income of $0.8 million from Equity Method Limited Liability Investments in 2013, compared to $0.3 million for 2012.

Operating Profit in the Kemper Specialty segment increased by $9.2 million before taxes and $4.0 million before taxes for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to higher operating profit in personal automobile insurance, offset by lower operating profit in commercial automobile insurance.

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Kemper Specialty (continued)

Personal automobile insurance operating results improved by $24.4 million before taxes for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to lower underlying losses and LAE as a percentage of personal automobile insurance earned premiums and a lower level of adverse loss and LAE reserve development. Underlying losses and LAE were $202.4 million, or 78.1% of personal automobile insurance earned premiums, for the nine months ended September 30, 2013, compared to $234.9 million, or 82.3% of personal automobile insurance earned premiums, for the same period in 2012. Personal automobile insurance underlying losses and LAE as a percentage of personal automobile insurance earned premiums decreased due primarily to higher average premium. Adverse loss and LAE reserve development (including catastrophe development) was $0.2 million for the nine months ended September 30, 2013, compared to $10.4 million for the same period in 2012.

Personal automobile insurance operating results improved by $4.8 million before taxes for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to lower underlying losses and LAE as a percentage of personal automobile insurance earned premiums. Underlying losses and LAE were $65.6 million, or 77.6% of personal automobile insurance earned premiums, for the three months ended September 30, 2013, compared to $75.6 million, or 81.4% of personal automobile insurance earned premiums, for the same period in 2012. Personal automobile insurance underlying losses and LAE as a percentage of personal automobile insurance earned premiums decreased due primarily to higher average premium.

Commercial automobile insurance operating profit was $1.7 million before taxes for the nine months ended September 30, 2013, compared to $17.1 million for the same period in 2012. Commercial automobile insurance operating profit decreased by $15.4 million due primarily to a lower level of favorable loss and LAE reserve development, higher underlying losses and LAE as a percentage of commercial automobile insurance earned premiums and higher insurance expenses as a percentage of commercial automobile insurance earned premiums. Favorable Loss and LAE reserve development on commercial automobile insurance was $2.0 million for the nine months ended September 30, 2013, compared to $12.8 million in 2012. Underlying losses and LAE as a percentage of commercial automobile insurance earned premiums were 85.6% for the nine months ended September 30, 2013, compared to 77.3% in 2012, and increased due primarily to higher severity associated with bodily injury claims.

Commercial automobile insurance operating profit was $2.3 million before taxes for the three months ended September 30, 2013, compared to $3.3 million for the same period in 2012. Commercial automobile insurance operating profit decreased by $1.0 million due primarily higher insurance expenses as a percentage of commercial automobile insurance earned premiums and higher underlying losses and LAE as a percentage of commercial automobile insurance earned premiums. Underlying losses and LAE as a percentage of commercial automobile insurance earned premiums were 80.8% for the three months ended September 30, 2013, compared to 78.2% in 2012.

Insurance expenses as a percentage of earned premiums increased by 0.6 percentage points and 0.4 percentage points for the for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, as certain fixed costs are spread over declining earned premium volume.

The Kemper Specialty segment reported Segment Net Operating Income of $9.5 million and $5.3 million for the nine and three months ended September 30, 2013, respectively, compared to $4.0 million and $2.7 million for the same periods in 2012. The Kemper Specialty segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $5.1 million for the nine months ended September 30, 2013, compared to $6.8 million for the same period in 2012. Tax-exempt investment income and dividends received deductions were $1.5 million for the three months ended September 30, 2013, compared to $1.9 million for the same period in 2012.

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Kemper Direct

Selected financial information for the Kemper Direct segment follows:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Net Premiums Written	$86.2	$115.5	$27.5	$35.9
Earned Premiums:				
Automobile	$89.1	$123.9	$28.0	$37.9
Homeowners	6.4	7.2	2.1	2.4
Other Personal	0.1	0.1	—	—
Total Earned Premiums	95.6	131.2	30.1	40.3
Net Investment Income	10.1	10.7	3.1	3.4
Total Revenues	105.7	141.9	33.2	43.7
Incurred Losses and LAE related to:				
Current Year:				
Non-catastrophe Losses and LAE	65.6	111.5	19.7	33.8
Catastrophe Losses and LAE	2.2	4.8	0.4	0.4
Prior Years:				
Non-catastrophe Losses and LAE	(19.2)	(11.3)	(5.7)	(5.3)
Catastrophe Losses and LAE	(0.5)	(0.2)	—	(0.1)
Total Incurred Losses and LAE	48.1	104.8	14.4	28.8
Insurance Expenses	26.3	44.0	8.7	13.3
Operating Profit (Loss)	31.3	(6.9)	10.1	1.6
Income Tax Benefit (Expense)	(9.8)	4.2	(3.2)	(0.1)
Segment Net Operating Income (Loss)	$21.5	$(2.7)	$6.9	$1.5
Ratios Based On Earned Premiums				
Current Year Non-catastrophe Losses and LAE Ratio	68.6 %	85.0 %	65.4 %	83.9 %
Current Year Catastrophe Losses and LAE Ratio	2.3	3.7	1.3	1.0
Prior Years Non-catastrophe Losses and LAE Ratio	(20.1)	(8.6)	(18.9)	(13.2)
Prior Years Catastrophe Losses and LAE Ratio	(0.5)	(0.2)	—	(0.2)
Total Incurred Loss and LAE Ratio	50.3	79.9	47.8	71.5
Incurred Expense Ratio	27.5	33.5	28.9	33.0
Combined Ratio	77.8 %	113.4 %	76.7 %	104.5 %
Underlying Combined Ratio				
Current Year Non-catastrophe Losses and LAE Ratio	68.6 %	85.0 %	65.4 %	83.9 %
Incurred Expense Ratio	27.5	33.5	28.9	33.0
Underlying Combined Ratio	96.1 %	118.5 %	94.3 %	116.9 %
Non-GAAP Measure Reconciliation				
Underlying Combined Ratio	96.1 %	118.5 %	94.3 %	116.9 %
Current Year Catastrophe Losses and LAE Ratio	2.3	3.7	1.3	1.0
Prior Years Non-catastrophe Losses and LAE Ratio	(20.1)	(8.6)	(18.9)	(13.2)
Prior Years Catastrophe Losses and LAE Ratio	(0.5)	(0.2)	—	(0.2)
Combined Ratio as Reported	77.8 %	113.4 %	76.7 %	104.5 %

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Kemper Direct (continued)

Insurance Reserves

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Insurance Reserves:		
Automobile	$140.2	$173.3
Homeowners	2.7	2.7
Other	1.8	1.8
Insurance Reserves	$144.7	$177.8
Insurance Reserves:		
Loss Reserves:		
Case	$97.5	$115.4
Incurred but Not Reported	30.9	39.7
Total Loss Reserves	128.4	155.1
LAE Reserves	16.3	22.7
Insurance Reserves	$144.7	$177.8

In 2012, the Company announced that the Kemper Direct segment would continue to solicit business for its worksite and affinity programs and would place its direct-to-consumer operations in run-off. The Company expects positive earnings from the run-off as a result of premium rate increases and further optimization of operations. Kemper Direct expects that its policies in-force will decline 25% to 35% in 2013 as a result of this and other actions. In line with this expectation, Earned Premiums in the Kemper Direct segment decreased by $35.6 million and $10.2 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to lower volume, partially offset by higher average premium rates.

Net Investment Income in the Kemper Direct segment decreased by $0.6 million and $0.3 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to lower levels of investments allocated to the Kemper Direct segment and lower yields on investments in fixed maturities, partially offset by higher net investment income from Equity Method Limited Liability Investments and higher dividends on equity securities. Net investment income from Equity Method Limited Liability Investments was $1.7 million for the nine months ended September 30, 2013, compared to $0.8 million for the same period in 2012. Net investment income from Equity Method Limited Liability Investments was $0.5 million for the three months ended September 30, 2013, compared to $0.1 million for the same period in 2012.

The Kemper Direct segment reported Operating Profit of $31.3 million before taxes for the nine months ended September 30, 2013, compared to an Operating Loss of $6.9 million before taxes for the same period in 2012. Operating results improved in the Kemper Direct segment for the nine months ended September 30, 2013, compared to 2012, due primarily to lower underlying losses and LAE, higher levels of favorable reserve development, lower insurance expenses and lower catastrophe losses and LAE.

The Kemper Direct segment reported Operating Profit of $10.1 million before taxes for the three months ended September 30, 2013, compared to $1.6 million before taxes for the same period in 2012. Operating results improved in the Kemper Direct segment for the three months ended September 30, 2013, compared to 2012, due primarily to lower underlying losses and LAE, higher levels of favorable reserve development and lower insurance expenses.

Incurred Losses and LAE were $48.1 million, or 50.3% as a percentage of earned premiums, for the nine months ended September 30, 2013, compared to $104.8 million, or 79.9% as a percentage of earned premiums, for the same period in 2012. Incurred Losses and LAE decreased for the nine months ended September 30, 2013, compared to 2012, due primarily to the impact of lower earned premiums, lower underlying losses and LAE as a percentage of earned premiums, higher levels of favorable loss and LAE reserve development and lower incurred catastrophe losses and LAE (excluding development). Underlying losses and LAE as a percentage of earned premiums were 68.6% for the nine months ended September 30, 2013, compared to 85.0% in 2012. Underlying losses and LAE as a percentage of earned premiums decreased for the nine months ended September 30, 2013, compared to 2012, due primarily to lower severity of automobile insurance losses and lower frequency of automobile insurance claims. Favorable loss and

LAE reserve development was $19.7 million for the

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Kemper Direct (continued)
nine months ended September 30, 2013, compared to $11.5 million in 2012. Catastrophe losses and LAE (excluding development) were $2.2 million for the nine months ended September 30, 2013, compared to $4.8 million for the same period in 2012.

Incurred Losses and LAE were $14.4 million, or 47.8% as a percentage of earned premiums, for the three months ended September 30, 2013, compared to $28.8 million, or 71.5% as a percentage of earned premiums, for the same period in 2012. Incurred Losses and LAE decreased for the three months ended September 30, 2013, compared to 2012, due primarily to the impact of lower earned premiums and lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 65.4% for the three months ended September 30, 2013, compared to 83.9% in 2012. Underlying losses and LAE as a percentage of earned premiums decreased for the three months ended September 30, 2013, compared to 2012, due primarily to lower severity of automobile insurance losses and lower frequency of automobile insurance claims.

Insurance Expenses were $26.3 million, or 27.5% of earned premiums, for the nine months ended September 30, 2013, compared to $44.0 million, or 33.5% of earned premiums, for the same period in 2012. Insurance Expenses were $8.7 million, or 28.9% of earned premiums, for the three months ended September 30, 2013, compared to $13.3 million, or 33.0% of earned premiums, for the same period in 2012. Insurance expenses as a percentage of earned premiums decreased for the nine and three months ended September 30, 2013, compared to the same periods in 2012, due primarily to reduced salaries and marketing related expenses.

Kemper Direct reported Segment Net Operating Income of $21.5 million for the nine months ended September 30, 2013, compared to Segment Net Operating Loss of $2.7 million for the same period in 2012. Kemper Direct reported Segment Net Operating Income of $6.9 million for the three months ended September 30, 2013, compared to $1.5 million for the same period in 2012. The Kemper Direct segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $3.2 million for the nine months ended September 30, 2013, compared to $5.1 million for the same period in 2012. Tax-exempt investment income and dividends received deductions were $1.0 million for the three months ended September 30, 2013, compared to $1.4 million for the same period in 2012.

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Life and Health Insurance

Selected financial information for the Life and Health Insurance segment follows:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Earned Premiums:				
Life	$294.9	$296.0	$98.4	$98.4
Accident and Health	121.2	124.2	40.7	41.3
Property	59.4	61.7	19.7	20.5
Total 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 Revenues	634.9	635.5	215.3	208.3
Policyholders’ Benefits and Incurred Losses and LAE	296.9	300.2	94.6	96.7
Insurance Expenses	239.7	232.6	85.5	82.2
Operating Profit	98.3	102.7	35.2	29.4
Income Tax Expense	(33.9)	(36.2)	(12.3)	(10.2)
Segment Net Operating Income	$64.4	$66.5	$22.9	$19.2

Insurance Reserves

(Dollars in Millions)	Sep 30, 2013	Dec 31, 2012
Insurance Reserves:		
Future Policyholder Benefits	$3,146.7	$3,103.1
Incurred Losses and LAE Reserves:		
Life	33.1	36.8
Accident and Health	21.7	21.7
Property	4.7	7.0
Total Incurred Losses and LAE Reserves	59.5	65.5
Insurance Reserves	$3,206.2	$3,168.6

Earned Premiums in the Life and Health Insurance segment decreased by $6.4 million and $1.4 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012. Earned premiums on life insurance decreased by $1.1 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to lower volume of insurance, as a decrease of $4.4 million from life insurance products offered by the Kemper Home Service Companies (“KHSC”) was partially offset by an increase of $3.3 million from life insurance products offered by Reserve National Insurance Company (“Reserve National”). In late 2012, Reserve National began offering its life insurance products through an expanded network of brokers and agents. Earned premiums on life insurance products offered by Reserve National increased by $1.8 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to higher volume of insurance, while earned premiums on life insurance products offered by KHSC decreased by $1.8 million due primarily to lower volume of insurance. Earned premiums on accident and health insurance decreased by $3.0 million and $0.6 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to lower volume of insurance resulting from the suspension of sales of certain health insurance products, partially offset by higher volume of supplemental health insurance products and higher average premium. Reserve National has been adapting its business model in response to the Health Care Acts and suspended sales of certain health insurance products at the end of 2011 and began transitioning its sales to supplemental health insurance products that are not expected to be as severely impacted by the Health Care Acts. Earned premiums on property insurance decreased by $2.3 million and $0.8 million for the nine and three months ended September 30, 2013, respectively, compared to the same periods in 2012, due primarily to lower volume of insurance from the run-off and, in certain geographical areas, the non-renewal of dwelling coverage, partially offset by the impact of non-renewing the

Life and Health Insurance segment's catastrophe reinsurance program. Given the actions taken by KHSC to reduce its exposures to catastrophes, KHSC did not renew its catastrophe reinsurance program in 2013. Catastrophe reinsurance premiums reduced earned premiums by $1.5 million and $0.5 million for the nine and three months ended September 30, 2012, respectively, with no such reduction in 2013.

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Life and Health Insurance (continued)
Net Investment Income increased by $5.8 million for the nine months ended September 30, 2013, compared to the same period in 2012, due primarily to a higher level of investments in fixed maturities, higher investment income from Equity Method Limited Liability Investments and higher dividends on equity securities, partially offset by lower book yields on fixed maturities. Net investment income from Equity Method Limited Liability Investments was $7.2 million for the nine months ended September 30, 2013, compared to $2.1 million for the same period in 2012. Net Investment Income increased by $8.4 million for the three months ended September 30, 2013, compared to the same period in 2012, due primarily to higher investment income from Equity Method Limited Liability Investments, a higher level of investments in fixed maturities and higher dividends on equity securities, partially offset by lower book yields on fixed maturities. Net investment income from Equity Method Limited Liability Investments was $3.8 million for three months ended September 30, 2013, compared to a net investment loss of $1.5 million for the same period in 2012.
Operating Profit in the Life and Health Insurance segment was $98.3 million before taxes for the nine months ended September 30, 2013, compared to $102.7 million for the same period in 2012. Policyholders' Benefits and Incurred Losses and LAE decreased by $3.3 million in 2013 due primarily to lower underlying losses on property insurance and lower catastrophe losses and LAE, partially offset by higher policyholders' benefits on life insurance and higher incurred accident and health insurance losses. Policyholders' benefits on life insurance were $204.2 million in 2013, compared to $200.2 million in 2012, an increase of $4.0 million. Policyholders' benefits on life insurance increased due primarily to slightly higher mortality rates related to insurance policies issued by KHSC and the higher volume of insurance from policies issued by Reserve National. Incurred accident and health insurance losses were $69.6 million, or 57.4% of accident and health insurance earned premiums, in 2013, compared to $67.1 million, or 54.0% of accident and health insurance earned premiums, in 2012. Incurred accident and health insurance losses as a percentage of accident and health insurance earned premiums increased due primarily to higher severity of accident and health insurance losses, partially offset by lower frequency of claims. Incurred losses and LAE on property insurance were $23.1 million, or 38.9% of property insurance earned premiums, in 2013, compared to $32.9 million, or 53.3% of property insurance earned premiums, in 2012. Underlying losses and LAE on property insurance were $20.1 million, or 33.8% of property insurance earned premiums, in 2013, compared to $25.8 million, or 41.8% of property insurance earned premiums, in 2012 and decreased due primarily to lower severity of insurance losses. Catastrophe losses and LAE (excluding development) were $3.4 million in 2013, compared to $7.3 million in 2012. Insurance Expenses in the Life and Health Insurance segment increased by $7.1 million in 2013, compared to 2012, due primarily to higher legal costs and start-up expenses to expand Reserve National's distribution channels, partially offset by lower commissions.
Operating Profit in the Life and Health Insurance segment was $35.2 million before taxes for the three months ended September 30, 2013, compared to $29.4 million for the same period in 2012. Policyholders' Benefits and Incurred Losses and LAE decreased by $2.1 million in 2013 due primarily to lower underlying losses on property insurance and lower catastrophe losses and LAE, partially offset by higher policyholders' benefits on life insurance. Policyholders' benefits on life insurance were $66.8 million in 2013, compared to $64.5 million in 2012, an increase of $2.3 million. Incurred accident and health insurance losses were $21.7 million, or 53.3% of accident and health insurance earned premiums, in 2013, compared to $22.1 million, or 53.5% of accident and health insurance earned premiums, in 2012. Incurred losses and LAE on property insurance were $6.1 million, or 31.0% of property insurance earned premiums, in 2013, compared to $10.1 million, or 49.3% of property insurance earned premiums in 2012. Underlying losses and LAE on property insurance were $6.4 million, or 32.5% of property insurance earned premiums, in 2013, compared to $8.7 million, or 42.4% of property insurance earned premiums, in 2012. Catastrophe losses and LAE (excluding development) were insignificant in 2013, compared to $1.6 million in 2012. Insurance Expenses in the Life and Health Insurance segment increased by $3.3 million in 2013, compared to 2012, due primarily to higher legal costs and start-up expenses to expand Reserve National's distribution channels, partially offset by lower commissions.
Segment Net Operating Income in the Life and Health Insurance segment was $64.4 million for the nine months ended September 30, 2013, compared to $66.5 million in 2012. Segment Net Operating Income in the Life and Health

Insurance segment was $22.9 million for the three months ended September 30, 2013, compared to $19.2 million in 2012.

Certain state insurance regulators, legislators and treasurers/controllers are involved in an array of initiatives that could result in significant changes to unclaimed property laws and claims handling practices with respect to life insurance policies. These initiatives seek, in various ways, to impose a new duty on the part of life insurers to proactively search for deaths of their insureds. It is the Company’s position that state officials lack the legal authority to impose new requirements that have the effect of changing the terms of existing life insurance contracts. See Item 1A., “Risk Factors,” of Part II under the caption “Changes in state enforcement of unclaimed property laws and related insurance claims handling practices could have a significant effect on (including an acceleration of) the payment and/or escheatment of life insurance death benefits relative to what is currently contemplated by Kemper and significantly increase claims handling costs,” Note 13, “Contingencies,” to the

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Life and Health Insurance (continued)
Condensed Consolidated Financial Statements and MD&A, "Liquidity and Capital Resources" for additional information about these matters.
Investment Results
Investment Income
Net Investment Income for the nine and three months ended September 30, 2013 and 2012 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2013	Nine Months Ended Sep 30, 2012	Three Months Ended Sep 30, 2013	Three Months Ended Sep 30, 2012
Investment Income:				
Interest and Dividends on Fixed Maturities	$177.2	$185.7	$59.5	$59.7
Dividends on Equity Securities	29.1	18.7	11.3	7.3
Short-term Investments	—	0.2	—	0.1
Loans to Policyholders	14.7	14.0	5.0	4.7
Real Estate	17.7	20.0	3.7	7.0
Equity Method Limited Liability Investments	19.9	7.2	7.7	(0.6)
Other	—	—	—	(0.1)
Total Investment Income	258.6	245.8	87.2	78.1
Investment Expenses:				
Real Estate	15.3	18.8	3.0	6.4
Other Investment Expenses	5.5	4.0	1.8	1.3
Total Investment Expenses	20.8	22.8	4.8	7.7
Net Investment Income	$237.8	$223.0	$82.4	$70.4

Net Investment Income was $237.8 million and $223.0 million for the nine months ended September 30, 2013 and 2012, respectively. Net Investment Income increased by $14.8 million in 2013 due primarily to higher investment income from Equity Method Limited Liability Investments and higher dividends on equity securities, partially offset by lower Interest and Dividends on Fixed Maturities. Investment income from Equity Method Limited Liability Investments increased by $12.7 million due to higher investment returns. Dividends on Equity Securities increased by $10.4 million due primarily to higher distributions from, and higher levels of, investments in limited liability companies and limited partnerships classified as Other Equity Interests and higher levels of investments in exchange traded funds. Interest and Dividends on Fixed Maturities decreased by $8.5 million in 2013 due primarily to lower book yields, partially offset by higher levels of investment in fixed maturities. Net investment income from real estate increased by $1.2 million due primarily to income from the early termination of one tenant's lease.
Net Investment Income was $82.4 million and $70.4 million for the three months ended September 30, 2013 and 2012, respectively. Net Investment Income increased by $12.0 million in 2013 due primarily to higher investment income from Equity Method Limited Liability Investments and higher Dividends on Equity Securities. Investment income from Equity Method Limited Liability Investments increased by $8.3 million due to higher investment returns. Dividends on Equity Securities increased by $4.0 million due primarily to higher distributions from investments in limited liability companies and limited partnerships classified as Other Equity Interests. Interest and Dividends on Fixed Maturities decreased by $0.2 million in 2013 due primarily to lower book yields, partially offset by higher levels of investment in fixed maturities.

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Investment Results (continued)

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the nine and three months ended September 30, 2013 and 2012 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Fixed Maturities:				
Gains on Sales	$29.6	$55.2	$2.5	$50.7
Losses on Sales	—	(0.1)	—	(0.1)
Equity Securities:				
Gains on Sales	1.9	4.7	0.7	0.1
Losses on Sales	(0.3)	(0.2)	(0.2)	—
Equity Method Limited Liability Investments:				