

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-18298

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

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4255452
(I.R.S. Employer
Identification No.)

One East Wacker Drive, Chicago, Illinois
(Address of principal executive offices)

60601
(Zip Code)

(312) 661-4600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.10 par value per share	New York Stock Exchange
Preferred Share Purchase Rights pursuant to Rights Agreement	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1.7 billion based on the closing sale price as reported on the New York Stock Exchange. Solely for purposes of this calculation, all executive officers and directors of the registrant are considered affiliates.

Registrant had 58,558,898 shares of common stock outstanding as of February 8, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 1, 2013 are incorporated by reference into Part III.

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Caution Regarding Forward-Looking Statements

This 2012 Annual Report on Form 10-K (the “2012 Annual Report”), including the accompanying consolidated financial statements of Kemper Corporation (“Kemper”) and its subsidiaries (individually and collectively referred to herein as the “Company”) and the notes thereto appearing in Item 8 herein (the “Consolidated Financial Statements”), the Management’s Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 herein (the “MD&A”) and the other Exhibits and Financial Statement Schedules filed as a part hereof or incorporated by reference herein, may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “believe(s),” “goal(s),” “target(s),” “estimate(s),” “anticipate(s),” “forecast (s),” “project(s),” “plan(s),” “intend(s),” “expect(s),” “might,” “may” and other words and terms of similar meaning in connection with a discussion of future operating, financial performance or financial condition. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this 2012 Annual Report. 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. 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 below under Item 1A., “Risk Factors,” in this 2012 Annual Report.

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

- The incidence, frequency, and severity of catastrophes occurring in any particular reporting period or geographic concentration, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The frequency 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 expense (“LAE”) reserves;
- The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;
- Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;
- The impact of residual market assessments and assessments for insurance industry insolvencies;
- Changes in industry trends and significant industry developments;
- Uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;
- Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence such issues arising with respect to losses incurred in connection with hurricanes and other catastrophes;
- Changes in ratings by credit ratings agencies;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Developments in, and outcomes of, initiatives by state officials that could result in significant changes to unclaimed property laws and claims handling practices with respect to life insurance policies, especially to the extent that such initiatives result in retroactive application of new standards to existing life insurance policies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company’s products or services;

- Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act, the Health Care and Education Reconciliation Act of 2010 (the “Health Care Acts”) and the Dodd-Frank Act (the “DFA”), 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 U.S. Securities and Exchange Commission (“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 2012 Annual Report. The reader is advised, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

PART I

Item 1. Business.

Kemper is a diversified insurance holding company, with subsidiaries that provide life, health, automobile, homeowners and other insurance products to individuals and small businesses. Kemper's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto are accessible free of charge through Kemper's website, kemper.com, as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC.

(a) GENERAL DEVELOPMENT OF BUSINESS

Kemper Direct

During the third quarter of 2012, Kemper Direct ceased direct-to-consumer marketing activities, and the Company began an evaluation of strategic options for the business. In the fourth quarter of 2012, the Company concluded its evaluation and determined that, to optimize the value for the business, Kemper Direct would continue to solicit business for its worksite, affinity and renters programs and would place its direct-to-consumer operations in run-off.

Conversion of Fireside to General Business Corporation

On March 31, 2012, Kemper's subsidiary, Fireside Bank, converted from an industrial bank to a general business corporation and changed its name to Fireside Auto Finance, Inc. ("FAF"). Accordingly, FAF is no longer regulated by the Federal Depository Insurance Corporation or the California Department of Financial Institutions and may pay dividends or make other distributions without prior regulatory approval. On April 5, 2012, FAF distributed \$20 million of its capital to its parent company, Fireside Securities Corporation ("FSC"), which then, distributed the same amount to its parent company, Kemper. On June 22, 2012, FAF merged with FSC, with FAF being the surviving entity. Fireside Bank, FAF and FSC hereinafter are referred to as "Fireside." Fireside is reported as a discontinued operation in the Company's Consolidated Financial Statements.

Credit Agreements

On March 7, 2012, Kemper entered into a new, four-year, \$325.0 million, unsecured, revolving credit agreement, expiring March 7, 2016 (the "2016 Credit Agreement"), with a group of financial institutions. The 2016 Credit Agreement replaced Kemper's \$245.0 million, unsecured, revolving credit agreement that was scheduled to expire on October 30, 2012 (the "Former Credit Agreement") and was terminated on March 7, 2012. There were no borrowings under the Former Credit Agreement at either December 31, 2011 or at its termination. The 2016 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2016 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper's largest insurance subsidiaries, United Insurance Company of America ("United Insurance") 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 December 31, 2012, and, accordingly, \$325.0 million was available for future borrowings.

Kemper Common Stock Repurchases

In 2011, the Board of Directors approved a new common stock repurchase program. Under this program, Kemper is authorized to repurchase up to \$300 million worth of its common stock. The repurchase program does not have an expiration date. Repurchases may be made from time to time at prevailing prices in the open market or in privately-negotiated transactions, subject to market conditions and other factors. Repurchases will be financed through Kemper's general corporate funds. During 2012, Kemper repurchased 2.0 million shares of its common stock at an aggregate cost of \$60.7 million in open market transactions.

(b) BUSINESS SEGMENT FINANCIAL DATA

Financial information about Kemper's business segments for the years ended December 31, 2012, 2011 and 2010 is contained in the following sections of this 2012 Annual Report and is incorporated herein by reference: (i) Note 19, "Business Segments," to the Consolidated Financial Statements; and (ii) MD&A.

(c) *DESCRIPTION OF BUSINESS*

Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and small businesses. 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 Company's operations are conducted solely in the United States.

Kemper's subsidiaries employ approximately 6,075 full-time associates supporting its operations, of which approximately 350 are employed in the Kemper Preferred segment, 200 are employed in the Kemper Specialty segment, 100 are employed in the Kemper Direct segment, 1,300 are shared by the Kemper Preferred, Kemper Specialty and Kemper Direct segments, 3,925 are employed in the Life and Health Insurance segment and the remainder are employed in various corporate and other staff functions.

Property and Casualty Insurance Business

General

The Company's property and casualty insurance business operations are conducted primarily through the Kemper Preferred, Kemper Specialty, and Kemper Direct segments. In addition, the Life and Health Insurance segment's career agents also sell property insurance to its customers. Collectively, these segments provide automobile, homeowners, renters, fire, and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses.

Automobile insurance in these segments accounted for 52% , 54% and 56% of the Company's consolidated insurance premiums earned in 2012 , 2011 and 2010 , respectively. Automobile insurance in these segments accounted for 44% , 47% and 49% of Kemper's consolidated revenues from continuing operations in 2012 , 2011 and 2010 , respectively. Homeowners insurance in these segments accounted for 15% , 14% and 13% of the Company's consolidated insurance premiums earned in 2012 , 2011 and 2010 , respectively. Homeowners insurance in these segments accounted for 13% , 12% and 11% of the Company's consolidated revenues from continuing operations in 2012 , 2011 and 2010 , respectively.

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation arising out of events covered by the policy.

Kemper Preferred and Kemper Specialty distribute their products through independent agents who are paid commissions for their services. Kemper Direct distributes its products through employer-sponsored voluntary benefit programs and other affinity relationships and formerly marketed its products directly to consumers. Kemper Direct ceased direct-to-consumer marketing activities in the third quarter of 2012 .

Kemper Preferred

Kemper Preferred, based in Jacksonville, Florida, conducts business in 38 states and the District of Columbia. In 2012 , the following states provided over half of the premium revenues in this segment: New York (19%), North Carolina (13%), California (12%) and Texas (9%).

Kemper Preferred primarily sells preferred and standard risk automobile and homeowners insurance. Kemper Preferred's insurance products accounted for 57% of the aggregate insurance premium revenues of the Company's property and casualty insurance business in 2012 . Its insurance products are marketed by approximately 2,900 independent insurance agents to individuals who have demonstrated favorable risk characteristics and loss history.

Kemper Specialty

Kemper Specialty, based in Dallas, Texas, conducts business in 21 states, principally in the southwest and western United States. In 2012 , the following states provided more than three-fourths of the premium revenues in this segment: California (41%), Texas (19%), Washington (7%), Louisiana (6%) and Colorado (4%).

Kemper Specialty provides personal and commercial automobile insurance to value-minded consumers who have had difficulty obtaining standard or preferred risk insurance, usually because of their driving records, claims experience or premium payment

history. Kemper Specialty's insurance products accounted for 27% of the aggregate insurance premium revenues of the Company's property and casualty insurance business in 2012. Kemper Specialty's products are marketed through approximately 8,900 independent agents and brokers.

Kemper Direct

Kemper Direct, based in Chicago, Illinois, underwrites a broad spectrum of personal automobile insurance risks, ranging from preferred to non-standard. Kemper Direct also offers homeowners and renters insurance complementing its automobile insurance business. It currently distributes its products through employer-sponsored voluntary benefit programs and other affinity relationships. Prior to ceasing direct-to-consumer marketing activities in the third quarter of 2012, Kemper Direct also marketed its products directly to consumers through a variety of direct-to-consumer websites, including its own websites. The Kemper Direct segment's insurance products are available in 47 states and the District of Columbia. In 2012, the following states provided approximately two-thirds of the premium revenues in this segment: New York (17%), Florida (12%), California (11%), Georgia (6%), Connecticut (6%), Washington (6%), Pennsylvania (5%) and Texas (4%). Kemper Direct's insurance products accounted for 11% of the aggregate insurance premium revenues of the Company's property and casualty insurance business in 2012.

Property and Casualty Loss and Loss Adjustment Expense Reserves

The Company's reserves for losses and LAE for property and casualty insurance ("Property and Casualty Insurance Reserves") are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid. Property and Casualty Insurance Reserves by business segment at December 31, 2012 and 2011 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
Business Segments:		
Kemper Preferred	\$ 452.3	\$ 416.2
Kemper Specialty	215.9	225.9
Kemper Direct	177.8	223.9
Life and Health Insurance	7.0	8.3
Total Business Segments	853.0	874.3
Discontinued Operations	100.7	133.0
Unallocated Reserves	16.9	21.8
Total Property and Casualty Insurance Reserves	<u>\$ 970.6</u>	<u>\$ 1,029.1</u>

Certain reserves acquired in connection with a business acquisition from SCOR Reinsurance Company ("SCOR") in 2002 (the "Unallocated Reserves") are reinsured 100% by an insurance subsidiary of SCOR (see Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements). The Company does not allocate these reserves to its business segments.

In estimating the Company's Property and Casualty Insurance Reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company's Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures that may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company's Discontinued Operations are predominantly long-tailed exposures, of which \$45.2 million was related to asbestos, environmental matters and construction defect exposures at December 31, 2012. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 54 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while minimizing variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company's estimates of these losses and LAE, also referred to as "development," will occur over time and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income. The Company recognized total favorable development of \$31.5 million, \$33.1 million and \$24.9 million before tax in 2012, 2011 and 2010, respectively. Development for each of the Company's continuing business segments and Unitrin Business Insurance in 2012, 2011 and 2010 was:

<i>DOLLARS IN MILLIONS</i>	Favorable (Adverse) Development		
	2012	2011	2010
Continuing Operations:			
Kemper Preferred	\$ 4.8	\$ 19.1	\$ 23.8
Kemper Specialty	2.3	9.4	(4.1)
Kemper Direct	17.8	3.9	6.8
Life and Health Insurance	0.3	2.6	(4.5)
Total Favorable Development from Continuing Operations, Net	25.2	35.0	22.0
Discontinued Operations:			
Unitrin Business Insurance	6.3	(1.9)	2.9
Total Favorable Development, Net	\$ 31.5	\$ 33.1	\$ 24.9

See MD&A, "Catastrophes," "Kemper Preferred," "Kemper Specialty," "Kemper Direct," and "Life and Health Insurance" for the impact of development on the results reported by the Company's business segments. Also see MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" for additional information about the Company's reserving practices.

Development in Unitrin Business Insurance comprised all of the Company's development reported in discontinued operations. On June 1, 2008, the Company sold its Unitrin Business Insurance operations. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to the effective date of the sale. Development in Unitrin Business Insurance in 2012 is due primarily to the commutation of certain insurance liabilities that had been previously assumed.

See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for a tabular reconciliation for the three most recent annual periods setting forth the Company's Property and Casualty Insurance Reserves as of the beginning of each year, incurred losses and LAE for insured events of the current year, changes in incurred losses and LAE for insured events of prior years, payments of losses and LAE for insured events of the current year, payments of losses and LAE for insured events of prior years and the Company's Property and Casualty Insurance Reserves at the end of the year and additional information regarding the nature of adjustments to incurred losses and LAE for insured events of prior years.

Catastrophe Losses

Catastrophes and storms are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and are expected to be, a material factor in the results of operations and financial position of Kemper's property and casualty insurance companies. Further, because the level of insured losses that could occur in any one year cannot be accurately predicted, these losses contribute to material year-to-year fluctuations in the results of the operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The occurrence and severity of catastrophic events cannot be accurately predicted in any year. However, some geographic locations are more susceptible to these events than others. The Company has endeavored to manage its direct insurance exposures in certain regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. ("ISO") to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when

the event causes \$25 million or more in direct losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions throughout this 2012 Annual Report utilize ISO's definition of catastrophes.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for a discussion of the factors that influence the process of estimating and establishing reserves for catastrophes.

Reinsurance

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains a primary catastrophe reinsurance program for its property and casualty insurance businesses. Coverage for the primary catastrophe reinsurance program is provided in various layers. In addition to this program, the Kemper Preferred segment purchases reinsurance for catastrophe losses in North Carolina at retentions lower than the Company's primary catastrophe reinsurance program. The Company also purchases reinsurance from the Florida Hurricane Catastrophe Fund (the "FHCF") for hurricane losses in Florida at retentions lower than those described below for the Company's primary catastrophe reinsurance program. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for information pertaining to the Company's primary catastrophe reinsurance programs for 2012, 2011 and 2010. The Company's catastrophe reinsurance program for 2013 is described below.

Coverage for the catastrophe reinsurance program effective January 1, 2013 is provided in various layers as presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Kemper Preferred, Kemper Direct and Kemper Specialty Segments			
Retained	\$ —	\$ 50.0	—%
1st Layer of Coverage	50.0	100.0	65.0
2nd Layer of Coverage	100.0	200.0	95.0
3rd Layer of Coverage	200.0	350.0	90.0
4th Layer of Coverage	350.0	450.0	50.0

The estimated aggregate annual premium in 2013 for the program presented in the preceding table is \$23.4 million for the Kemper Preferred, Kemper Direct and Kemper Specialty catastrophe reinsurance program. In the event that the Company's incurred catastrophe losses and LAE covered by its catastrophe reinsurance program exceed the retention for a particular layer, the program requires one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer. The reinstatement premium is a percentage of the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit.

Prior to 2013, companies operating in the Life and Health Insurance segment participated in a catastrophe reinsurance program separate and apart from the catastrophe reinsurance programs covering the Kemper Preferred, Kemper Direct and Kemper Specialty segments. Over the last several years, the Life and Health Insurance segment has been reducing its exposure to catastrophic events through the intentional run-off of its dwelling insurance business. Accordingly, the Life and Health Insurance segment did not renew its catastrophe reinsurance program for 2013. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for information pertaining to the Life and Health Insurance segment's participation in the Company's catastrophe reinsurance programs for 2012, 2011 and 2010.

In addition to the catastrophe loss exposures caused by natural events described above, Kemper's property and casualty insurance companies are exposed to losses from catastrophic events that are not the result of acts of nature, such as acts of terrorism, the nature and level of which in any period cannot be accurately predicted. While there were no reported losses experienced by Kemper's property and casualty insurance companies in relation to the terrorist attacks on September 11, 2001, the companies have reinsurance coverage to address certain exposures to potential future terrorist attacks. The reinsurance coverage for certified events, as designated by the federal government, is from the Terrorist Risk Insurance Act and the coverage for non-certified events is available in the catastrophe reinsurance program for Kemper's property and casualty

insurance companies. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the Company's reinsurance coverage for non-certified events.

In addition to the catastrophe reinsurance programs described above, Kemper's property and casualty insurance companies utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks.

Under the various reinsurance arrangements, Kemper's property and casualty insurance companies are indemnified by reinsurers for certain losses incurred under insurance policies issued by the reinsurers. As indemnity reinsurance does not discharge an insurer from its direct obligations to policyholders on risks insured, Kemper's property and casualty insurance companies remain directly liable. However, so long as the reinsurers meet their obligations, the net liability for Kemper's property and casualty insurance companies is limited to the amount of risk that they retain. Kemper's property and casualty insurance companies purchase their reinsurance only from reinsurers rated "A-" or better by A. M. Best Co., Inc. ("A.M. Best"), at the time of purchase. A.M. Best is an organization that specializes in rating insurance and reinsurance companies.

For further discussion of the reinsurance programs, see Note 6, "Property and Casualty Insurance Reserves," Note 20, "Catastrophe Reinsurance," and Note 21, "Other Reinsurance," to the Consolidated Financial Statements.

Pricing

Pricing levels for property and casualty insurance are influenced by many factors, including the frequency and severity of claims, state regulation and legislation, competition, general business and economic conditions, including market rates of interest, inflation, expense levels, and judicial decisions. In addition, many state regulators require consideration of investment income when approving or setting rates, which reduces underwriting margins. See MD&A under the captions "Kemper Preferred," "Kemper Specialty" and "Kemper Direct."

Competition

Based on the most recent annual data published by A.M. Best as of the end of 2011, there were 1,326 property and casualty insurance groups in the United States. Kemper's property and casualty group was among the top 10% of property and casualty insurance groups in the United States as measured by net written premiums, policyholders' surplus and admitted assets in 2011. Among all personal lines automobile insurance writers, Kemper's property and casualty group was the 20th largest writer as measured by net written premiums in 2011.

In 2011, the property and casualty insurance industry's estimated net premiums written were \$447 billion, of which nearly 80% were accounted for by the top 50 groups of property and casualty insurance companies. Kemper's property and casualty insurance companies wrote less than 1% of the industry's estimated 2011 premium volume.

Property and casualty insurance is a highly competitive business, particularly with respect to personal automobile insurance. Kemper's property and casualty insurance companies compete on the basis of, among other measures, (i) using suitable pricing segmentation, (ii) maintaining underwriting discipline, (iii) selling to selected markets, (iv) utilizing technological innovations for the marketing and sale of insurance, (v) controlling expenses, (vi) maintaining adequate ratings from A.M. Best and other ratings agencies and (vii) providing quality services to agents and policyholders. See Item 1A., "Risk Factors," under the caption "The insurance industry is highly competitive."

Life and Health Insurance Business

The Company's Life and Health Insurance segment consists of Kemper's wholly-owned subsidiaries, United Insurance, The Reliable Life Insurance Company ("Reliable"), Union National Life Insurance Company ("Union National Life"), Mutual Savings Life Insurance Company ("Mutual Savings Life"), United Casualty Insurance Company of America ("United Casualty"), Union National Fire Insurance Company ("Union National Fire"), Mutual Savings Fire Insurance Company ("Mutual Savings Fire") and Reserve National Insurance Company ("Reserve National"). As discussed below, United Insurance, Reliable, Union National Life, Mutual Savings Life, United Casualty, Union National Fire and Mutual Savings Fire (the "Kemper Home Service Companies") distribute their products through a network of employee, or "career," agents. Reserve National distributes its products through a network of exclusive independent agents. These career agents and independent agents are paid commissions for their services.

In 2012, the following states provided approximately two-thirds of the premium revenues in this segment: Texas (21%), Louisiana (11%), Alabama (7%), Mississippi (6%), Illinois (4%), Florida (4%), Georgia (4%), North Carolina (4%) and Missouri (4%). Life insurance accounted for 19%, 18%, and 17% of the Company's consolidated insurance premiums earned in

2012, 2011 and 2010, respectively. Life insurance accounted for 16%, 16% and 15% of the Company's consolidated revenues from continuing operations in 2012, 2011 and 2010, respectively.

Kemper Home Service Companies

The Kemper Home Service Companies, based in St. Louis, Missouri, focus on providing individual life and supplemental accident and health insurance products to customers of modest incomes who desire basic protection for themselves and their families. Their leading product is ordinary life insurance, including permanent and term insurance. Face amounts of these policies are lower than those of policies typically sold to higher income customers by other companies in the life insurance industry. Approximately 79% of the Life and Health Insurance segment's premium revenues are generated by the Kemper Home Service Companies.

The Kemper Home Service Companies employ nearly 2,600 career agents to distribute their products in 25 states and the District of Columbia. These career agents are full-time employees who call on customers in their homes to sell insurance products, provide services related to policies in force and collect premiums, typically monthly. Premiums average about \$18 per policy per month. Permanent and term policies are offered primarily on a non-participating, guaranteed-cost basis. These career agents also distribute certain property insurance products for the Kemper Home Service Companies.

Reserve National

Reserve National, based in Oklahoma City, Oklahoma, is licensed in 35 states throughout the south, southwest and midwest, and specializes in the sale of Medicare Supplement insurance and limited health insurance coverages such as fixed indemnity, dental and vision, and accident-only plans, primarily to individuals in rural areas who often do not have access to a broad array of accident and health insurance products tailored to meet their individual and family needs. See MD&A, "Life and Health Insurance," "Regulation," under this Item 1 beginning on page 10 and Item 1A., "Risk Factors," under the caption "Reserve National's response to American health care reform may be unsuccessful," for a discussion of the impact of American health care reform on Reserve National.

Reserve National has approximately 260 independent agents appointed to market and distribute its products. These independent agents typically represent only Reserve National.

Reinsurance

Consistent with insurance industry practice, the Company's life and health insurance companies utilize reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks. Prior to 2013, the segment's reinsurance arrangements included excess of loss reinsurance coverage specifically designed to protect against losses arising from catastrophic events under the property insurance policies distributed by the Kemper Home Service Companies' agents and written by Kemper's subsidiaries, United Casualty, Union National Fire and Mutual Savings Fire, and reinsured by Kemper's subsidiary, Trinity, or written by Capitol County Mutual Fire Insurance Company ("Capitol"), a mutual insurance company owned by its policyholders, and its subsidiary, Old Reliable Casualty Company ("ORCC"), and reinsured by Trinity. Over the last several years, the segment has been intentionally reducing its exposure to catastrophic events through the run-off of its dwelling insurance business. Accordingly, except for catastrophe reinsurance provided by the FHCF, the Kemper Home Service Companies, Capitol and ORCC did not renew the primary catastrophe reinsurance program for 2013. The FHCF provides reinsurance for catastrophe losses in Florida. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for additional information pertaining to the segment's primary catastrophe reinsurance programs for 2012, 2011 and 2010.

Lapse Ratio

The lapse ratio is a measure of a life insurer's loss of in-force policies. For a given year, this ratio is commonly computed as the total face amount of individual life insurance policies lapsed, surrendered, expired and decreased during such year, less policies increased and revived during such year, divided by the total face amount of policies at the beginning of the year plus the face amount of policies issued and reinsurance assumed in the prior year. The Life and Health Insurance segment's lapse ratio for individual life insurance was 8%, 9% and 8% in 2012, 2011 and 2010, respectively.

The customer base served by the Kemper Home Service Companies and competing life insurance companies tends to have a higher incidence of lapse than other demographic segments of the population. Thus, to maintain or increase the level of its business, the Kemper Home Service Companies must write a high volume of new policies.

Pricing

Premiums for life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on the experience of Kemper's life and health insurance subsidiaries, as well as the industry in general, depending on the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums for policies sold by the Kemper Home Service Companies are set at levels designed to cover the relatively high cost of "in home" servicing of such policies. As a result of such higher expenses, incurred claims as a percentage of earned premiums tend to be lower for companies utilizing this method of distribution than the life insurance industry average.

Premiums for Medicare supplement and other accident and health policies must take into account the rising costs of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, necessitating frequent rate increases, most of which are subject to approval by state regulatory agencies.

Competition

Based on the most recent data published by A.M. Best as of the end of 2011, there were 497 life and health insurance company groups in the United States. The Company's Life and Health Insurance segment ranked in the top 20% of life and health insurance company groups, as measured by admitted assets (86), net premiums written (91) and capital and surplus (83) for 2011 .

Kemper's life and health insurance subsidiaries generally compete by using appropriate pricing, selling to selected markets, controlling expenses, maintaining adequate ratings from A.M. Best and providing competitive services to agents and policyholders.

Investments

The quality, nature, and amount of the various types of investments that can be made by insurance companies are regulated by state laws. Depending on the state, these laws permit investments in qualified assets, including, but not limited to, municipal, state and federal government obligations, corporate bonds, real estate, preferred and common stocks, investment partnerships, limited liability investment companies and limited partnerships and mortgages where the value of the underlying real estate exceeds the amount of the loan.

The Company employs a total return investment strategy, with an emphasis on yield, while maintaining liquidity to meet both its short and long-term insurance obligations. See the discussions of the Company's investments under the headings "Investment Results," "Investment Quality and Concentrations," "Investments in Limited Liability Investment Companies and Limited Partnerships," "Liquidity and Capital Resources" and "Critical Accounting Estimates," in the MD&A, "Quantitative and Qualitative Disclosures about Market Risk," in Item 7A and Note 4, " Investments ," Note 14, " Income from Investments ," and Note 22, " Fair Value Measurements ," to the Consolidated Financial Statements.

Regulation

Insurance Regulation

Kemper is subject to the insurance holding company laws of a number of states. Certain dividends and distributions by an insurance subsidiary are subject to approval by the insurance regulators of the state of incorporation of such subsidiary. Other significant transactions between an insurance subsidiary and its holding company or other subsidiaries of the holding company may require approval by insurance regulators in the state of incorporation of each of the insurance subsidiaries participating in such transactions.

Kemper's insurance subsidiaries are subject to extensive regulation in the states in which they do business. Such regulation pertains to a variety of matters, including, but not limited to, policy forms, premium rate plans, licensing of agents, licenses to transact business, trade practices, claims practices, investments and solvency. The majority of Kemper's insurance operations are in states requiring prior approval by regulators before proposed rates for property, casualty, or health insurance policies may be implemented. However, rates proposed for life insurance generally become effective immediately upon filing with a state, even though the same state may require prior rate approval for other types of insurance. Insurance regulatory authorities perform periodic examinations of an insurer's market conduct and other affairs. Kemper's health insurance subsidiaries are also subject to certain regulation by the federal government. For example, the Health Care Acts, and the regulations promulgated thereunder, have already established or will establish minimum loss ratios, rating restrictions, mandates for essential health

benefit coverages, and restrictions or prohibitions on pre-existing condition exclusions and annual and lifetime policy limits for health insurance policies.

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners (the "NAIC"). State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of insurers, set minimum reserve and loss ratio requirements, establish standards for the types and amounts of investments and require minimum capital and surplus levels. Such statutory capital and surplus requirements include risk-based capital ("RBC") rules promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company's business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company's RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2012, the total adjusted capital of each of Kemper's insurance subsidiaries exceeded the minimum levels required under RBC rules.

Kemper's insurance subsidiaries are required under the guaranty fund laws of most states in which they transact business to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. Kemper's insurance subsidiaries also are required to participate in various involuntary pools or assigned risk pools, principally involving windstorms and high risk drivers. In most states, the involuntary pool participation of Kemper's insurance subsidiaries is in proportion to their voluntary writings of related lines of business in such states.

In addition to the regulatory requirements described above, a number of legislative and regulatory measures pending or recently approved may significantly affect the insurance business in a variety of ways. In particular, the NAIC adopted extensive modifications to its Model Insurance Holding Company System Regulatory Act and related regulation in December 2010. Several states have already adopted legislation that incorporates the principal aspects of the NAIC's proposed revisions, and it is reasonable to assume that the various other state legislatures and regulators will enact conforming revisions into law to maintain their accredited status with the NAIC. These modifications will, among other things, substantially expand the oversight and examination powers of state insurance regulators not only with respect to licensed insurance companies, but also with respect to their presently unregulated non-insurance affiliates, and impose new reporting requirements on the ultimate controlling persons of such insurance companies in respect of, among other things, enterprise risk to the organization as a whole, affiliated transactions, and any divestiture of controlling interests in an insurer. Other significant measures enacted in recent years include, among other things, tort reform, the Health Care Acts, the DFA, consumer privacy requirements, credit score regulation, producer compensation regulations, corporate governance requirements and financial services deregulation initiatives.

State insurance laws intended primarily for the protection of policyholders contain certain requirements that must be met prior to any change of control of an insurance company or insurance holding company that is domiciled or, in some cases, an insurance company having such substantial business that it is deemed commercially domiciled, in that state. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and approval of the change of control by such regulators. The Company has insurance subsidiaries domiciled in Alabama, California, Illinois, Louisiana, Missouri, New York, Oklahoma, Oregon, Texas or Wisconsin. In these states, except Alabama, "control" generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Kemper's shares that would result in the purchaser owning Kemper's voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of Kemper's insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of the insurance regulatory authorities in each state in which Kemper's insurance subsidiaries are domiciled or deemed to be commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulatory authorities. Similarly, consistent with the changes the NAIC adopted to the Model Insurance Holding Company System Regulatory Act, several states have enacted legislation that requires either the acquiring and/or divesting company to notify and receive insurance regulatory authority approval for a change in control. Other states are expected to adopt similar provisions to their holding company acts.

In addition, many states require pre-acquisition notification to the state insurance regulators of a change of control of an insurance company licensed in that state if specific market concentration thresholds would be triggered by the acquisition. While those pre-acquisition notification statutes generally do not authorize the state insurance regulators to disapprove the change of control, they do authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition. These insurance regulatory requirements

may deter, delay or prevent transactions effecting control of the Company or the ownership of Kemper's voting securities, including transactions that could be advantageous to Kemper's shareholders.

Dodd-Frank Act

In July 2010, the DFA was enacted into law. The DFA brings about a profound increase in the regulation of the financial services industry. Among other things, the DFA forms within the Treasury Department a Federal Insurance Office that is charged with monitoring all aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. A report on this study that was to be delivered to Congress within 18 months after enactment of the DFA is still forthcoming, and could be influential in reshaping the current state-based insurance regulatory system and/or introducing a direct federal role in such regulation.

Item 1A. Risk Factors.

Most issuers, including Kemper, are exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The following discussion details the significant risk factors that are more specific to the Company. In addition to those described below, the Company's business, financial condition and results of operation could be materially affected by other factors not presently known by, or considered material to, the Company. Readers are advised to consider these factors along with the other information included in this 2012 Annual Report, and to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

Catastrophe losses, whether resulting from natural disasters, terrorism or other man-made events, and reinsurance risks could adversely affect the Company's results of operations, liquidity or financial condition.

Kemper's property and casualty insurance subsidiaries are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophes can be caused by various events, including, but not limited to, hurricanes, tornadoes, windstorms, earthquakes, hail storms, explosions, severe winter weather and wildfires and may include man-made events, such as terrorist attacks and hazardous material spills. The incidence, frequency and severity of catastrophes are inherently unpredictable, and may be impacted by the uncertain effects of climate change. The extent of the Company's losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Kemper's Life and Health Insurance subsidiaries are particularly exposed to risks of catastrophic mortality, such as pandemic or other events that result in large numbers of deaths. In addition, the occurrence of such an event in a concentrated geographic area could have a severe disruptive effect on the Company's workforce and business operations. The likelihood and severity of such events cannot be predicted and are difficult to estimate.

Kemper's insurance subsidiaries seek to reduce their exposure to catastrophe losses through underwriting strategies and the purchase of catastrophe reinsurance. Reinsurance does not relieve Kemper's insurance subsidiaries of their direct liability to their policyholders. As long as the reinsurers meet their obligations, the net liability for Kemper's insurance subsidiaries is limited to the amount of risk that they retain. While the Company's principal reinsurers are each rated "A-" or better by A.M. Best at the time reinsurance is purchased, the Company cannot be certain that reinsurers will pay the amounts due from them either now, in the future, or on a timely basis. A reinsurer's insolvency or inability to make payments under the terms of its reinsurance agreement with Kemper's insurance subsidiaries could have a material adverse effect on the Company's financial position, results of operations and liquidity.

In addition, market conditions beyond the Company's control determine the availability and cost of the reinsurance protection that Kemper's insurance subsidiaries may purchase. A decrease in the amount of reinsurance protection that Kemper's insurance subsidiaries purchase generally should decrease their cost of reinsurance, but increase their risk of loss. An increase in the amount of reinsurance protection that Kemper's insurance subsidiaries purchase generally should increase their cost of reinsurance, but decrease their risk of loss. However, if the amount of available reinsurance is reduced, Kemper's insurance subsidiaries could pay more for the same level, or a lower level, of reinsurance coverage. Accordingly, the Company may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability of Kemper's insurance subsidiaries to write future insurance policies or result in their retaining more risk with respect to such insurance policies.

Estimating losses and LAE for determining property and casualty insurance reserves, or determining premium rates, is inherently uncertain, and the Company's results of operations may be materially impacted if the Company's insurance reserves or premium rates are insufficient.

The Company establishes loss and LAE reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the property and casualty insurance policies that it has issued. Loss and LAE reserves are established for claims that have been reported to the Company as of the end of the accounting period, as well as for claims that have occurred but have not yet been reported to the Company. The estimates of loss and LAE reserves are based on the Company's assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 54 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

As the process of estimating property and casualty insurance reserves is inherently uncertain, the reserves established by the Company are not precise estimates of liability and could prove to be inadequate to cover its ultimate losses and expenses for insured events that have occurred. The process of estimating loss reserves is complex and imprecise. The estimate of the ultimate cost of claims for insured events that have occurred must take into consideration many factors that are dependent on the outcome of future events associated with the reporting, investigation and settlement of claims. The impacts on the Company's estimates of property and casualty insurance reserves from these factors are difficult to assess accurately. A change in any one or more of the factors is likely to result in a projected ultimate loss that is different than the previous projected ultimate loss, and may have a material impact on the Company's estimate of the projected ultimate loss. Increases in the estimates of ultimate losses and LAE will decrease earnings, while decreases in such estimates will increase earnings, as reported by the Company in the results of its operations for the periods in which the changes to the estimates are made by the Company.

The Company's actuaries also consider trends in the severity and frequency of claims and other factors, when determining the premium rates to charge for its property and casualty insurance products. An unanticipated change in any one or more of these factors or trends, as well as a change in competitive conditions, may also result in inadequate premium rates charged for insurance policies issued by Kemper's property and casualty insurance subsidiaries in the future. Such pricing inadequacies could have a material impact on the Company's operating results.

Reserve National's response to American health care reform may be unsuccessful.

Reserve National's business model, which focuses on providing limited benefit and supplemental accident and health insurance coverages to persons who lack access to traditional private options, is likely to be adversely affected by the Health Care Acts. In response, Reserve National has begun adapting its business model by placing emphasis on designing and selling supplemental health insurance products that are not expected to be as severely impacted by the Health Care Acts and ceasing to issue health insurance products that are expected to be severely impacted. In particular, Reserve National has ceased issuing health insurance products that are subject to certain provisions that establish minimum loss ratios for health insurance policies significantly above the levels historically experienced by Reserve National. While this action is likely to mitigate Reserve National's risk, the minimum loss provisions could adversely impact its ability to achieve an adequate return on its renewal book of these affected products. The creation of health insurance exchanges beginning in 2014 may result in Reserve National losing a significant number of customers.

If Reserve National's sales of supplemental health insurance products are insufficient to offset the loss of business impacted by the Health Care Acts, a significant loss of business for Reserve National may result. A significant loss of business could have a material adverse effect on the financial condition, the results of operations and the valuation of Reserve National.

Kemper is dependent on receiving dividends from its subsidiaries to service its debt and to pay dividends to its shareholders.

As a holding company with no business operations of its own, Kemper depends on the dividend income that it receives from its subsidiaries as the primary source of funds to pay interest and principal on its outstanding debt obligations and to pay dividends to its shareholders. Kemper's insurance subsidiaries are subject to significant regulatory restrictions under state insurance laws and regulations that limit their ability to declare and pay dividends. These laws and regulations impose minimum solvency and liquidity requirements on dividends between affiliated companies and require prior notice to, and may require approval from, state insurance regulators before dividends can be paid. The inability of one or more of Kemper's insurance subsidiaries to pay sufficient dividends to Kemper may materially affect Kemper's ability to timely pay its debt obligations or to pay dividends to its shareholders.

A significant downgrade in the ratings of Kemper or its insurance subsidiaries could adversely affect the Company.

Third-party rating agencies assess the financial strength and rate the claims-paying ability of insurance companies based on criteria established by the rating agencies. Third-party ratings are important competitive factors in the insurance industry. Financial strength ratings are used to assess the financial strength and quality of insurers. A significant downgrade by a recognized rating agency in the ratings of Kemper's insurance subsidiaries, particularly those operating in the preferred and standard market or offering homeowners insurance, could result in a substantial loss of business if agents or policyholders of such subsidiaries move to other companies with higher claims-paying and financial strength ratings. Any substantial loss of business could have a material adverse effect on the financial condition and results of operations of such subsidiaries. A downgrade in Kemper's credit rating by Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's") or Fitch Ratings ("Fitch") may reduce Kemper's ability to access the capital markets for general corporate purposes or refinance existing debt.

Kemper's insurance subsidiaries are subject to significant regulation by state insurance departments.

Kemper's insurance subsidiaries are subject to extensive regulation in the states in which they do business. Current regulations encompass a wide variety of matters, including policy forms, premium rates, licensing, trade practices, claims practices, investment standards, statutory capital and surplus requirements, reserve and loss ratio requirements, restrictions on transactions among affiliates and consumer privacy.

Insurance regulatory agencies conduct periodic examinations of Kemper's insurance subsidiaries and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. If an insurance company fails to obtain required licenses or approvals, or if any of Kemper's insurance subsidiaries fail to comply with other regulatory requirements, the regulatory agencies can suspend or delay their operations or licenses, require corrective action, and impose penalties or other remedies available under the applicable laws and regulations.

These laws and regulations, and their interpretation by the various regulatory agencies and courts, are undergoing continual revision and expansion. The regulatory structures in the financial services industry have come under intense scrutiny as a result of the turmoil experienced by the financial markets. While it is not possible to predict how new legislation or regulations or new interpretations of existing laws and regulations may impact the operations of Kemper's subsidiaries, two recent developments have the potential to significantly impact such operations.

In July 2010, the DFA was enacted into law. For more information about the potential impact of the DFA on the Company's operations, see "Dodd-Frank Act" under "Regulation" in Item 1, beginning on page 12 .

In addition, the NAIC adopted extensive modifications to its Model Insurance Holding Company System Regulatory Act and related regulation in December 2010. Several states have already adopted legislation that incorporates the principal aspects of the NAIC's proposed revisions, and it is reasonable to assume that the various other state legislatures and regulators will enact conforming revisions into law to maintain their accredited status with the NAIC. These modifications will, among other things, substantially expand the oversight and examination powers of state insurance regulators, not only with respect to licensed insurance companies, but also with respect to their presently unregulated non-insurance affiliates, and will impose new reporting requirements on the ultimate controlling persons of such insurance companies with respect to, among other things, enterprise risk to the organization as a whole, affiliated transactions, and any divestiture of controlling interests in an insurer.

These new developments (including regulations that have been or that are required to be promulgated under the DFA), as well as significant changes in, or new interpretations of, existing laws and regulations could make it more expensive for Kemper's subsidiaries to conduct their businesses and could materially affect the profitability of their operations and the Company's financial results. See the discussion in the risk factor above entitled "Reserve National's response to American health care reform may be unsuccessful" regarding the potential effect of the Health Care Acts on Reserve National's business model. For a more detailed discussion of the regulations applicable to Kemper's subsidiaries, see "Insurance Regulation" under "Regulation" in Item 1, beginning on page 10 .

The Company is subject to interest rate risk and credit risk in its fixed maturity investment portfolio.

One of the Company's primary market risk exposures is to changes in interest rates. A decline in market interest rates could have an adverse effect on the Company's investment income as it invests cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities the Company holds as investments more quickly than the Company initially expected. Such prepayment or redemption action may cause the Company to reinvest the redeemed proceeds in lower yielding investments. An increase in market interest rates could also have an adverse effect on the value of the Company's investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of its investment portfolio.

The Company's fixed maturity investment portfolio is subject to credit risk from the issuers of the securities in the portfolio. Deterioration in the financial conditions of the issuers could result in a decline in the fair value of the Company's fixed maturity investment portfolio. Deterioration in the financial conditions of the issuers could also result in issuer defaults and impact the Company's ability to recover the reported value of its fixed maturity investment portfolio. Accordingly, deterioration in the credit quality of the Company's investment portfolio could adversely affect the Company's operating results and financial position.

The Company's investments in limited liability investment companies and limited partnerships are concentrated in companies and partnerships that invest in distressed and mezzanine debt and secondary transactions.

At December 31, 2012, Kemper's insurance subsidiaries had \$253.0 million invested in limited liability investment companies and limited partnerships accounted for under the equity method of accounting ("Equity Method Limited Liability Investments") that invest in distressed and mezzanine debt of other companies and secondary transactions. In addition, Kemper's insurance subsidiaries had unfunded commitments to invest an additional \$141.5 million at December 31, 2012, including \$88.7 million of unfunded commitments related to investments reported as Other Equity Interests and included in Equity Securities in the Consolidated Balance Sheet, in limited liability investment companies and limited partnerships. Such unfunded commitments generally may be used to fund additional investments made, or losses incurred, by such limited liability investment companies and limited partnerships. The underlying investments of such limited liability investment companies and limited partnerships generally provide opportunities for higher returns, but at a higher risk than investment-grade investments. General economic swings influence the performance of the underlying investments in distressed and mezzanine debt and secondary transactions. Kemper's insurance subsidiaries have also made direct investments in the same or similar distressed and mezzanine debt securities of certain issuers in which such limited liability investment companies and limited partnerships have made investments, which could exacerbate any losses attributable to poor performance of any such investments. A severe and continued downturn in the economy may result in deterioration in the business prospects of the issuers of the underlying investments that could adversely affect the Company's operating results and financial position.

The insurance industry is highly competitive.

The Company's insurance businesses face significant competition, and its ability to compete is affected by a variety of issues relative to others in the industry, such as product pricing, service quality, financial strength and name recognition. Competitive success is based on many factors, including, but not limited to, the following:

- Competitiveness of prices charged for insurance policies;
- Selection of agents, web portals and other business partners;
- Compensation paid to agents;
- Underwriting discipline;
- Selectiveness of sales markets;
- Effectiveness of marketing materials;
- Product and technological innovation;
- Ability to detect and prevent fraudulent insurance claims;
- Ability to control operating expenses;
- Financial strength ratings; and
- Quality of services provided to agents and policyholders.

The inability to compete effectively in any of the Company's insurance businesses could materially reduce the Company's customer base and revenues and could adversely affect the future results and financial condition of the Company.

See “Competition” in Item 1 of Part I beginning on page 8 and page 10 , for more information on the competitive rankings in the property and casualty insurance markets and the life and health insurance markets, respectively, in the United States.

The effects of an evolving legal and regulatory landscape on Kemper’s insurance subsidiaries are uncertain.

The legal and regulatory landscape within which Kemper’s insurance subsidiaries conduct their businesses is often unpredictable. As industry practices and regulatory, judicial, political, social and other conditions change, unexpected and unintended issues may emerge. These emerging practices, conditions and issues could adversely affect Kemper’s insurance subsidiaries in a variety of ways, including by expansion of coverages beyond their underwriting intent, by increasing the number or size of claims or accelerating the payment of claims. Industry practices that were considered legally-compliant and reasonable for years may suddenly be deemed unacceptable by virtue of an unexpected court or regulatory ruling or changes in regulatory enforcement policies and practices. Anticipating such shifts in the law and the impact they may have on the Company and its operations is a difficult task and there can be no assurances that the Company will not encounter such shifts in the future. The effects of such changes are hard to predict, but could materially affect the financial results of the Company.

Legal and regulatory proceedings are unpredictable.

Kemper and its subsidiaries are from time to time involved in lawsuits, regulatory inquiries, and other legal proceedings arising out of the ordinary course of their businesses. Some of these proceedings may involve matters particular to Kemper or one or more of its subsidiaries, while others may pertain to business practices in the industry in which Kemper and its subsidiaries operate. Some lawsuits may seek class action status that, if granted, could expose the Company to potentially significant liability by virtue of the size of the putative classes. These matters raise difficult factual and legal issues and are subject to uncertainties and complexities, and the outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. A further complication is that even where the possibility of an adverse outcome is deemed to be remote using traditional legal analysis, juries sometimes can and do substitute their subjective views in place of facts and established legal principles. Given the unpredictability of the legal and regulatory landscape in which the Company operates, there can be no assurance that one or more of these matters will not produce a result that could have a material adverse effect on the Company’s consolidated financial results for any given period.

For information about the Company’s pending litigation, see Item 3, “Legal Proceedings,” beginning on page 18 .

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.

In recent years, many states have begun to aggressively enforce compliance with their respective unclaimed property laws to assure that companies are properly reporting and remitting such property. The treasurers of a large majority of states have engaged private firms to examine the practices and procedures of life insurance companies for the handling of unclaimed insurance benefits under life insurance policies, annuity contracts and retained asset accounts.

Certain other measures are also being taken or considered by state insurance regulators, both individually and collectively, through the auspices of the NAIC. Some state insurance regulators have held administrative hearings and/or have initiated market conduct examinations focused on claims handling and escheatment practices of life insurers. Based on published reports, at least six companies have entered into settlement agreements in which they commit to change their historic claims practices by agreeing to periodically search for deceased insureds, prior to the receipt of a death claim, by comparing their in-force policy records against a database of reported deaths maintained by the Social Security Administration (the “SSA Death Master File”). Separately, state legislators, through the auspices of the National Council of Insurance Legislators, have proposed model legislation which, if enacted by various states, could require life insurers to compare their in-force policy records against the SSA Death Master File, for the purpose of proactively identifying potentially deceased insureds for whom the life insurer has not yet received a death claim. Kentucky, New York, Maryland and Alabama have each enacted legislation of this type, with effective dates of January 1, 2013, June 17, 2013, October 1, 2013 and January 1, 2014, respectively. These statutes, if construed to apply to life insurance policies in force on the statutes’ effective dates, could have a significant effect on, including an acceleration of, the payment of life insurance benefits to beneficiaries or, in instances where beneficiaries could not be located, the escheatment of such benefits to the states. A declaratory judgment action filed by the Company in November 2012 is pending in state court in Kentucky asking the court to construe the Kentucky statute such that it would only apply prospectively, i.e., only with respect to life insurance policies issued on or after the statute’s effective date, consistent with the requirements of applicable Kentucky statutory law and Kentucky and federal constitutional provisions.

Kemper's life insurance companies are currently the subject of an unclaimed property compliance examination by a private firm retained by the treasurers of thirty-eight states. Kemper's life insurance companies have provided a significant amount of information to such firm. The results of this examination are not likely to be known for some time. One state insurance regulator has also commenced a market conduct exam of Kemper's life insurance companies for the purpose of verifying such companies' compliance with relevant regulations governing life insurance claims handling and escheatment practices.

Should these various efforts by state officials succeed in applying new claims handling and escheatment practices to existing life insurance policies, they could have a material adverse effect on the Company's profitability and financial position.

See Note 23, "Contingencies," to the Consolidated Financial Statements and the sections of the MD&A entitled "Life and Health Insurance" and "Liquidity and Capital Resources" for additional information on these matters.

Managing technology initiatives to address business developments and increasing data security regulations and risks present significant challenges to the Company.

While technological developments can streamline many business processes and ultimately reduce the cost of operations, technology initiatives can present short-term cost and implementation risks. In addition, projections of expenses, implementation schedules and utility of results may be inaccurate and can escalate over time. The financial services industry is highly regulated, and the Company faces rising costs and competing time constraints in meeting compliance requirements of new and proposed regulations. Companies operating in the financial services industry obtain and store vast amounts of personal data. The expanding volume and sophistication of computer viruses, hackers and other external hazards may increase the vulnerability of the Company's data systems, including, but not limited to, the personal data used in and stored on such systems, to security breaches. These increased risks and expanding regulatory requirements, including requirements related to personal data security, expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

In addition, non-compliance with the Payment Card Industry Data Security Standard, an information security standard for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and point-of-sale cards, could result in fines from such organizations or the inability to transact business with customers using these cards.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Owned Properties

The Company owns the 41-story office building at One East Wacker Drive, Chicago, Illinois, that houses the executive offices of Kemper and the home office of its Kemper Direct operations, which together occupy approximately 58,000 square feet of the 527,000 rentable square feet in the building. In addition, Kemper's subsidiaries together own and occupy 13 buildings located in seven states consisting of approximately 47,000 square feet in the aggregate. Kemper's subsidiaries hold additional properties solely for investment purposes that are not utilized by Kemper or its subsidiaries.

Leased Facilities

Kemper Preferred leases facilities with an aggregate square footage of approximately 89,000 at 8 locations in eight states. The latest expiration date of the existing leases is in September of 2018. Kemper Specialty leases facilities with an aggregate square footage of approximately 20,000 at two locations in two states. The latest expiration date of the existing leases is in June of 2018. Kemper Direct leases facilities with an aggregate square footage of approximately 63,000 at five locations in four states. The latest expiration date of the existing leases is in October of 2016. Kemper Preferred, Kemper Specialty and Kemper Direct share leased facilities with an aggregate square footage of approximately 329,000 at 15 locations in 10 states. The latest expiration date of the existing leases is in September of 2018. Kemper's Life and Health Insurance segment leases facilities with aggregate square footage of approximately 496,000 at 124 locations in 26 states. The latest expiration date of the existing leases is in October of 2019. Kemper's corporate data processing operation leases facilities with aggregate square footage of approximately 36,000 square feet at two locations in two states. The latest expiration date of the existing leases is in September of 2018. Fireside leases facilities with an aggregate square footage of approximately 48,000 at one location in one state. The expiration date of the lease is in August of 2014.

The properties described above are in good condition. The properties utilized in the Company's operations consist of facilities suitable for general office space, call centers and data processing operations.

Item 3. Legal Proceedings.

Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 23 , “Contingencies,” to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Kemper’s common stock is traded on the New York Stock Exchange (the “NYSE”) under the symbol of “KMPR.” Quarterly information pertaining to market prices of Kemper common stock in 2012 and 2011 is presented below.

<i><u>DOLLARS PER SHARE</u></i>	Three Months Ended				Year Ended
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Dec 31, 2012
Common Stock Market Prices:					
High	\$ 30.99	\$ 31.23	\$ 33.00	\$ 31.98	\$ 33.00
Low	27.77	28.14	30.08	28.20	27.77
Close	30.28	30.75	30.71	29.50	29.50

<i><u>DOLLARS PER SHARE</u></i>	Three Months Ended				Year Ended
	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Dec 31, 2011
Common Stock Market Prices:					
High	\$ 31.11	\$ 31.69	\$ 30.11	\$ 29.71	\$ 31.69
Low	30.68	27.80	22.25	22.07	22.07
Close	30.88	29.67	23.96	29.21	29.21

Holders

As of January 17, 2013 , the number of record holders of Kemper’s common stock was 4,690 .

Dividends

Quarterly information pertaining to payment of dividends on Kemper’s common stock is presented below.

<i><u>DOLLARS PER SHARE</u></i>	Three Months Ended				Year Ended
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Dec 31, 2012
Cash Dividends Paid to Shareholders (per share)	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.96

<i><u>DOLLARS PER SHARE</u></i>	Three Months Ended				Year Ended
	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Dec 31, 2011
Cash Dividends Paid to Shareholders (per share)	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.96

Kemper’s insurance subsidiaries are subject to various state insurance laws that restrict the ability of these insurance subsidiaries to pay dividends without prior regulatory approval. See MD&A, “Liquidity and Capital Resources” and Note 9 , “ Shareholders’ Equity ,” to the Consolidated Financial Statements for information on Kemper’s ability and intent to pay dividends.

Issuer Purchases of Equity Securities

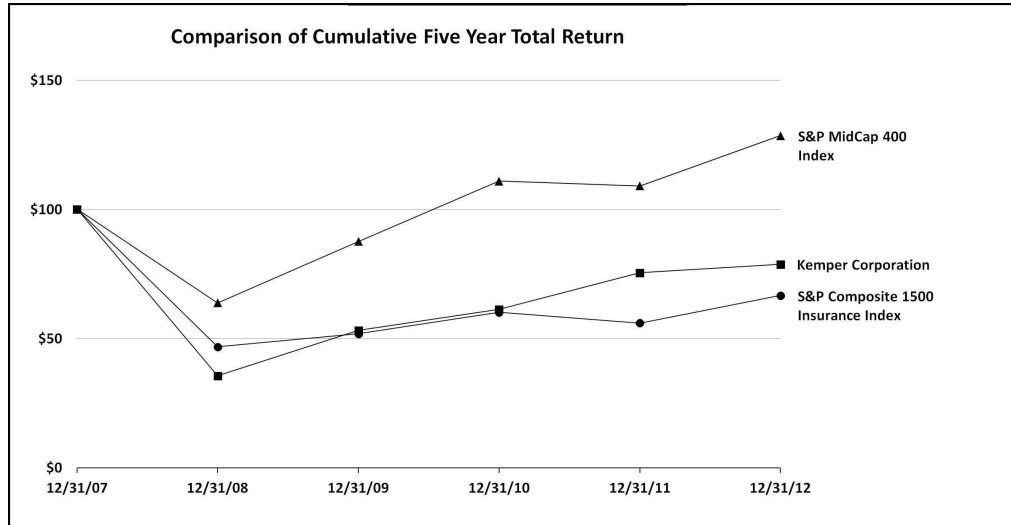
On February 2, 2011, Kemper's Board of Directors authorized the repurchase of up to \$300 million of Kemper's common stock. The repurchase program does not have an expiration date. No shares were repurchased under the repurchase program during the fourth quarter of 2012. The maximum dollar value of shares of Kemper's common stock that may yet be repurchased under the program was \$211.9 million at December 31, 2012.

There were 31,379 shares withheld to satisfy tax withholding obligations relating to the exercise of stock appreciation rights under Kemper's long-term equity-based compensation plans during the quarter ended December 31, 2012. No restricted stock awards vested under Kemper's long-term equity-based compensation plans during the quarter ended December 31, 2012.

Kemper Common Stock Performance Graph

The following graph assumes \$100 invested on December 31, 2007 in (i) Kemper common stock, (ii) the S&P MidCap 400 Index and (iii) the S&P Composite 1500 Insurance Index, in each case with dividends reinvested. Kemper is a constituent of each of these two indices.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kemper common stock.



<u>Company / Index</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Kemper Corporation	\$ 100.00	\$ 35.59	\$ 53.11	\$ 61.26	\$ 75.45	\$ 78.71
S&P MidCap 400 Index	100.00	63.77	87.61	110.94	109.02	128.51
S&P Composite 1500 Insurance Index	100.00	46.76	51.80	60.11	55.96	66.65

Item 6. Selected Financial Data.

Selected financial information as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 is presented below.

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	2012	2011*	2010*	2009*	2008*
FOR THE YEAR					
Earned Premiums	\$ 2,107.1	\$ 2,173.6	\$ 2,289.4	\$ 2,455.5	\$ 2,376.6
Net Investment Income	295.9	298.0	325.7	319.9	208.5
Other Income	0.8	1.0	1.3	2.5	4.1
Net Realized Gains on Sales of Investments	65.4	33.7	42.6	24.6	59.2
Net Impairment Losses Recognized in Earnings	(6.9)	(11.3)	(16.5)	(50.4)	(152.9)
Total Revenues	\$ 2,462.3	\$ 2,495.0	\$ 2,642.5	\$ 2,752.1	\$ 2,495.5
Income (Loss) from Continuing Operations	\$ 91.8	\$ 61.7	\$ 162.4	\$ 161.8	\$ (15.8)
Income (Loss) from Discontinued Operations	11.6	12.8	15.5	(2.8)	(13.9)
Net Income (Loss)	\$ 103.4	\$ 74.5	\$ 177.9	\$ 159.0	\$ (29.7)
Per Unrestricted Share:					
Income (Loss) from Continuing Operations	\$ 1.55	\$ 1.02	\$ 2.62	\$ 2.60	\$ (0.25)
Income (Loss) from Discontinued Operations	0.20	0.21	0.25	(0.05)	(0.22)
Net Income (Loss)	\$ 1.75	\$ 1.23	\$ 2.87	\$ 2.55	\$ (0.47)
Per Unrestricted Share Assuming Dilution:					
Income (Loss) from Continuing Operations	\$ 1.54	\$ 1.02	\$ 2.62	\$ 2.60	\$ (0.25)
Income (Loss) from Discontinued Operations	0.20	0.21	0.25	(0.05)	(0.22)
Net Income (Loss)	\$ 1.74	\$ 1.23	\$ 2.87	\$ 2.55	\$ (0.47)
Dividends Paid to Shareholders (per share)	\$ 0.96	\$ 0.96	\$ 0.88	\$ 1.07	\$ 1.88
AT YEAR END					
Total Assets	\$ 8,009.1	\$ 7,934.7	\$ 8,260.8	\$ 8,489.8	\$ 8,740.8
Insurance Reserves	\$ 4,132.2	\$ 4,131.8	\$ 4,182.4	\$ 4,239.3	\$ 4,241.3
Unearned Premiums	650.9	666.2	678.6	724.9	733.5
Certificates of Deposits	—	—	321.4	682.4	1,110.8
Notes Payable	611.4	610.6	609.8	561.4	560.8
All Other Liabilities	452.9	409.5	445.6	447.9	523.8
Total Liabilities	5,847.4	5,818.1	6,237.8	6,655.9	7,170.2
Shareholders' Equity	2,161.7	2,116.6	2,023.0	1,833.9	1,570.6
Total Liabilities and Shareholders' Equity	\$ 8,009.1	\$ 7,934.7	\$ 8,260.8	\$ 8,489.8	\$ 8,740.8
Book Value Per Share	\$ 36.98	\$ 35.13	\$ 33.13	\$ 29.41	\$ 25.20

* Effective January 1, 2012, the Company adopted ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, and retrospectively applied its provisions to the prior periods presented. The retrospective application reduced Shareholders' Equity by \$77.9 million at January 1, 2008. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations

SUMMARY OF RESULTS

Net Income was \$103.4 million (\$1.75 per unrestricted common share) for the year ended December 31, 2012, compared to \$74.5 million (\$1.23 per unrestricted common share) for the year ended December 31, 2011. Income from Continuing Operations was \$91.8 million (\$1.55 per unrestricted common share) in 2012, compared to \$61.7 million (\$1.02 per unrestricted common share) in 2011.

Catastrophe losses and LAE from continuing operations (excluding loss and LAE reserve development from prior accident years) were \$124.5 million before tax for the year ended December 31, 2012, compared to \$163.8 million in 2011, a decrease of \$39.3 million. Kemper Preferred contributed \$38.8 million to the decrease in catastrophe losses and LAE before tax, with the Life Health Insurance segment contributing \$3.1 million to the decrease. The Company reported Income from Discontinued Operations of \$11.6 million and \$12.8 million for the years ended December 31, 2012 and 2011, respectively.

A reconciliation of Total Segment Net Operating Income to Net Income for the years ended December 31, 2012, 2011 and 2010 is presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2012 Increase (Decrease)</u>	<u>2010</u>	<u>2011 Increase (Decrease)</u>
Segment Net Operating Income (Loss):					
Kemper Preferred	\$ (11.2)	\$ (17.6)	\$ 6.4	\$ 52.9	\$ (70.5)
Kemper Specialty	1.2	19.8	(18.6)	21.0	(1.2)
Kemper Direct	(0.9)	(27.5)	26.6	(1.7)	(25.8)
Life and Health Insurance	90.8	98.9	(8.1)	87.4	11.5
Total Segment Net Operating Income	79.9	73.6	6.3	159.6	(86.0)
Unallocated Net Operating Loss	(26.1)	(26.5)	0.4	(14.4)	(12.1)
Consolidated Net Operating Income	53.8	47.1	6.7	145.2	(98.1)
Net Income (Loss) From:					
Net Realized Gains on Sales of Investments	42.5	21.9	20.6	27.9	(6.0)
Net Impairment Losses Recognized in Earnings	(4.5)	(7.3)	2.8	(10.7)	3.4
Income from Continuing Operations	91.8	61.7	30.1	162.4	(100.7)
Income from Discontinued Operations	11.6	12.8	(1.2)	15.5	(2.7)
Net Income	\$ 103.4	\$ 74.5	\$ 28.9	\$ 177.9	\$ (103.4)

Earned Premiums were \$2,107.1 million in 2012, compared to \$2,173.6 million in 2011, a decrease of \$66.5 million. Earned Premiums decreased by \$54.7 million and \$25.4 million in the Kemper Direct and Kemper Specialty segments, respectively, offset by a \$19.6 million increase in premiums in the Kemper Preferred segment.

Net Investment Income decreased by \$2.1 million in 2012 due primarily to \$4.1 million in higher Other Investment Expenses, partially offset by \$1.2 million of higher net investment income from Real Estate and \$1.2 million of higher investment income from Loans to Policyholders.

Net Realized Gains on Sales of Investments were \$65.4 million in 2012, compared to \$33.7 million in 2011. Net Impairment Losses Recognized in Earnings for the years ended December 31, 2012 and 2011 were \$6.9 million and \$11.3 million, respectively. The Company cannot predict when or if similar investment gains or losses may occur in the future. See MD&A, "Investments Results," for information pertaining to investment performance.

CATASTROPHES

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions and reinsurance. To limit its exposures to catastrophic events, the Company maintains various primary catastrophe reinsurance programs for its property and casualty insurance businesses. Coverage for each primary catastrophe reinsurance program is provided in various layers (see Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for further discussion of these programs). In addition to these programs, the Kemper Preferred segment purchases reinsurance for catastrophe losses in North Carolina at retentions lower than the Company's primary catastrophe reinsurance programs ("the Kemper Preferred NC Program"). The Company purchases reinsurance from the FHCF for hurricane losses in Florida at retentions lower than the Company's primary catastrophe reinsurance programs.

Catastrophe reinsurance premiums for the Company's primary reinsurance programs, the Kemper Preferred NC Program and the FHCF reduced earned premiums for the years ended December 31, 2012, 2011 and 2010 by the following:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kemper Preferred	\$ 24.6	\$ 20.0	\$ 21.9
Kemper Specialty	0.1	0.1	0.3
Kemper Direct	0.4	0.8	0.8
Life and Health Insurance	2.0	2.3	3.6
Total Ceded Catastrophe Reinsurance Premiums	<u>\$ 27.1</u>	<u>\$ 23.2</u>	<u>\$ 26.6</u>

Ceded Catastrophe Reinsurance Premiums for the Life and Health Insurance segment for the year ended December 31, 2011 in the preceding table includes a reduction of \$0.2 million in the Company's estimate for reinsurance reinstatement premiums for certain hurricanes that occurred in prior years. Ceded Catastrophe Reinsurance Premiums for the Life and Health Insurance segment in the preceding table includes reinsurance reinstatement premiums of \$0.6 million for the year ended December 31, 2010 to reinstate coverage following certain hurricanes that occurred in prior years.

Catastrophe losses and LAE (excluding loss and LAE reserve development from prior accident years) from continuing operations were \$124.5 million, \$163.8 million and \$79.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Catastrophe losses and LAE (excluding loss and LAE reserve development) by business segment for the years ended December 31, 2012, 2011 and 2010 are presented below:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kemper Preferred	\$ 105.4	\$ 144.2	\$ 70.1
Kemper Specialty	4.8	3.8	2.9
Kemper Direct	8.3	6.7	1.8
Life and Health Insurance	6.0	9.1	4.5
Total Catastrophe Losses and LAE	<u>\$ 124.5</u>	<u>\$ 163.8</u>	<u>\$ 79.3</u>

CATASTROPHES (Continued)

The number of catastrophic events and catastrophe losses and LAE (excluding loss and LAE reserve development) by range of loss for the years ended December 31, 2012 and 2011 are presented below:

<u>DOLLARS IN MILLIONS</u>	Year Ended			
	Dec 31, 2012		Dec 31, 2011	
	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:				
Below \$5	19	\$ 25.6	22	\$ 37.4
\$5 - \$10	5	39.4	3	21.9
\$10 - \$15	1	11.0	1	10.9
\$15 - \$20	—	—	2	37.2
\$20 - \$25	—	—	1	23.0
Greater Than \$25	1	48.5	1	33.4
Total	26	\$ 124.5	30	\$ 163.8

As shown in the preceding table, catastrophe losses and LAE decreased for the year ended December 31, 2012 due primarily to lower severity of losses below \$5 million per event and lower frequency of losses in excess of \$15 million per event, partially offset by higher frequency of losses ranging from \$5 million to \$10 million per event. The five events in the \$5 million to \$10 million range and one event in the \$10 million to \$15 million range for the year ended December 31, 2012 were related to hail or wind events in either Texas, Colorado or the Midwest and mid-Atlantic states. In the fourth quarter of 2012, the Company incurred claims related to one event in the greater than \$25 million range which was Superstorm Sandy. Events below \$5 million for the year ended December 31, 2011 are due primarily to spring storms. In the second quarter of 2011, the United States experienced a high volume of spring storms, including a record level of tornadoes in April resulting in two events in the \$15 million to \$20 million range and one event which was \$32.1 million. In the third quarter of 2011, the Company incurred claims related to one event in the \$20 million to \$25 million range which was Hurricane Irene. Catastrophe losses and LAE for the year ended December 31, 2011 include \$23.0 million related to Hurricane Irene.

In late October 2012, Superstorm Sandy, a named catastrophe and at one point a level two hurricane while over the Atlantic ocean, caused a significant amount of damage in several northeastern states. Catastrophe losses and LAE for the year ended December 31, 2012 include \$48.5 million related to Superstorm Sandy, of which \$44.0 million is included in the Kemper Preferred segment.

In the second quarter of 2011, the United States experienced a high volume of spring storms, including a record level of tornadoes in April. These storms contributed significantly to the increase in the Company's catastrophe losses and LAE in 2011, compared to 2010. In the third quarter of 2011, the Company also incurred claims related to Hurricane Irene. Catastrophe losses and LAE for the year ended December 31, 2011 includes \$23.0 million related to Hurricane Irene, of which \$22.1 million is included in the Kemper Preferred segment. No major hurricanes that significantly impacted the Company made landfall in the United States during 2010.

Total Catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by \$6.3 million, \$6.4 million and \$1.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. See MD&A, "Loss and LAE Reserve Development," of this 2012 Annual Report for catastrophe loss and LAE reserve development by business segment.

LOSS AND LAE RESERVE DEVELOPMENT

Increases (decreases) in the Company’s property and casualty loss and LAE reserves for the years ended December 31, 2012 , 2011 and 2010 to recognize adverse (favorable) loss and LAE reserve development from prior accident years, hereinafter also referred to as “reserve development” in the discussion of segment results, is presented below:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kemper Preferred:			
Non-catastrophe	\$ 1.4	\$ (13.6)	\$ (18.9)
Catastrophe	(6.2)	(5.5)	(4.9)
Total	(4.8)	(19.1)	(23.8)
Kemper Specialty:			
Non-catastrophe	(2.4)	(9.5)	4.0
Catastrophe	0.1	0.1	0.1
Total	(2.3)	(9.4)	4.1
Kemper Direct:			
Non-catastrophe	(17.5)	(4.4)	(7.0)
Catastrophe	(0.3)	0.5	0.2
Total	(17.8)	(3.9)	(6.8)
Life and Health Insurance:			
Non-catastrophe	(0.4)	(1.1)	1.1
Catastrophe	0.1	(1.5)	3.4
Total	(0.3)	(2.6)	4.5
Decrease in Total Loss and LAE Reserves Related to Prior Years:			
Non-catastrophe	(18.9)	(28.6)	(20.8)
Catastrophe	(6.3)	(6.4)	(1.2)
Decrease in Total Loss and LAE Reserve Related to Prior Years	<u>\$ (25.2)</u>	<u>\$ (35.0)</u>	<u>\$ (22.0)</u>

See MD&A, “Critical Accounting Estimates,” of this 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.

NON-GAAP FINANCIAL MEASURES

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 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. 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.

NON-GAAP FINANCIAL MEASURES (Continued)

Consolidated Net Operating Income

Consolidated Net Operating Income is an after-tax, non-GAAP measure and is computed by excluding from Income from Continuing Operations the after-tax impact of 1) Net Realized Gains (Losses) on Sales of Investments, 2) Net Impairment Losses Recognized in Earnings related to investments and 3) 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 (Losses) 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.

These non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures, as they do not fully recognize the overall underwriting profitability of our business.

A reconciliation of Consolidated Net Operating Income to Income from Continuing Operations for the years ended December 31, 2012 , 2011 and 2010 is presented below:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Consolidated Net Operating Income	\$ 53.8	\$ 47.1	\$ 145.2
Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	42.5	21.9	27.9
Net Impairment Losses Recognized in Earnings	(4.5)	(7.3)	(10.7)
Income from Continuing Operations	<u>\$ 91.8</u>	<u>\$ 61.7</u>	<u>\$ 162.4</u>

There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income for the years ended December 31, 2012 , 2011 and 2010 .

Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

KEMPER PREFERRED

Selected financial information for the Kemper Preferred segment follows:

<u>DOLLARS IN MILLIONS</u>	2012	2011	2010
Net Premiums Written	\$ 891.7	\$ 868.8	\$ 872.2
Earned Premiums:			
Automobile	\$ 515.5	\$ 510.9	\$ 544.7
Homeowners	308.5	294.9	290.0
Other Personal	55.4	54.0	53.3
Total Earned Premiums	879.4	859.8	888.0
Net Investment Income	45.0	48.8	55.4
Other Income	0.4	0.3	0.4
Total Revenues	924.8	908.9	943.8
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	608.4	584.6	587.3
Catastrophe Losses and LAE	105.4	144.2	70.1
Prior Years:			
Non-catastrophe Losses and LAE	1.4	(13.6)	(18.9)
Catastrophe Losses and LAE	(6.2)	(5.5)	(4.9)
Total Incurred Losses and LAE	709.0	709.7	633.6
Insurance Expenses	243.8	239.8	243.3
Operating Profit (Loss)	(28.0)	(40.6)	66.9
Income Tax Benefit (Expense)	16.8	23.0	(14.0)
Segment Net Operating Income (Loss)	\$ (11.2)	\$ (17.6)	\$ 52.9
<u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio	69.1 %	67.9 %	66.2 %
Current Year Catastrophe Losses and LAE Ratio	12.0	16.8	7.9
Prior Years Non-catastrophe Losses and LAE Ratio	0.2	(1.6)	(2.1)
Prior Years Catastrophe Losses and LAE Ratio	(0.7)	(0.6)	(0.6)
Total Incurred Loss and LAE Ratio	80.6	82.5	71.4
Incurred Expense Ratio	27.7	27.9	27.4
Combined Ratio	108.3 %	110.4 %	98.8 %
<u>Underlying Combined Ratio</u>			
Current Year Non-catastrophe Losses and LAE Ratio	69.1 %	67.9 %	66.2 %
Incurred Expense Ratio	27.7	27.9	27.4
Underlying Combined Ratio	96.8 %	95.8 %	93.6 %
<u>Non-GAAP Measure Reconciliation</u>			
Underlying Combined Ratio	96.8 %	95.8 %	93.6 %
Current Year Catastrophe Losses and LAE Ratio	12.0	16.8	7.9
Prior Years Non-catastrophe Losses and LAE Ratio	0.2	(1.6)	(2.1)
Prior Years Catastrophe Losses and LAE Ratio	(0.7)	(0.6)	(0.6)
Combined Ratio as Reported	108.3 %	110.4 %	98.8 %

KEMPER PREFERRED (Continued)

INSURANCE RESERVES

<u>DOLLARS IN MILLIONS</u>	<u>Dec 31, 2012</u>	<u>Dec 31, 2011</u>
Insurance Reserves:		
Automobile	\$ 287.6	\$ 274.7
Homeowners	123.7	106.2
Other Personal	41.0	35.3
Insurance Reserves	<u>\$ 452.3</u>	<u>\$ 416.2</u>
Insurance Reserves:		
Loss Reserves:		
Case	\$ 284.7	\$ 259.0
Incurred but Not Reported	105.5	92.9
Total Loss Reserves	<u>390.2</u>	<u>351.9</u>
LAE Reserves	62.1	64.3
Insurance Reserves	<u>\$ 452.3</u>	<u>\$ 416.2</u>

2012 Compared with 2011

Earned Premiums in the Kemper Preferred segment increased by \$19.6 million for the year ended December 31, 2012, compared to the same period in 2011, due primarily to higher volume, and to a lesser extent, higher average premium. Earned premiums on automobile insurance increased by \$4.6 million in 2012, compared to 2011, due primarily to higher volume, partially offset by lower average premium. Earned premiums on homeowners insurance increased by \$13.6 million in 2012, compared to 2011, due primarily to higher volume and, to a lesser extent, higher average premium. Earned premiums on other personal insurance increased by \$1.4 million in 2012, compared to 2011, due primarily to higher volume and, to a lesser extent, higher average premium.

Net Investment Income in the Kemper Preferred segment decreased by \$3.8 million for the year ended December 31, 2012, compared to 2011, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Kemper Preferred segment reported net investment income from Equity Method Limited Liability Investments of \$4.0 million in 2012, compared to \$8.0 million in 2011.

Operating Loss in the Kemper Preferred segment decreased by \$12.6 million before taxes for the year ended December 31, 2012, compared to the same period in 2011, due primarily to lower incurred catastrophe losses and LAE, partially offset by lower levels of favorable loss and LAE reserve development, higher underlying losses and LAE as a percentage of earned premiums and lower Net Investment Income. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding development) were \$105.4 million in 2012, compared to \$144.2 million in 2011. Favorable loss and LAE reserve development (including catastrophe development) was \$4.8 million in 2012, compared to \$19.1 million in 2011. Underlying losses and LAE as a percentage of earned premiums were 69.1% in 2012, compared to 67.9% in 2011. Kemper Preferred continues to take actions intended to improve profitability, including additional rate increases, enhanced pricing segmentation, higher deductibles, in particular for wind or hail events, and other underwriting actions.

Automobile insurance incurred losses and LAE were \$413.7 million, or 80.3% of automobile insurance earned premiums, for the year ended December 31, 2012, compared to \$389.5 million, or 76.2% of automobile insurance earned premiums, for the same period in 2011. Automobile insurance incurred losses as a percentage of automobile earned premiums increased by 4.1% due primarily to higher underlying losses and LAE as a percentage of automobile insurance earned premiums and an unfavorable impact from a change in loss and LAE reserve development, partially offset by lower incurred catastrophe losses and LAE (excluding development). Underlying losses and LAE as a percentage of automobile insurance earned premiums were 76.4% in 2012, compared to 73.8% in 2011. Underlying losses and LAE as a percentage of automobile insurance earned premiums increased due primarily to higher frequency in bodily injury coverages and higher severity in all coverages, partially

KEMPER PREFERRED (Continued)

offset by lower frequency in comprehensive and personal injury protection coverages. Unfavorable loss and LAE reserve development was \$7.4 million in 2012 , compared to favorable loss and LAE reserve development of \$1.3 million in 2011 . Catastrophe losses and LAE (excluding development) were \$12.7 million in 2012 , compared to \$14.1 million in 2011 .

Homeowners insurance incurred losses and LAE were \$264.5 million, or 85.7% of homeowners insurance earned premiums, for the year ended December 31, 2012 , compared to \$293.5 million, or 99.5% of homeowners insurance earned premiums, for the same period in 2011 . 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, partially offset by lower levels of favorable loss and LAE reserve development. Catastrophe losses and LAE (excluding development) on homeowners insurance were \$87.8 million in 2012 , compared to \$124.5 million in 2011 . Catastrophe losses and LAE incurred in 2012 were due in part to \$44.0 million of catastrophe losses and LAE from Superstorm Sandy and several hail and wind events throughout the United States. For the year ended December 31, 2011 , the catastrophe losses were primarily related to Hurricane Irene and several severe tornadoes and other storms throughout the United States. Underlying losses and LAE as a percentage of homeowners insurance earned premiums were 60.3% in 2012 , compared to 61.6% in 2011 . Underlying losses and LAE as a percentage of homeowners insurance earned premiums decreased by 1.3% due primarily to lower non-catastrophe storm losses, partially offset by higher fire and water damage losses. Favorable non-catastrophe loss and LAE reserve development was \$3.6 million in 2012 , compared to \$7.1 million in 2011 .

Other personal insurance incurred losses and LAE were \$30.8 million, or 55.6% of other personal insurance earned premiums, for the year ended December 31, 2012 , compared to \$26.7 million, or 49.4% of other personal insurance earned premiums, for the same period in 2011 . Other personal insurance incurred losses and LAE increased by \$4.1 million due primarily to lower levels of favorable loss and LAE reserve development and higher underlying losses and LAE, partially offset by lower catastrophe losses and LAE (excluding reserve development). Favorable loss and LAE reserve development was \$2.7 million in 2012 , compared to \$5.0 million in 2011 . Underlying losses and LAE were \$28.6 million in 2012 , compared to \$26.1 million in 2011 . Catastrophe losses and LAE (excluding development) were \$4.9 million in 2012 , compared to \$5.6 million in 2011 .

Insurance Expenses increased by \$4.0 million for the year ended December 31, 2012 , compared to 2011 , due primarily to increased new business and renewal production.

The Kemper Preferred segment reported Segment Net Operating Loss of \$11.2 million for the year ended December 31, 2012 , compared to Segment Net Operating Loss of \$17.6 million for the same period in 2011 . 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 \$20.2 million in 2012 , compared to \$24.5 million in 2011 .

2011 Compared with 2010

Earned Premiums in the Kemper Preferred segment decreased by \$28.2 million for the year ended December 31, 2011 compared to 2010, due to lower volume, partially offset by higher average premium rates. Volume decreased due, in part, to Kemper Preferred's decision to maintain its underwriting discipline and increase premium rates while facing increased competition in a soft personal lines insurance market. Also contributing to the decrease in volume was Kemper Preferred's ongoing strategy to reduce its mix of non-package and non-target market business. Earned premiums from package policies (a package policy provides both automobile and homeowners insurance coverages in a single policy) comprised 55% of earned premiums in the Kemper Preferred segment in 2011, compared to 52% in 2010. Earned premiums on automobile insurance decreased by \$33.8 million in 2011 , compared to 2010, due to lower volume and, to a lesser extent, lower average premium rates. The weighted-average number of automobile insurance policies in force decreased by 7.2% in 2011 , compared to 2010. Earned premiums on homeowners insurance increased by \$4.9 million in 2011 , compared to 2010, due primarily to higher average premium rates, partially offset by lower volume. The weighted-average number of homeowners insurance policies in force decreased by 2.5% in 2011 , compared to 2010. Earned premiums on other personal insurance increased by \$0.7 million in 2011 , compared to 2010, due primarily to higher average premium rates, partially offset by lower volume.

KEMPER PREFERRED (Continued)

Net Investment Income in the Kemper Preferred segment decreased by \$6.6 million for the year ended December 31, 2011, compared to 2010, due primarily to lower net investment income from Equity Method Limited Liability Investments, partially offset by higher dividends on equity securities and a higher level of allocated investments. The Kemper Preferred segment reported net investment income from Equity Method Limited Liability Investments of \$8.0 million in 2011, compared to \$16.2 million in 2010.

Operating results in the Kemper Preferred segment decreased by \$107.5 million before taxes for the year ended December 31, 2011, compared to 2010, due primarily to higher incurred catastrophe losses and LAE (excluding development), higher homeowners insurance underlying losses and LAE as a percentage of earned premiums, the impact of lower favorable loss and LAE reserve development (including catastrophe development), higher insurance expenses as a percentage of earned premiums and lower net investment income.

Catastrophe losses and LAE (excluding development) were \$144.2 million for the year ended December 31, 2011, compared to \$70.1 million in 2010, an increase of \$74.1 million. Favorable loss and LAE reserve development (including catastrophe development) was \$19.1 million in 2011, compared to \$23.8 million in 2010. Underlying losses and LAE as a percentage of earned premiums were 67.9% in 2011, compared to 66.2% in 2010.

Automobile insurance incurred losses and LAE were \$389.5 million for the year ended December 31, 2011, compared to \$399.1 million in 2010. Automobile insurance incurred losses and LAE decreased by \$9.6 million due primarily to lower claim volume resulting principally from fewer automobile insurance policies in force and lower underlying losses and LAE as a percentage of automobile insurance earned premiums, partially offset by higher incurred catastrophe losses and LAE (excluding development) and the impact of lower favorable loss and LAE reserve development (excluding catastrophe development). Underlying losses and LAE as a percentage of automobile insurance earned premiums were 73.8% in 2011, compared to 74.1% in 2010. Underlying losses and LAE as a percentage of automobile insurance earned premiums decreased due primarily to lower average frequency of losses. Catastrophe losses and LAE (excluding development) were \$14.1 million in 2011, compared to \$7.2 million in 2010. Favorable loss and LAE reserve development (excluding catastrophe development) was \$1.3 million in 2011, compared to favorable development of \$11.6 million in 2010.

Homeowners insurance incurred losses and LAE were \$293.5 million for the year ended December 31, 2011, compared to \$210.0 million in 2010. Homeowners insurance incurred losses and LAE increased by \$83.5 million in 2011, compared to 2010, due primarily to higher catastrophe losses and LAE (excluding development) and higher underlying losses and LAE, partially offset by the impact of higher favorable loss and LAE reserve development (excluding catastrophe development). Catastrophe losses and LAE (excluding development) on homeowners insurance were \$124.5 million in 2011, compared to \$61.4 million in 2010. The catastrophe losses and LAE in 2011 included losses from Hurricane Irene and several severe tornadoes and other storms throughout the United States. Underlying losses and LAE were \$181.7 million in 2011, compared to \$156.9 million in 2010. Underlying losses and LAE increased due primarily to higher average estimated frequency and severity of losses. Favorable loss and LAE reserve development (excluding catastrophe development) was \$7.1 million in 2011, compared to \$3.6 million in 2010.

Other personal insurance incurred losses and LAE were \$26.7 million for the year ended December 31, 2011, compared to \$24.5 million in 2010. Other personal insurance incurred losses and LAE increased by \$2.2 million due primarily to higher catastrophe losses and LAE (excluding development), partially offset by the impact of higher favorable loss and LAE reserve development (excluding catastrophe development). Catastrophe losses and LAE (excluding development) on other personal insurance were \$5.6 million in 2011, compared to \$1.5 million in 2010. Favorable loss and LAE reserve development (excluding catastrophe development) was \$5.2 million in 2011, compared to \$3.7 million in 2010.

Insurance Expenses decreased by \$3.5 million for the year ended December 31, 2011, compared to 2010, due primarily to lower acquisition expenses, partially offset by higher underwriting expenses, largely due to information technology expenses related to several new systems initiatives.

The Kemper Preferred segment reported Segment Net Operating Loss of \$17.6 million for the year ended December 31, 2011, compared to Segment Net Operating Income of \$52.9 million for the same period in 2010. 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 \$24.5 million in 2011, compared to \$25.6 million in 2010.

Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

KEMPER SPECIALTY

Selected financial information for the Kemper Specialty segment follows:

<u>DOLLARS IN MILLIONS</u>	2012	2011	2010
Net Premiums Written	\$ 415.1	\$ 438.2	\$ 457.2
Earned Premiums:			
Personal Automobile	\$ 376.3	\$ 405.2	\$ 431.3
Commercial Automobile	43.5	40.0	43.6
Total Earned Premiums	419.8	445.2	474.9
Net Investment Income	19.0	22.8	25.8
Other Income	0.3	0.5	0.6
Total Revenues	439.1	468.5	501.3
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	347.9	358.4	376.0
Catastrophe Losses and LAE	4.8	3.8	2.9
Prior Years:			
Non-catastrophe Losses and LAE	(2.4)	(9.5)	4.0
Catastrophe Losses and LAE	0.1	0.1	0.1
Total Incurred Losses and LAE	350.4	352.8	383.0
Insurance Expenses	91.5	91.5	92.7
Operating Profit (Loss)	(2.8)	24.2	25.6
Income Tax Benefit (Expense)	4.0	(4.4)	(4.6)
Segment Net Operating Income	\$ 1.2	\$ 19.8	\$ 21.0
<u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio	83.0 %	80.4 %	79.2%
Current Year Catastrophe Losses and LAE Ratio	1.1	0.9	0.6
Prior Years Non-catastrophe Losses and LAE Ratio	(0.6)	(2.1)	0.8
Prior Years Catastrophe Losses and LAE Ratio	—	—	—
Total Incurred Loss and LAE Ratio	83.5	79.2	80.6
Incurred Expense Ratio	21.8	20.6	19.5
Combined Ratio	105.3 %	99.8 %	100.1%
<u>Underlying Combined Ratio</u>			
Current Year Non-catastrophe Losses and LAE Ratio	83.0 %	80.4 %	79.2%
Incurred Expense Ratio	21.8	20.6	19.5
Underlying Combined Ratio	104.8 %	101.0 %	98.7%
<u>Non-GAAP Measure Reconciliation</u>			
Underlying Combined Ratio	104.8 %	101.0 %	98.7%
Current Year Catastrophe Losses and LAE Ratio	1.1	0.9	0.6
Prior Years Non-catastrophe Losses and LAE Ratio	(0.6)	(2.1)	0.8
Prior Years Catastrophe Losses and LAE Ratio	—	—	—
Combined Ratio as Reported	105.3 %	99.8 %	100.1%

KEMPER SPECIALTY (Continued)

INSURANCE RESERVES

<i>DOLLARS IN MILLIONS</i>	Dec 31, 2012	Dec 31, 2011
Insurance Reserves:		
Personal Automobile	\$ 164.8	\$ 166.6
Commercial Automobile	43.9	51.5
Other	7.2	7.8
Insurance Reserves	\$ 215.9	\$ 225.9
Insurance Reserves:		
Loss Reserves:		
Case	\$ 130.9	\$ 135.1
Incurred but Not Reported	48.3	47.7
Total Loss Reserves	179.2	182.8
LAE Reserves	36.7	43.1
Insurance Reserves	\$ 215.9	\$ 225.9

2012 Compared with 2011

Earned Premiums in the Kemper Specialty segment decreased by \$25.4 million for the year ended December 31, 2012, compared to the same period in 2011, due primarily to lower earned premiums for personal automobile insurance, partially offset by higher earned premiums on commercial automobile insurance. Personal automobile insurance earned premiums decreased by \$28.9 million in 2012, compared to 2011, due primarily to lower volume, partially offset by higher average premium. Personal automobile insurance policies in force were approximately 260,000 at December 31, 2012, compared to 302,000 at the beginning of 2012 and 329,000 at the beginning of 2011. Commercial automobile insurance earned premiums increased by \$3.5 million in 2012, compared to 2011, due primarily to higher volume from an increase in new business production.

Net Investment Income in the Kemper Specialty segment decreased by \$3.8 million for the year ended December 31, 2012, compared to 2011, due primarily to lower net investment income from Equity Method Limited Liability Investments and lower levels of investments allocated to Kemper Specialty. The Kemper Specialty segment reported net investment income of \$1.7 million from Equity Method Limited Liability Investments in 2012, compared to \$3.7 million for 2011.

Operating Loss in the Kemper Specialty segment was \$2.8 million for the year ended December 31, 2012, compared to Operating Profit of \$24.2 million in 2011. Operating results deteriorated due primarily to higher underlying losses and LAE as a percentage of earned premiums, lower favorable reserve development, lower net investment income and higher underwriting expenses as a percentage of earned premiums.

Personal automobile insurance operating results decreased by \$30.5 million for the year ended December 31, 2012, compared to 2011, due primarily to higher underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums, unfavorable loss and LAE reserve development, higher insurance expenses as a percentage of personal automobile insurance earned premiums and lower net investment income. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Underlying incurred losses and LAE were \$312.5 million, or 83.0% of personal automobile insurance earned premiums in 2012 compared to \$328.5 million, or 81.1% of personal automobile insurance earned premiums in 2011. Personal automobile insurance underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums increased due primarily to higher claims handling costs in 2012, compared to 2011. Loss and LAE reserve development on personal automobile insurance had an adverse effect of \$10.3 million in 2012, compared to a favorable effect of \$3.6 million in 2011, and was related primarily to the 2011 and 2010 accident years.

KEMPER SPECIALTY (Continued)

Commercial automobile insurance operating profit increased by \$3.3 million for the year ended December 31, 2012, compared to 2011, due primarily to the favorable effects of loss and LAE reserve development, partially offset by higher underlying incurred losses and LAE as a percentage of commercial automobile insurance earned premiums. Favorable loss and LAE reserve development on commercial automobile insurance was \$12.6 million in 2012, of which \$5.9 million related to 2011 and 2010 accident years, with the balance of \$6.7 million dispersed over several older accident years. Favorable loss and LAE reserve development was \$6.1 million in 2011. Underlying incurred losses and LAE as a percentage of commercial automobile insurance earned premiums were 81.5% in 2012, compared to 74.3% in 2011, and increased due primarily to higher frequency of losses.

Other insurance operating profit increased by \$0.2 million for the year ended December 31, 2012, compared to 2011. Other insurance consists of certain reinsurance pools in run-off and other personal insurance in run-off. Loss and LAE reserve development on certain reinsurance pools in run-off, had adverse development of \$0.4 million in 2011. There was no loss and LAE reserve development on reinsurance pools in run-off in 2012.

Insurance expenses as a percentage of earned premiums was 21.8% for the year ended December 31, 2012, compared to 20.6% in 2011. Insurance expenses as a percentage of earned premiums increased in 2012, compared to 2011, due primarily to higher expenses associated with information technology initiatives.

Segment Net Operating Income in the Kemper Specialty segment was \$1.2 million for the year ended December 31, 2012, compared to \$19.8 million in 2011. 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 \$8.5 million in 2012, compared to \$11.3 million in 2011.

2011 Compared with 2010

Earned Premiums in the Kemper Specialty segment decreased by \$29.7 million for the year ended December 31, 2011, compared to 2010, due to lower earned premiums for both personal and commercial automobile insurance. Personal automobile insurance earned premiums decreased by \$26.1 million in 2011, compared to 2010, due primarily to lower volume and, to a lesser extent, lower average earned premium per policy. Throughout 2010 and 2011, Kemper Specialty's personal automobile insurance policies in force decreased due to economic conditions, increased competition and higher premium rates, particularly in California. Personal automobile insurance policies in force were approximately 329,000 at the beginning of 2011, compared to approximately 351,000 at the beginning of 2010. Commercial automobile insurance earned premiums decreased by \$3.6 million in 2011, compared to 2010, due primarily to lower volume. Commercial automobile insurance volume has decreased due primarily to a smaller renewal book of business, partially offset by higher retention rates and increased new business production.

Net Investment Income in the Kemper Specialty segment decreased by \$3.0 million for the year ended December 31, 2011, compared to 2010, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Kemper Specialty segment reported net investment income of \$3.7 million from Equity Method Limited Liability Investments in 2011, compared to \$7.5 million in 2010.

Operating Profit in the Kemper Specialty segment decreased by \$1.4 million for the year ended December 31, 2011, compared to 2010, due primarily to lower operating profit in personal automobile insurance, offset by higher operating profit in commercial automobile insurance and other insurance.

Personal automobile insurance operating profit decreased by \$6.9 million for the year ended December 31, 2011, compared to 2010, due primarily to higher underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums, higher insurance expenses as a percentage of personal automobile insurance earned premiums and lower net investment income, partially offset by the favorable effects of loss and LAE reserve development. Underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums increased due primarily to higher frequency of losses and, to a lesser extent, higher severity of losses in 2011, compared to 2010. Loss and LAE reserve development on personal automobile insurance had a favorable effect of \$3.6 million in 2011, compared to an adverse effect of \$3.7 million in 2010. Insurance expenses as a percentage of personal automobile insurance earned premiums increased due primarily to investment in policy and billing systems.

KEMPER SPECIALTY (Continued)

Commercial automobile insurance operating profit increased by \$4.3 million for the year ended December 31, 2011, compared to 2010, due primarily to the favorable effects of loss and LAE reserve development and lower underlying incurred losses and LAE as a percentage of commercial automobile insurance earned premiums. Favorable Loss and LAE reserve development on commercial automobile insurance was \$6.1 million in 2011, compared to \$1.1 million in 2010. Underlying incurred losses and LAE as a percentage of commercial automobile insurance earned premiums decreased in 2011, compared to 2010, due primarily to lower severity, partially offset by higher frequency of losses.

Other insurance consists of certain reinsurance pools in run-off and other personal insurance in run-off. Other insurance operating loss was \$0.1 million for the year ended December 31, 2011, compared to \$0.6 million in 2010. Adverse loss and LAE reserve development on certain reinsurance pools in run-off was \$0.4 million in 2011, compared to \$0.7 million in 2010. Excluding development from these reinsurance pools, loss and LAE reserve development on other personal insurance had an adverse effect of \$0.9 million in 2010 and was almost entirely related to two liability claims, one from 2003 and the other from 2005. Insurance expenses in 2010 included a reduction of expense of \$0.8 million related to a change in estimate for uncollectible reinsurance.

Segment Net Operating Income in the Kemper Specialty segment was \$19.8 million for the year ended December 31, 2011, compared to \$21.0 million in 2010. 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 \$11.3 million in 2011, compared to \$12.0 million in 2010.

Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

KEMPER DIRECT

Selected financial information for the Kemper Direct segment follows:

<u>DOLLARS IN MILLIONS</u>	2012	2011	2010
Net Premiums Written	\$ 147.3	\$ 209.0	\$ 269.3
Earned Premiums:			
Automobile	\$ 158.3	\$ 213.3	\$ 273.5
Homeowners	9.5	9.2	8.7
Other Personal	0.2	0.2	0.2
Total Earned Premiums	168.0	222.7	282.4
Net Investment Income	13.9	17.4	20.6
Other Income	—	0.1	0.1
Total Revenues	181.9	240.2	303.1
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	139.0	194.8	228.9
Catastrophe Losses and LAE	8.3	6.7	1.8
Prior Years:			
Non-catastrophe Losses and LAE	(17.5)	(4.4)	(7.0)
Catastrophe Losses and LAE	(0.3)	0.5	0.2
Total Incurred Losses and LAE	129.5	197.6	223.9
Insurance Expenses	57.2	76.3	87.1
Write-off of Intangible Asset from Direct Response Acquisition	—	13.5	—
Operating Loss	(4.8)	(47.2)	(7.9)
Income Tax Benefit	3.9	19.7	6.2
Segment Net Operating Loss	\$ (0.9)	\$ (27.5)	\$ (1.7)
<u>Ratios Based On Earned Premiums</u>			
Current Year Non-catastrophe Losses and LAE Ratio	82.8 %	87.5 %	81.1 %
Current Year Catastrophe Losses and LAE Ratio	4.9	3.0	0.6
Prior Years Non-catastrophe Losses and LAE Ratio	(10.4)	(2.0)	(2.5)
Prior Years Catastrophe Losses and LAE Ratio	(0.2)	0.2	0.1
Total Incurred Loss and LAE Ratio	77.1	88.7	79.3
Incurred Expense Ratio, Including Write-off of Intangible Asset	34.0	40.3	30.8
Combined Ratio	111.1 %	129.0 %	110.1 %
<u>Underlying Combined Ratio</u>			
Current Year Non-catastrophe Losses and LAE Ratio	82.8 %	87.5 %	81.1 %
Incurred Expense Ratio, Including Write-off of Intangible Asset	34.0	40.3	30.8
Underlying Combined Ratio	116.8 %	127.8 %	111.9 %
<u>Non-GAAP Measure Reconciliation</u>			
Underlying Combined Ratio	116.8 %	127.8 %	111.9 %
Current Year Catastrophe Losses and LAE Ratio	4.9	3.0	0.6
Prior Years Non-catastrophe Losses and LAE Ratio	(10.4)	(2.0)	(2.5)
Prior Years Catastrophe Losses and LAE Ratio	(0.2)	0.2	0.1
Combined Ratio as Reported	111.1 %	129.0 %	110.1 %

KEMPER DIRECT (Continued)

INSURANCE RESERVES

<u>DOLLARS IN MILLIONS</u>	Dec 31, 2012	Dec 31, 2011
Insurance Reserves:		
Automobile	\$ 173.3	\$ 216.5
Homeowners	2.7	4.8
Other	1.8	2.6
Total Insurance Reserves	<u>\$ 177.8</u>	<u>\$ 223.9</u>
Insurance Reserves:		
Loss Reserves:		
Case	\$ 115.4	\$ 140.9
Incurred but Not Reported	39.7	54.0
Total Loss Reserves	<u>155.1</u>	<u>194.9</u>
LAE Reserves	22.7	29.0
Insurance Reserves	<u>\$ 177.8</u>	<u>\$ 223.9</u>

2012 Compared with 2011

Earned Premiums in the Kemper Direct segment decreased by \$54.7 million for the year ended December 31, 2012, compared to the same period in 2011, due primarily to lower volume, partially offset by higher average premium rates.

In the third quarter of 2012, the Company announced that it was reviewing strategic options for Kemper Direct and that it would cease direct-to-consumer marketing activities. In the fourth quarter of 2012, the Company concluded its evaluation and determined that, to optimize the value for the business, it would continue to solicit business for its worksite, affinity and renters 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 15% to 25% over the next twelve months as a result of this and other actions.

Net Investment Income in the Kemper Direct segment decreased by \$3.5 million for the year ended December 31, 2012, compared to 2011, due primarily to lower net investment income from Equity Method Limited Liability Investments and lower levels of investments allocated to Kemper Direct. Net investment income from Equity Method Limited Liability Investments was \$1.3 million in 2012, compared to \$2.9 million in 2011.

The Kemper Direct segment reported an Operating Loss of \$4.8 million for the year ended December 31, 2012, compared to an Operating Loss of \$47.2 million in 2011. Operating results improved in the Kemper Direct segment in 2012, compared to 2011, due primarily to lower levels of unprofitable business, higher levels of favorable reserve development, the impact of the partial write-off in 2011 of an intangible asset from the acquisition of Direct Response Corporation ("Direct Response") that did not recur in 2012 and lower underlying losses and LAE, partially offset by lower net investment income.

Incurred losses and LAE were \$129.5 million, or 77.1% as a percentage of earned premiums, for the year ended December 31, 2012, compared to \$197.6 million, or 88.7% as a percentage of earned premiums, in 2011. Incurred losses and LAE decreased in 2012, due primarily to the impact of lower earned premiums, higher levels of favorable loss and LAE reserve development and lower underlying losses and LAE as a percentage of earned premiums, partially offset by higher incurred catastrophe losses and LAE (excluding development). Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Favorable loss and LAE reserve development was \$17.8 million in 2012, compared to \$3.9 million in 2011. Underlying losses and LAE as a percentage of earned premiums were 82.8% in 2012, compared to 87.5% in 2011. Underlying losses and LAE as a percentage of earned premiums decreased in both automobile and homeowners insurance. Catastrophe losses and LAE (excluding development) were \$8.3 million in 2012, compared to \$6.7 million in 2011.

KEMPER DIRECT (Continued)

The Incurred Expense Ratio, Including Write-off of Intangible Asset, was 34.0% of earned premiums for the year ended December 31, 2012, compared to 40.3% of earned premiums in 2011. In 2011, the Direct Response book of business was not improving at the rate that Kemper Direct had initially expected, and Kemper Direct determined that the customer relationships intangible asset related to the Direct Response acquisition was impaired at December 31, 2011 and recognized a charge of \$13.5 million in 2011 to write down the asset to its estimated fair value. Insurance Expenses as a percentage of earned premiums were 34.0% in 2012 compared to 34.3% of earned premiums in 2011. Insurance Expenses as a percentage of earned premiums decreased due primarily to reduced acquisition and marketing related expenses, partially offset by other underwriting costs not declining at the same pace as earned premiums.

Kemper Direct reported a Segment Net Operating Loss of \$0.9 million for the year ended December 31, 2012, compared to a Segment Net Operating Loss of \$27.5 million for the same period in 2011. 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 \$6.2 million in 2012, compared to \$8.7 million in 2011.

2011 Compared with 2010

Earned Premiums in the Kemper Direct segment decreased by \$59.7 million for the year ended December 31, 2011, compared to 2010, due primarily to lower volume, partially offset by higher average premium rates.

Net Investment Income in the Kemper Direct segment decreased by \$3.2 million for the year ended December 31, 2011, compared to 2010, due primarily to lower net investment income from Equity Method Limited Liability Investments. Net investment income from Equity Method Limited Liability Investments was \$2.9 million in 2011, compared to \$6.0 million in 2010.

The Kemper Direct segment reported Operating Loss of \$47.2 million for the year ended December 31, 2011, compared to Operating Loss of \$7.9 million in 2010. Operating results declined in the Kemper Direct segment in 2011, compared to 2010, due primarily to the partial write-off of an intangible asset acquired in the Kemper Direct Response acquisition, higher underlying losses and LAE as a percentage of earned premiums, higher insurance expenses as a percentage of earned premiums, higher incurred catastrophe losses and LAE (excluding development) and lower net investment income.

Incurred Losses and LAE as a percentage of earned premiums was 88.7% for the year ended December 31, 2011, compared to 79.3% in 2010. Incurred Losses and LAE as a percentage of earned premiums increased in 2011 due primarily to higher underlying losses and LAE as a percentage of earned premiums, higher incurred catastrophe losses and LAE (excluding development) and the impact of lower favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums was 87.5% in 2011, compared to 81.1% in 2010. Underlying losses and LAE as a percentage of earned premiums increased in 2011, compared to 2010, due primarily to increased severity on automobile insurance. Catastrophe losses and LAE (excluding development) was \$6.7 million in 2011, compared to \$1.8 million in 2010. Favorable loss and LAE reserve development was \$3.9 million in 2011, compared to \$6.8 million in 2010.

Insurance Expenses in the Kemper Direct segment were 34.3% of earned premiums for the year ended December 31, 2011, compared to 30.8% of earned premiums in 2010. Insurance Expenses as a percentage of earned premiums increased in 2011, compared to 2010, due primarily to higher amortization expense related to the acquisition of Direct Response, higher restructuring costs and higher consulting expenses.

In 2011, the Direct Response book of business was not improving at the rate that Kemper Direct had initially expected, and Kemper Direct determined that the customer relationships intangible asset related to the Direct Response acquisition was impaired at December 31, 2011 and recognized a charge of \$13.5 million in 2011 to write down the asset to its estimated fair value.

Kemper Direct reported a Segment Net Operating Loss of \$27.5 million for the year ended December 31, 2011, compared to a Segment Net Operating Loss of \$1.7 million for the same period in 2010. The Kemper Direct segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income, dividends received deductions and changes in certain recoverables that are not taxable for tax purposes. Tax-exempt investment income and dividends received deductions were \$8.7 million in 2011, compared to \$10.3 million in 2010.

LIFE AND HEALTH INSURANCE

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

<u>DOLLARS IN MILLIONS</u>	2012	2011	2010
Earned Premiums:			
Life	\$ 393.4	\$ 395.1	\$ 396.7
Accident and Health	165.2	166.3	161.9
Property	81.3	84.5	85.5
Total Earned Premiums	639.9	645.9	644.1
Net Investment Income	204.3	200.5	213.0
Other Income	0.1	0.1	0.2
Total Revenues	844.3	846.5	857.3
Policyholders' Benefits and Incurred Losses and LAE	393.1	385.6	406.8
Insurance Expenses	310.8	308.6	293.8
Write-off of Goodwill	—	—	14.8
Operating Profit	140.4	152.3	141.9
Income Tax Expense	(49.6)	(53.4)	(54.5)
Segment Net Operating Income	\$ 90.8	\$ 98.9	\$ 87.4

INSURANCE RESERVES

<u>DOLLARS IN MILLIONS</u>	Dec 31, 2012	Dec 31, 2011
Insurance Reserves:		
Future Policyholder Benefits	\$ 3,103.1	\$ 3,046.8
Incurred Losses and LAE Reserves:		
Life	36.8	33.8
Accident and Health	21.7	22.1
Property	7.0	8.3
Total Incurred Losses and LAE Reserves	65.5	64.2
Insurance Reserves	\$ 3,168.6	\$ 3,111.0

2012 Compared with 2011

Earned Premiums in the Life and Health Insurance segment decreased by \$6.0 million for the year ended December 31, 2012, compared to the same period in 2011. Earned premiums on life insurance decreased by \$1.7 million in 2012, compared to 2011, due primarily to lower volume of insurance. Earned premiums on accident and health insurance decreased by \$1.1 million in 2012, compared to 2011, due primarily to lower volume of insurance resulting from the suspension of sales of certain health insurance products described below and, to a lesser extent, lower volume of Medicare supplement insurance, partially offset by higher volume of supplemental health insurance products and higher average premium. Earned premiums on property insurance decreased by \$3.2 million in 2012, compared to 2011, due primarily to lower volume of insurance from the run-off and, in certain geographical areas, the non-renewal of dwelling coverage.

Kemper believes that some of the health insurance products sold by its subsidiary, Reserve National, could be adversely impacted by some provisions of the Health Care Acts. In particular, a provision which sets minimum loss ratios for health insurance policies and a provision, beginning in 2014, establishing health insurance exchanges could adversely impact Reserve National's business prospects. Such affected health insurance products (the "Affected Products") accounted for \$62.5 million, or 38%, of the Life and Health Insurance segment's accident and health insurance earned premiums in 2012. Reserve National has been adapting its business model in response and suspended sales of the Affected Products at the end of 2011. In 2011, Reserve National began transitioning its sales to other health insurance products that are not expected to be as severely impacted by the Health Care Acts (the "Supplemental Products"). Supplemental Products accounted for \$29.8 million, or 18%, of the Life and Health Insurance segment's accident and health insurance earned premiums in 2012. Reserve National expects

LIFE AND HEALTH INSURANCE (Continued)

earned premiums from the Affected Products to decrease by approximately 20% in 2013 due to such suspension of sales and expects an increase in earned premiums from the Supplemental Products to offset much of the decline. The Life and Health segment cannot predict what impact the establishment of health insurance exchanges will have on its premiums beginning in 2014. Accordingly, there can be no assurance that the transition will fully offset the impact from suspending sales of the affected health insurance products.

The Life and Health Insurance segment continued to intentionally run off insurance policies providing dwelling coverage ("Dwelling Policies") to reduce its exposure to catastrophe risks. Over the last several years, the Life and Health Insurance segment has halted new sales of Dwelling Policies in all markets and non-renewed Dwelling Policies in certain geographical, mainly coastal, areas while continuing to renew policies in other geographical areas. Accordingly, except for catastrophe reinsurance provided by the FHCF, the Life and Health Insurance segment did not renew its primary annual catastrophe reinsurance program for 2013. Earned premiums from dwelling coverage comprised 26%, 30% and 32% of the Life and Health Insurance segment's earned premiums on property insurance in 2012, 2011 and 2010, respectively.

Net Investment Income increased by \$3.8 million for the year ended December 31, 2012, compared to 2011, due primarily to higher investment income from Equity Method Limited Liability Investments, partially offset by lower book yields on fixed maturities and lower levels of capital allocated to the segment. Net investment income from Equity Method Limited Liability Investments was income of \$1.8 million in 2012, compared to a loss of \$6.3 million in 2011.

Operating Profit in the Life and Health Insurance segment was \$140.4 million for the year ended December 31, 2012, compared to \$152.3 million in 2011. Policyholders' Benefits and Incurred Losses and LAE increased by \$7.5 million in 2012 due primarily to higher policyholders' benefits on life insurance and the impact of Loss and LAE reserve development on property insurance, partially offset by lower catastrophe losses and LAE and lower underlying losses on property insurance. Policyholders' benefits on life insurance were \$265.3 million in 2012, compared to \$253.2 million in 2011, an increase of \$12.1 million. Policyholder benefits on life insurance increased due primarily to reserve adjustments in 2011 associated with correcting expiry dates for certain extended term life insurance policies and a lower level of net lapse in 2012, partially offset by better mortality experience. Incurred accident and health insurance losses were \$88.9 million, or 53.8% of accident and health insurance earned premiums, in 2012, compared to \$88.9 million, or 53.4% of accident and health insurance earned premiums, in 2011. Incurred accident and health insurance losses were flat as higher average incurred claim costs for Medicare supplement insurance and, to a lesser extent, a higher average incurred claim cost for hospitalization and limited benefit insurance products, were offset by lower frequency of Medicare supplement insurance claims and, to a lesser extent, lower frequency of hospitalization and limited benefit insurance products. Incurred Losses and LAE on property insurance were \$38.9 million in 2012, compared to \$43.5 million in 2011. Underlying losses and LAE on property insurance were \$33.2 million, or 40.8% of property insurance earned premium, in 2012, compared to \$37.0 million, or 43.8% of property insurance earned premium, in 2011. Catastrophe losses and LAE (excluding development) were \$6.0 million in 2012, compared to \$9.1 million in 2011. Favorable loss reserve development on property insurance was \$0.3 million (including adverse development of \$0.1 million on catastrophes) in 2012, compared to favorable development of \$2.6 million (including favorable development of \$1.5 million on catastrophes) in 2011. Insurance Expenses in the Life and Health Insurance segment increased by \$2.2 million in 2012, compared to 2011, due primarily to higher commission and fringe benefit expenses, partially attributable to an increase in the number of career agents employed, and higher amortization of deferred policy acquisition costs.

Segment Net Operating Income in the Life and Health Insurance segment was \$90.8 million for the year ended December 31, 2012, compared to \$98.9 million in 2011.

Certain state insurance regulators, legislators and treasurers 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 authority to establish new procedures that change existing contracts. See Item 1A., Risk Factors, 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 23, "Contingencies," to the Consolidated Financial Statements and MD&A, "Liquidity and Capital Resources" for additional information about these matters.

LIFE AND HEALTH INSURANCE (Continued)

2011 Compared with 2010

Earned Premiums in the Life and Health Insurance segment increased by \$1.8 million for the year ended December 31, 2011, compared to 2010, due primarily to higher accident and health insurance earned premiums. Earned premiums on accident and health insurance increased by \$4.4 million in 2011, compared to 2010, due primarily to higher average premium rates, partially offset by lower volume of insurance. Net Investment Income decreased by \$12.5 million in 2011, compared to 2010, due primarily to lower net investment income on Equity Method Limited Liability Investments, partially offset by higher levels of investments.

Operating Profit in the Life and Health Insurance segment was \$152.3 million for year ended December 31, 2011, compared to \$141.9 million in 2010. Operating Profit increased due primarily to lower Policyholders' Benefits and Incurred Losses and LAE and the impact of a charge to write off goodwill in 2010, partially offset by the lower net investment income and higher insurance expenses. Policyholders' Benefits and Incurred Losses and LAE decreased by \$21.2 million in 2011, compared to 2010, due primarily to lower policyholders' benefits on life insurance, lower accident and health insurance losses as a percentage of accident and health earned premiums and the favorable impact of Loss and LAE reserve development on property insurance, partially offset by higher catastrophe losses and LAE (excluding development) on property insurance. Policyholders' benefits on life insurance were \$253.2 million in 2011, compared to \$263.0 million in 2010, a decrease of \$9.8 million. Policyholder benefits on life insurance decreased due primarily to reserve adjustments in 2011 associated with correcting expiry dates for certain extended term life insurance policies and better mortality experience, partially offset by higher reserve additions for persisting policies. Incurred accident and health insurance losses were \$88.9 million, or 53.5% of accident and health insurance earned premiums, in 2011, compared to \$95.7 million, or 59.1% of accident and health insurance earned premiums, in 2010. Incurred accident and health insurance losses as a percentage of accident and health insurance earned premiums decreased due primarily to lower frequency and severity of health claims. Incurred Losses and LAE on property insurance were \$43.5 million in 2011, compared to \$48.1 million in 2010. Favorable loss reserve development on property insurance was \$2.6 million (including favorable development of \$1.5 million on catastrophes) in 2011, compared to adverse development of \$4.5 million (including adverse development of \$3.4 million on catastrophes) in 2010. Catastrophe losses and LAE (excluding development) were \$9.1 million in 2011, compared to \$4.5 million in 2010. Insurance Expenses in the Life and Health Insurance segment increased by \$14.8 million in 2011, compared to 2010, due primarily to higher commission and fringe benefit expenses, partially attributable to an increase in the number of career agents employed, and higher amortization of deferred policy acquisition costs. The Company wrote off \$14.8 million of goodwill in 2010 related to Reserve National.

Segment Net Operating Income in the Life and Health Insurance segment was \$98.9 million for the year ended December 31, 2011, compared to \$87.4 million in 2010.

INVESTMENT RESULTS

Net Investment Income

Net Investment Income for the years ended December 31, 2012 , 2011 and 2010 was:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Investment Income:			
Interest and Dividends on Fixed Maturities	\$ 246.1	\$ 246.6	\$ 243.8
Dividends on Equity Securities	25.7	25.2	16.0
Short-term Investments	0.2	0.1	0.3
Loans to Policyholders	18.9	17.7	16.5
Real Estate	27.4	26.0	27.1
Equity Method Limited Liability Investments	9.3	9.6	48.8
Other	0.1	0.3	—
Total Investment Income	327.7	325.5	352.5
Investment Expenses:			
Real Estate	26.1	25.9	25.7
Other Investment Expenses	5.7	1.6	1.1
Total Investment Expenses	31.8	27.5	26.8
Net Investment Income	\$ 295.9	\$ 298.0	\$ 325.7

2012 Compared with 2011

Net Investment Income decreased by \$2.1 million for the year ended December 31, 2012 , compared to the same period in 2011 , due primarily to higher other investment expenses, partially offset by higher interest income from loans to policyholders and higher real estate net investment income. Interest income from loans to policyholders increased by \$1.2 million in 2012 , compared to 2011 , due to a higher level of loans outstanding. Net investment income from real estate increased by \$1.2 million in 2012 , compared to 2011 , due primarily to higher occupancy.

2011 Compared with 2010

Net Investment Income decreased by \$27.7 million for the year ended December 31, 2011, compared to 2010. Investment income from Equity Method Limited Liability Investments decreased by \$39.2 million in 2011, compared to 2010, due primarily to a lower total rate of return. Dividends on equity securities increased by \$9.2 million in 2011, compared to 2010, due primarily to higher levels of income producing equity securities. Interest and dividends on fixed maturities and policyholder loans increased by \$2.8 million and \$1.2 million, respectively in 2011, compared to 2010.

INVESTMENT RESULTS (Continued)

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the years ended December 31, 2012 , 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fixed Maturities:			
Gains on Sales	\$ 56.9	\$ 14.2	\$ 21.5
Losses on Sales	(0.1)	(0.1)	(0.1)
Equity Securities:			
Gains on Sales	8.3	34.0	11.7
Losses on Sales	(0.2)	(13.5)	—
Former Investee – Intermec:			
Gains on Sales	—	—	0.8
Real Estate:			
Gains on Sales	0.2	0.1	8.2
Other Investments:			
Gains on Sales	—	—	0.1
Losses on Sales	—	(0.1)	(0.1)
Trading Securities Net Gains (Losses)	0.3	(0.9)	0.5
Net Realized Gains on Sales of Investments	<u>\$ 65.4</u>	<u>\$ 33.7</u>	<u>\$ 42.6</u>

In the third quarter of 2012, the Company sold \$320.1 million of municipal securities to take advantage of attractive pricing for such securities and for tax planning and other portfolio management purposes. Realized Gains on Sales of Fixed Maturities for the year ended December 31, 2012 include realized gains of \$44.9 million from such sales.

Net Impairment Losses Recognized in Earnings

The components of Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income for the years ended December 31, 2012 , 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fixed Maturities	\$ (1.9)	\$ (2.2)	\$ (14.4)
Equity Securities	(1.9)	(1.9)	(2.1)
Real Estate	(3.1)	(7.2)	—
Net Impairment Losses Recognized in Earnings	<u>\$ (6.9)</u>	<u>\$ (11.3)</u>	<u>\$ (16.5)</u>

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other than temporary. Losses arising from other-than-temporary declines in fair value are reported in the Consolidated Statements of Income in the period that the declines are determined to be other than temporary. Net Impairment Losses recognized in the Consolidated Statement of Income for the years ended December 31, 2012 , 2011 and 2010 include other-than-temporary impairment (“OTTI”) losses of \$6.9 million , \$11.3 million and \$16.5 million , respectively. OTTI losses recognized in the Consolidated Statement of Income for the years ended December 31, 2012 and 2011 included pre-tax losses of \$3.1 million and \$7.2 million , respectively, to write down real estate investments. OTTI losses recognized in the Consolidated Statement of Income for the year ended December 31, 2010 included pre-tax losses of \$11.9 million due to the deterioration of the business prospects of a single issuer in the waste management business. OTTI losses recognized in the Consolidated Statement of Income for the year ended December 31, 2010 included pre-tax foreign currency losses of \$2.1 million.

INVESTMENT RESULTS (Continued)

Total Comprehensive Investment Gains

Total Comprehensive Investment Gains are comprised of Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income and unrealized investment gains and losses that are not reported in the Consolidated Statements of Income, but rather are reported in the Consolidated Statements of Comprehensive Income. The components of Total Comprehensive Investment Gains for the years ended December 31, 2012, 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fixed Maturities:			
Recognized in Consolidated Statements of Income:			
Gains on Sales	\$ 56.9	\$ 14.6	\$ 21.5
Losses on Sales	(0.1)	(0.1)	(0.1)
Net Impairment Losses Recognized in Earnings	(1.9)	(2.2)	(14.4)
Total Recognized in Consolidated Statements of Income	54.9	12.3	7.0
Recognized in Other Comprehensive Income (Loss)	69.1	272.8	86.4
Total Comprehensive Investment Gains (Losses) on Fixed Maturities	124.0	285.1	93.4
Equity Securities:			
Recognized in Consolidated Statements of Income:			
Gains on Sales	8.3	34.0	11.7
Losses on Sales	(0.2)	(13.5)	—
Net Impairment Losses Recognized in Earnings	(1.9)	(1.9)	(2.1)
Total Recognized in Consolidated Statements of Income	6.2	18.6	9.6
Recognized in Other Comprehensive Income (Loss)	29.2	(71.2)	90.2
Total Comprehensive Investment Gains (Losses) on Equity Securities	35.4	(52.6)	99.8
Former Investee:			
Recognized in Consolidated Statements of Income:			
Gains on Sales	—	—	0.8
Recognized in Other Comprehensive Income (Loss)	—	—	2.9
Total Comprehensive Investment Gains on Former Investee	—	—	3.7
Real Estate:			
Recognized in Consolidated Statements of Income:			
Gains on Sales	0.2	0.1	8.2
Net Impairment Losses Recognized in Earnings	(3.1)	(7.2)	—
Total Recognized in Consolidated Statements of Income	(2.9)	(7.1)	8.2
Other Investments:			
Recognized in Consolidated Statements of Income:			
Gains on Sales	—	—	0.1
Losses on Sales	—	(0.1)	(0.1)
Trading Securities Net Gains (Losses)	0.3	(0.9)	0.5
Total Recognized in Consolidated Statements of Income	0.3	(1.0)	0.5
Total Comprehensive Investment Gains	\$ 156.8	\$ 224.4	\$ 205.6
Recognized in Consolidated Statements of Income	\$ 58.5	\$ 22.8	\$ 26.1
Recognized in Other Comprehensive Income	98.3	201.6	179.5
Total Comprehensive Investment Gains	\$ 156.8	\$ 224.4	\$ 205.6

As a result of a decrease in the Company's ownership percentage and other qualitative factors, the Company determined that its investment in the common stock of Intermec no longer qualified for the equity method of accounting in the third quarter of 2010. Accordingly, beginning with the Company's September 30, 2010 interim consolidated financial statements, the

INVESTMENT RESULTS (Continued)

Company’s investment in Intermec common stock was included in Investments in Equity Securities and was reported at its fair value. See Note 14 , “ Income from Investments ,” to the Consolidated Financial Statements. Investment gains recognized in Other Comprehensive Income for the year ended December 31, 2011 , included an other comprehensive loss of \$50.6 million from disposing of all of the Company’s holding of Intermec common stock. Other Comprehensive Income from Equity Securities for the year ended December 31, 2010 include other comprehensive gains of \$50.6 million related to the Company’s investment in the common stock of Intermec.

INVESTMENT QUALITY AND CONCENTRATIONS

The Company’s fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At December 31, 2012 , 93% of the Company’s fixed maturity investment portfolio was rated investment grade, which is defined as a security having a rating of AAA, AA, A or BBB from S&P; a rating of Aaa, Aa, A or Baa from Moody’s; a rating of AAA, AA, A or BBB from Fitch; or a rating from the NAIC of 1 or 2. The following table summarizes the credit quality of the fixed maturity investment portfolio at December 31, 2012 and 2011 :

<u>NAIC</u> <u>Rating</u>	<u>S&P Equivalent Rating</u>	<u>Dec 31, 2012</u>		<u>Dec 31, 2011</u>	
		<u>Fair Value</u> <u>in Millions</u>	<u>Percentage</u> <u>of Total</u>	<u>Fair Value</u> <u>in Millions</u>	<u>Percentage</u> <u>of Total</u>
1	AAA, AA, A	\$ 3,319.1	68.3%	\$ 3,591.8	75.2%
2	BBB	1,199.0	24.7	839.4	17.6
3	BB	65.3	1.3	108.6	2.3
4	B	93.6	1.9	89.1	1.9
5	CCC	178.0	3.7	127.8	2.7
6	In or Near Default	5.2	0.1	16.7	0.3
Total Investments in Fixed Maturities		\$ 4,860.2	100.0%	\$ 4,773.4	100.0%

Gross unrealized losses on the Company’s investments in below-investment-grade fixed maturities were \$4.3 million and \$5.4 million at December 31, 2012 and 2011 , respectively.

At December 31, 2012 , the Company had \$288.5 million of bonds issued by states and political subdivisions, commonly referred to as “municipal bonds,” that had been pre-refunded with U.S. Government and Government Agencies and Authorities obligations held in trust for the full payment of principal and interest (“Pre-refunded Municipal Bonds”). At December 31, 2012 , the Company had \$1,112.9 million of investments in municipal bonds that had not been pre-refunded, of which \$103.5 million were enhanced with insurance from monoline bond insurers. The Company’s municipal bond investment credit-risk strategy is to focus on the underlying credit rating of the issuer and not to rely on the credit enhancement provided by the monoline bond insurer when making investment decisions. To that end, the underlying rating of nearly 96% of the Company’s entire municipal bond portfolio that has not been pre-refunded is AA or higher, half of which are direct obligations of states.

INVESTMENT QUALITY AND CONCENTRATIONS (Continued)

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at December 31, 2012 and 2011 :

<i>DOLLARS IN MILLIONS</i>	Dec 31, 2012		Dec 31, 2011	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Government and Government Agencies and Authorities	\$ 428.9	6.6%	\$ 491.7	7.9%
Pre-refunded Municipal Bonds	288.5	4.5	275.2	4.4
Other Municipal Bonds:				
States	545.1	8.4	937.8	15.1
Political Subdivisions	122.9	1.9	178.9	2.9
Revenue Bonds	444.9	6.9	460.7	7.4
Total Investments in Governmental Fixed Maturities	\$ 1,830.3	28.3%	\$ 2,344.3	37.7%

The Company's short-term investments primarily consist of overnight repurchase agreements and money market funds. At December 31, 2012, the Company had \$183.7 million invested in overnight repurchase agreements primarily collateralized by securities issued by the U.S. government and \$111.8 million invested in money market funds which primarily invest in U.S. Treasury securities. At the time of borrowing, the repurchase agreements generally require the borrower to provide collateral to the Company at least equal to the amount borrowed from the Company. The Company bears some investment risk in the event that a borrower defaults and the value of collateral falls below the amount borrowed. The Company does not have any investments in sovereign debt securities issued by foreign governments.

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at December 31, 2012 and 2011 :

<i>DOLLARS IN MILLIONS</i>	Dec 31, 2012		Dec 31, 2011	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Manufacturing	\$ 1,371.1	21.2%	\$ 1,153.1	18.5%
Finance, Insurance and Real Estate	780.8	12.1	590.4	9.5
Services	298.6	4.6	233.8	3.8
Transportation, Communication and Utilities	289.2	4.5	252.2	4.1
Mining	143.4	2.2	89.6	1.4
Retail Trade	66.5	1.0	50.1	0.8
Wholesale Trade	57.8	0.9	41.5	0.7
Agriculture, Forestry and Fishing	19.2	0.3	17.8	0.3
Other	3.3	0.1	0.6	—
Total Investments in Non-governmental Fixed Maturities	\$ 3,029.9	46.9%	\$ 2,429.1	39.1%

Seventy-four companies comprised over 75% of the Company's fixed maturity exposure to the Manufacturing industry at December 31, 2012, with the largest single exposure, Merck & Co. Inc., comprising 3.2%, or \$43.5 million, of the Company's fixed maturity exposure to such industry. Thirty-three companies comprised over 75% of the Company's exposure to the Finance, Insurance and Real Estate industry at December 31, 2012, with the largest single exposure, Citigroup Inc., comprising 4.6%, or \$36.1 million, of the Company's exposure to such industry.

INVESTMENT QUALITY AND CONCENTRATIONS (Continued)

The following table summarizes the fair value of the Company's ten largest exposures to issuers of investment securities, excluding exposures to short term investments and investments in U.S. Government and Government Agencies and Authorities and Pre-refunded Municipal Bonds, at December 31, 2012 :

<i><u>DOLLARS IN MILLIONS</u></i>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
Fixed Maturities:		
States and Political Subdivisions:		
Texas	\$ 84.7	1.3%
Georgia	73.0	1.1
Colorado	62.5	1.0
Washington	54.4	0.8
Louisiana	45.4	0.7
Corporate Securities:		
Bonds and Notes:		
Merck & Co., Inc.	43.5	0.7
Equity Securities:		
iShares® iBoxx \$ Investment Grade Corporate Bond Fund	101.0	1.6
Merck & Co., Inc.	1.5	—
Equity Method Limited Liability Investments:		
Tennenbaum Opportunities Fund V, LLC	69.9	1.1
Special Value Opportunity Fund, LLC	59.4	0.9
Goldman Sachs Vintage Fund IV, L.P.	58.9	0.9
Total	<u>\$ 654.2</u>	<u>10.1%</u>

INVESTMENTS IN LIMITED LIABILITY INVESTMENT COMPANIES AND LIMITED PARTNERSHIPS

The Company owns investments in various limited liability investment companies and limited partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. The Company's investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments, or Other Equity Interests and included in Equity Securities depending on the accounting method used to report the investment. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements. Additional information pertaining to these investments at December 31, 2012 and 2011 is presented below:

<i>DOLLARS IN MILLIONS</i>	Asset Class	Unfunded Commitment Dec 31, 2012	Carrying Value		Stated Fund End Date
			Dec 31, 2012	Dec 31, 2011	
Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:					
Tennenbaum Opportunities Fund V, LLC	Distressed Debt	\$ —	\$ 69.9	\$ 75.6	10/10/2016
Special Value Opportunities Fund, LLC	Distressed Debt	—	59.4	67.8	7/13/2014
Goldman Sachs Vintage Fund IV, LP	Secondary Transactions	17.3	58.9	64.2	12/31/2016
BNY Mezzanine - Alcentra Partners III, LP	Mezzanine Debt	21.2	18.9	22.7	2021-2022
NYLIM Mezzanine Partners II, LP	Mezzanine Debt	4.0	10.3	13.5	7/31/2016
BNY Mezzanine Partners, LP	Mezzanine Debt	1.1	9.2	12.9	4/17/2016
Ziegler Meditech Equity Partners, LP	Growth Equity	0.8	8.9	13.3	1/31/2016
Special Value Continuation Fund, LLC	Distressed Debt	—	—	22.4	—
Other Funds		8.4	17.5	13.9	Various
Total for Equity Method Limited Liability Investments		52.8	253.0	306.3	
Reported as Other Equity Interests and Reported at Fair Value:					
Highbridge Principal Strategies Mezzanine Partners, LP	Mezzanine Debt	2.5	22.1	20.8	1/23/2018
Goldman Sachs Vintage Fund V, LP	Secondary Transactions	6.9	13.7	13.9	12/31/2018
Highbridge Principal Strategies Credit Opportunities Fund, LP	Hedge Fund	—	11.0	—	None
GS Mezzanine Partners V, LP	Mezzanine Debt	14.8	9.3	8.2	12/31/2021
Other		64.5	85.2	50.2	Various
Total Reported as Other Equity Interests and Reported at Fair Value		88.7	141.3	93.1	
Total		\$ 141.5	\$ 394.3	\$ 399.4	

In April 2012, the Special Value Continuation Fund, LLC, which was previously accounted for under the equity method of accounting and reported in Equity Method Limited Liability Investments, converted from a Delaware limited liability company to a Delaware corporation and became a publicly-traded company. Accordingly, the Company's investment was converted to common stock and is now reported in Equity Securities at December 31, 2012.

The Company does not directly participate, as either a lender or borrower of securities, in any securities lending program. The Company does not participate directly in credit default swaps. The Company does not engage directly in hedging activities, including, but not limited to, activities involving interest rate swaps, forward foreign currency contracts, commodities contracts, exchange traded and over-the-counter options or warrants. The Company has limited exposure to such programs and activities by virtue of an investment of \$1.0 million at December 31, 2012 included in Other under the heading "Reported as Other Equity Interests and Reported at Fair Value" in the preceding table. Such investment consists solely of restricted assets that are being redeemed over several periods.

INTEREST AND OTHER EXPENSES

Interest and Other Expenses was \$85.5 million, \$83.9 million and \$68.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest expense, excluding interest on a mortgage note payable included in real estate investment expense, was \$37.6 million, \$36.9 million and \$32.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Other Corporate Expenses were \$47.9 million, \$47.0 million and \$36.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Other Corporate Expenses increased by \$0.9 million for the year ended December 31, 2012, compared to 2011, due primarily to higher postretirement benefit costs and salaries. Other Corporate Expenses increased by \$10.9 million for the year ended December 31, 2011, compared to 2010, due primarily to higher postretirement benefit costs, costs incurred with changing the Company's name and other corporate initiatives.

INCOME TAXES

The Company's effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to the effects of tax-exempt investment income and dividends received deductions, the effects of the write-off of goodwill in 2010, and the net effects of state income taxes. Tax-exempt investment income and dividends received deductions were \$39.8 million, \$50.6 million and \$54.4 million in 2012, 2011 and 2010, respectively. The Company wrote off \$14.8 million of goodwill in 2010 that is not deductible for income taxes. State income tax expense, net of federal benefit, from continuing operations was \$0.8 million, \$1.0 million and \$1.0 million in 2012, 2011 and 2010, respectively.

The Company's effective income tax rate from discontinued operations differs from the Federal statutory income tax rate due primarily to the net effects of state income taxes. State income tax, net of federal taxes, from discontinued operations was \$0.7 million of expense, \$0.3 million of benefit, and \$1.1 million of expense for the years ended December 31, 2012, 2011 and 2010, respectively. State income tax includes changes in the state deferred tax asset valuation allowance related to Fireside and is net of a \$0.2 million benefit, \$2.3 million benefit, and \$0.5 million expense for the years ended December 31, 2012, 2011 and 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES

On March 7, 2012, Kemper entered into a new four-year, \$325.0 million, unsecured, revolving credit agreement, expiring March 7, 2016 (the "2016 Credit Agreement"), with a group of financial institutions. The 2016 Credit Agreement replaced Kemper's \$245.0 million, unsecured, revolving credit agreement which was scheduled to expire on October 30, 2012 (the "Former Credit Agreement") and was terminated on March 7, 2012. There were no borrowings under the Former Credit Agreement at either December 31, 2011 or at its termination. The 2016 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2016 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper's largest insurance subsidiaries, United Insurance and 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 December 31, 2012, and accordingly, \$325.0 million was available for future borrowings. Management estimates that it could borrow the full amount under the 2016 Credit Agreement and still meet the financial covenants therein.

During the third quarter of 2011, Kemper borrowed \$95.0 million under the Former Credit Agreement. The proceeds from the borrowing were used, in part, to make a voluntary contribution of \$83.7 million to fund the Company's defined benefit pension plan. The contribution consisted of cash of \$32.2 million and 7,309,764 shares of Intermec common stock purchased from Kemper's subsidiary, Trinity (see Note 17, "Pension Benefits"). Kemper's subsidiary, United Insurance, paid a cash dividend of \$25.0 million to Kemper in September 2011, which was used along with cash on hand to repay \$30 million of the borrowings under the Former Credit Agreement during the third quarter of 2011. As described below, during October 2011, the borrowings under the Former Credit Agreement were repaid in full.

In 2010, Kemper issued \$250 million of its 6.00% senior notes due November 30, 2015 (the "2015 Senior Notes"). The 2015 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper issued the 2015 Senior Notes for proceeds of \$247.8 million, net of transaction costs, for an effective yield of 6.21%. Kemper used a portion of the proceeds from the sale of the 2015 Senior Notes to repay borrowings of \$140 million under the Former Credit Agreement and to make a capital contribution of \$60.0 million to its subsidiary, United Insurance. Interest expense under the 2015 Senior Notes was \$15.4 million, \$15.4 million and \$1.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

In 2007, Kemper issued \$360 million of its 6.00% senior notes due May 15, 2017 (the "2017 Senior Notes"). The 2017 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper issued the 2017 Senior Notes for proceeds of \$354.8 million, net of transaction costs, for an effective yield of 6.19%. Kemper used a portion of the proceeds from the sale of the 2017 Senior Notes to repay the \$300 million aggregate principal amount of its 5.75% senior notes which matured on July 1, 2007. Interest expense under the 2017 Senior Notes was \$22.1 million for the year ended December 31, 2012 and \$22.0 million for each of the annual periods ended December 31, 2011, and 2010, respectively.

In 2003, Kemper issued \$200 million of its 4.875% senior notes due November 1, 2010 (the "2010 Senior Notes") for an effective yield of 5.04%. The 2010 Senior Notes were repaid and retired in 2010. Interest expense under the 2010 Senior Notes was \$8.4 million for the year ended December 31, 2010.

Various state insurance laws restrict the ability of Kemper's insurance subsidiaries to pay dividends without regulatory approval. Such insurance laws generally restrict the amount of dividends paid in an annual period to the greater of statutory net income from the previous year or 10% of statutory capital and surplus. Kemper's direct insurance subsidiaries paid dividends consisting of \$95.0 million in cash to Kemper during 2012. In 2013, Kemper estimates that its direct insurance subsidiaries would be able to pay \$179.0 million in dividends to Kemper without prior regulatory approval.

On March 31, 2012, Kemper's subsidiary, Fireside Bank, converted from an industrial bank to a general business corporation and changed its name to Fireside Auto Finance. Accordingly, Fireside is no longer regulated by the Federal Depository Insurance Corporation or the California Department of Financial Institutions and may pay dividends or make other distributions without prior regulatory approval. On April 5, 2012, FAF distributed \$20 million of its capital to its then parent company, Fireside Securities Corporation, who then, in turn, distributed the same amount to its parent company, Kemper. In October 2011, Fireside Bank distributed \$250 million of its capital to its then parent company, Fireside Securities Corporation, who then, in turn, distributed the same amount to its parent company, Kemper.

On February 2, 2011, the Board of Directors approved a new share repurchase program under which Kemper is authorized to repurchase up to \$300 million of its common stock. During 2012, Kemper repurchased approximately 2.0 million shares of its common stock at an aggregate cost of \$60.7 million in open market transactions under the new repurchase program. During 2011, Kemper repurchased approximately 0.9 million shares of its common stock at an aggregate cost of \$27.4 million in open market transactions.

Kemper paid a quarterly dividend to shareholders of \$0.24 per common share in each quarter of 2012. Dividends paid were \$56.9 million for the year ended December 31, 2012.

Kemper directly held cash and investments totaling \$190.2 million at December 31, 2012, compared to \$217.0 million at December 31, 2011. Sources available for the repayment of indebtedness, repurchases of common stock, future shareholder dividend payments, and the payment of interest on Kemper's senior notes include cash and investments directly held by Kemper, receipt of dividends from Kemper's subsidiaries and borrowings under the 2016 Credit Agreement. The primary sources of funds for Kemper's insurance subsidiaries are premiums, investment income and proceeds from the sales and maturity of investments. The primary uses of funds are the payment of policyholder benefits under life insurance contracts, claims under property and casualty insurance contracts and accident and health insurance contracts, the payment of commissions and general expenses and the purchase of investments. Generally, there is a time lag between when premiums are collected and when policyholder benefits and insurance claims are paid. Changes in the legal environment relative to state enforcement of unclaimed property laws and related insurance claims handling practices could result in changes in the manner in which Kemper's life insurance companies administer life insurance death benefits and escheat unclaimed benefits to the states, and could have a significant effect on, including decreasing such time lag due to an acceleration of, the payment and/or escheatment of such benefits relative to what is currently contemplated by Kemper. See Item 1A., "Risk Factors," 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 23, "Contingencies," to the Consolidated Financial Statements and MD&A, "Life and Health Insurance" for additional information about these matters. During periods of growth, insurance companies typically experience positive operating cash flows and are able to invest a portion of their operating cash flows to fund future policyholder benefits and claims. During periods in which premium revenues decline, insurance companies may experience negative cash flows from operations and may need to sell investments to fund payments to policyholders and claimants. In addition, if the Company's property and casualty insurance subsidiaries

LIQUIDITY AND CAPITAL RESOURCES (Continued)

experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments, which could either result in investment gains or losses. Management believes that its property and casualty insurance subsidiaries maintain adequate levels of liquidity in the event that they experience several future catastrophic events over a relatively short period of time. Prior to the sale of its active portfolio of automobile loan receivables, the primary sources of funds for Fireside included the repayments of automobile loans, interest on automobile loans, investment income and proceeds from the sales and maturity of investments. The primary uses of funds for Fireside were general expenses and purchase of investments. Prior to the redemption of its Certificates of Deposits, the primary uses of funds for Fireside also included the repayment of customer deposits and interest paid to depositors.

Net Cash Provided by Operating Activities increased by \$90.7 million for the year ended December 31, 2012, compared to 2011. Net Cash Provided by Operating Activities decreased by \$83.5 million for the year ended December 31, 2011, compared to 2010.

Net Cash Used by Financing Activities decreased by \$291.2 million for the year ended December 31, 2012, compared to the same period in 2011. The Company did not use cash for the Repayments of Certificates of Deposits for the year ended December 31, 2012, compared to net cash used of \$321.8 million in 2011. Kemper used \$60.7 million of cash during 2012 to repurchase shares of its common stock, compared to \$27.4 million of cash used to repurchase shares of its common stock in 2011. Kemper used \$56.9 million of cash to pay dividends for the year ended December 31, 2012, compared to \$58.2 million of cash used to pay dividends in the same period of 2011. The quarterly dividend rate was \$0.24 per common share for each quarter of 2012 and 2011.

Net Cash Used by Financing Activities increased by \$1.3 million for the year ended December 31, 2011, compared to 2010. In 2011, net cash used for the Repayments of Certificates of Deposits was \$321.8 million for the year ended December 31, 2011, compared to net cash used of \$366.9 million in 2010. Kemper used \$27.4 million of cash during 2011 to repurchase shares of its common stock, compared to \$34.4 million in 2010. Kemper used \$58.2 million of cash to pay dividends for the year ended December 31, 2011, compared to \$54.6 million of cash used to pay dividends in 2010. The quarterly dividend rate was \$0.24 per common share for each quarter of 2011, compared to \$0.22 per common share in 2010.

Cash available for investment activities in total is dependent on cash flow from Operating Activities and Financing Activities and the level of cash the Company elects to maintain. Net Cash Provided by Investing Activities decreased by \$670.8 million for the year ended December 31, 2012, compared to the same period of 2011. Sales of Fixed Maturities exceeded Purchases of Fixed Maturities by \$41.8 million for the year ended December 31, 2012. Purchases of Fixed Maturities exceeded Sales of Fixed Maturities by \$13.1 million in 2011. Purchases of Equity Securities exceeded Sales of Equity Securities by \$66.9 million for the year ended December 31, 2012. Sales of Equity Securities exceeded Purchases of Equity Securities by \$49.1 million for the year ended December 31, 2011. Net cash used by acquisitions of short-term investments was \$80.0 million for the year ended December 31, 2012, compared to net cash of \$155.5 million provided by dispositions of short-term investments in 2011. Net proceeds from the sale of Fireside's inactive portfolio of automobile loan receivables provided \$16.7 million of cash for the year ended December 31, 2012. Net proceeds from the sale of Fireside's active loan portfolio provided \$220.7 million of cash for the year ended December 31, 2011. Receipts from Automobile Loan Receivables provided \$2.0 million of cash for the year ended December 31, 2012, compared to \$166.5 million of cash provided in 2011.

Net Cash Provided by Investing Activities increased by \$245.3 million for the year ended December 31, 2011, compared to the same period of 2010. Purchases of Fixed Maturities exceeded Sales of Fixed Maturities by \$13.1 million for the year ended December 31, 2011. Sales of Fixed Maturities exceeded Purchases of Fixed Maturities by \$174.6 million in the same period of 2010. Sales of Equity Securities exceeded Purchases of Equity Securities by \$49.1 million for the year ended December 31, 2011. Purchases of Equity Securities exceeded Sales of Equity Securities by \$155.3 million for the year ended December 31, 2010. Net cash provided by dispositions of short-term investments was \$155.5 million for the year ended December 31, 2011, compared to net cash of \$7.3 million used by acquisitions of short-term investments in 2010. Net proceeds from the sale of Fireside's active portfolio of automobile loan receivables provided \$220.7 million of cash for the year ended December 31, 2011. Receipts from Automobile Loan Receivables provided \$166.5 million of cash for the year ended December 31, 2011, compared to \$339.6 million of cash provided in 2010. Receipts from the disposition of a business provided \$4.1 million of cash for the year ended December 31, 2010.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no material obligations under a guarantee contract. The Company has no material retained or contingent interests in assets transferred to an unconsolidated entity. The Company has no material obligations, including contingent obligations, under contracts that would be accounted for as derivative instruments. The Company has no obligations, including contingent obligations, arising out of a variable interest in an unconsolidated entity held by, and material to, the Company, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with the Company. Accordingly, the Company has no material off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

Estimated cash disbursements pertaining to the Company's contractual obligations at December 31, 2012 are as follows:

<i><u>DOLLARS IN MILLIONS</u></i>	Jan 1, 2013 To Dec 31, 2013	Jan 1, 2014 To Dec 31, 2015	Jan 1, 2016 To Dec 31, 2017	After Dec 31, 2017	Total
Long Term Debt Obligations	\$ 5.5	\$ 250.0	\$ 360.0	\$ —	\$ 615.5
Capital Lease Obligations	1.9	2.4	1.2	—	5.5
Operating Lease Obligations	28.3	38.0	22.3	7.8	96.4
Purchase Obligations	1.2	0.6	—	—	1.8
Life and Health Insurance Policy Benefits	267.5	452.8	434.7	5,476.8	6,631.8
Property and Casualty Insurance Reserves	496.5	308.1	99.2	66.8	970.6
Other Contractual Obligations Reflected in Long Term Liabilities on the Consolidated Balance Sheet under GAAP	37.4	74.9	32.6	—	144.9
Total Contractual Obligations	\$ 838.3	\$ 1,126.8	\$ 950.0	\$ 5,551.4	\$ 8,466.5

Amounts included in Life and Health Insurance Policy Benefits within the contractual obligations table above represent the estimated cash payments to be made to policyholders and beneficiaries. Such cash outflows are based on the Company's current assumptions for mortality, morbidity and policy lapse, but are undiscounted with respect to interest. Policies must remain in force for the policyholder or beneficiary to receive the benefit under the policy. Depending on the terms of a particular policy, future premiums from the policyholder may be required for the policy to remain in force. The Company estimates that future cash inflows would total \$3.7 billion using the same assumptions used to estimate the cash outflows. The Company's Life Insurance Reserves in the Company's Consolidated Balance Sheet are generally based on the historical assumptions for mortality and policy lapse rates and are on a discounted basis. Accordingly, the sum of the amounts presented above for Life and Health Insurance Policy Benefits significantly exceeds the amount of Life and Health Insurance Reserves reported on the Company's Consolidated Balance Sheet at December 31, 2012 .

In addition to the purchase obligations included above, the Company had certain investment commitments totaling \$155.4 million at December 31, 2012 . The funding of such investment commitments is dependent on a number of factors, the timing of which is indeterminate. The contractual obligations reported above also exclude the Company's liability of \$6.4 million for unrecognized tax benefits. The Company cannot make a reasonably reliable estimate of the amount and period of related future payments for such liability. Other Contractual Obligations Reflected in Long Term Liabilities on the Consolidated Balance Sheet under GAAP primarily consist of interest obligations related to Long Term Debt Obligations.

CRITICAL ACCOUNTING ESTIMATES

Kemper's subsidiaries conduct their businesses in two industries: property and casualty insurance and life and health insurance. Accordingly, the Company is subject to several industry-specific accounting principles under accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process of estimation is inherently uncertain. Accordingly, actual results could ultimately differ materially from the estimated amounts reported in a company's financial statements. Different assumptions are likely to result in different estimates of reported amounts. The Company's critical accounting policies most sensitive to estimates include the valuation of investments, the valuation of property and casualty insurance reserves for losses and LAE, the assessment of recoverability of goodwill and the valuation of pension benefit obligations.

CRITICAL ACCOUNTING ESTIMATES (Continued)

Valuation of Investments

The reported value of the Company's investments was \$6,460.1 million at December 31, 2012, of which \$5,386.6 million, or 83%, was reported at fair value, \$253.0 million, or 4%, was reported under the equity method of accounting, \$266.3 million, or 4%, was reported at unpaid principal balance and \$554.2 million, or 9%, was reported at cost or depreciated cost. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Accordingly, it is reasonably possible that changes in the fair values of the Company's investments reported at fair value will occur in the near term and such changes could materially affect the amounts reported in the financial statements. Also, it is reasonably possible that changes in the carrying values of the Company's Equity Method Limited Liability Investments will occur in the near term and such changes could materially affect the amounts reported in the financial statements because these issuers follow specialized industry accounting rules which require that they report all of their investments at fair value.

As more fully described under the heading, "Fair Value Measurements," in Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements, the Company uses a hierarchical framework which prioritizes and ranks the market price observability used in fair value measurements.

The fair value of the Company's investments measured and reported at fair value was \$5,386.6 million at December 31, 2012, of which \$4,866.2 million, or 90%, was based on quoted market prices or significant value drivers that are observable and \$520.4 million, or 10%, was based on significant value drivers that are unobservable. Fair value measurements based on readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment, compared to fair value measurements based on significant unobservable inputs used in measuring fair value. The prices that the Company might realize from actual sales of investments are likely to vary from their respective estimated fair values at December 31, 2012 due to limitations inherent in the estimation process and changing market conditions.

The classification of a company's investment in a financial instrument may affect its reported results. For investments classified as trading, a company is required to recognize changes in the fair values into income for the period reported. Both the reported and fair value of the Company's investments classified as trading were \$4.5 million at December 31, 2012. For investments in fixed maturities classified as held to maturity, a company is required to carry the investment at amortized cost, with only amortization occurring during the period recognized into income. None of the Company's investments in fixed maturities were classified as held to maturity at December 31, 2012. Changes in the fair value of investments in fixed maturities classified as available for sale, investments in equity securities classified as available for sale and an insurance entity's investments in equity securities without readily determinable fair values are not recognized to income during the period, but rather are recognized as a separate component of Accumulated Other Comprehensive Income until realized. All of the Company's investments in fixed maturities were classified as available for sale at December 31, 2012. Except for investments accounted for under the equity method of accounting or classified as trading, all of the Company's investments in equity securities at December 31, 2012 were required to be reported at fair value with changes in fair value reported in Accumulated Other Comprehensive Income until realized. The Company's investments accounted for under the equity method of accounting consist of the Company's investments in Equity Method Limited Liability Investments and are valued at cost plus cumulative undistributed comprehensive earnings or losses, and not at fair value.

Under GAAP, a company may elect to use the fair value option for some or all of its investments in financial instruments. Under the fair value option, a company is required to recognize changes in the fair values into income for the period reported. The Company has not elected the fair value option for any of its investments in financial instruments. Had the Company elected the fair value option for all of its investments in financial instruments, the Company's reported net income for the year ended December 31, 2012, would have increased by \$63.3 million.

The Company regularly reviews its investments for factors that may indicate that a decline in the fair value of an investment below its cost or amortized cost is other than temporary. Such reviews are inherently uncertain in that the value of the investment may not fully recover or may decline further in future periods.

Some factors considered for fixed maturity and equity securities in evaluating whether or not a decline in fair value is other than temporary include, but are not limited to, the following:

Fixed Maturity Securities

- The financial condition, credit rating and prospects of the issuer;
- The extent to which the fair value has been less than cost;

CRITICAL ACCOUNTING ESTIMATES (Continued)

- The ability of the issuer to make scheduled principal and interest payments;
- The volatility of the investment;
- Opinions of the Company's external investment managers;
- The Company's intentions to sell or not to sell the investment; and
- The Company's determination of whether it will be required to sell the investment before a full recovery in value.

Equity Securities

- 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.

Changes in these factors from one evaluation date to the next evaluation date could result in the Company determining that a temporary decline in the fair value of an investment at December 31, 2012 is no longer temporary at a subsequent evaluation date. Such determination would result in an impairment loss recognized in earnings in the period such determination is made.

Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses

The Company's Property and Casualty Insurance Reserves are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid. The Company had \$970.6 million and \$1,029.1 million of gross loss and LAE reserves at December 31, 2012 and 2011, respectively. Property and Casualty Insurance Reserves for the Company's business segments at December 31, 2012 and 2011 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
Business Segments:		
Kemper Preferred	\$ 452.3	\$ 416.2
Kemper Specialty	215.9	225.9
Kemper Direct	177.8	223.9
Life and Health Insurance	7.0	8.3
Total Business Segments	853.0	874.3
Discontinued Operations	100.7	133.0
Unallocated Reserves	16.9	21.8
Total Property and Casualty Insurance Reserves	<u>\$ 970.6</u>	<u>\$ 1,029.1</u>

The Unallocated Reserves were acquired in connection with a business acquisition from SCOR in 2002 and are reinsured by an insurance subsidiary of SCOR (see Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements). The Company does not allocate these reserves to its business segments or Unitrin Business Insurance.

In estimating the Company's Property and Casualty Insurance Reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company's Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures which may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company's Discontinued Operations are predominantly long-tailed exposures, \$45.2 million of which was related to asbestos, environmental matters and construction defect exposures at December 31, 2012.

CRITICAL ACCOUNTING ESTIMATES (Continued)

The Company's actuaries generally estimate reserves at least quarterly for most product lines and/or coverage levels using accident quarters or accident months spanning 10 or more years, depending on the size of the product line and/or coverage level or emerging issues relating to them. The Company's actuaries use a variety of generally accepted actuarial loss reserving estimation methodologies, including, but not limited to, the following:

- Incurred Loss Development Methodology;
- Paid Loss Development Methodology;
- Bornhuetter-Ferguson Incurred Loss Methodology;
- Bornhuetter-Ferguson Paid Loss Methodology; and
- Frequency and Severity Methodology.

The Company's actuaries generally review the results of at least four of the estimation methodologies, two based on paid data and two based on incurred data, to initially estimate the ultimate losses and LAE for the current accident quarter and re-estimate the ultimate losses and LAE for previous accident quarters to determine if changes in the previous estimates of the ultimate losses and LAE are indicated by the most recent data. In some cases, the methodologies produce a cluster of estimates with a tight band of indicated possible outcomes. In other cases, however, the methodologies produce conflicting results and wider bands of indicated possible outcomes, and the Company's actuaries perform additional analyses before making their final selections. However, such bands do not necessarily constitute a range of outcomes, nor does the Company's management or the Company's actuaries calculate a range of outcomes.

The key assumption in these estimation methodologies is that patterns observed in prior periods are indicative of how losses and LAE are expected to develop in the future and that such historical data can be used to predict and estimate ultimate losses and LAE. However, changes in the Company's business processes, by their very nature, are likely to affect the development patterns, which generally results in the historical development factors becoming less reliable over time in predicting how losses and LAE will ultimately develop. The ultimate impact of a single change in a business process is difficult to quantify and detect, and even more difficult if several changes to business processes occur over several years. Initially after a change is implemented, there are fewer data points, as compared to the historical data, for the Company's actuaries to analyze. With fewer data points to analyze, the Company's actuaries cannot be certain that observed differences from the historical data trends are a result of the change in business process or merely a random fluctuation in the data. As the Company's actuaries observe more data points following the change in business process, the Company's actuaries can gain more confidence in whether the change in business process is affecting the development pattern. The challenge for the Company's actuaries is how much weight to place on the development patterns based on the older historical data and how much weight to place on the development patterns based on more recent data.

At a minimum, the Company's actuaries analyze 45 product and/or coverage levels for over 40 separate current and prior accident quarters for both losses and LAE using many of the loss reserving estimation methodologies identified above as well as other generally accepted actuarial estimation methodologies. In all, there are over 10,000 combinations of accident quarters, coverage levels, and generally accepted actuarial estimation methodologies used to estimate the Company's unpaid losses and LAE. In some cases, the Company's actuaries make adjustments to the loss reserving estimation methodologies identified above or use additional generally accepted actuarial estimation methodologies to estimate ultimate losses and LAE.

For each accident quarter, the point estimate selected by the Company's actuaries is not necessarily one of the points produced by any particular one of the methodologies utilized, but often is another point selected by the Company's actuaries, using their professional judgment, that takes into consideration each of the points produced by the several loss reserving estimation methodologies used. In some cases, for a particular product, the current accident quarter may not have enough paid claims data to rely upon, leading the Company's actuaries to conclude that the incurred loss development methodology provides a better estimate than the paid loss development methodology. Therefore, the Company's actuaries may give more weight to the incurred loss development methodology for that particular accident quarter. As an accident quarter ages for that same product, the actuary may gain more confidence in the paid loss development methodology and begin to give more weight to the paid loss development methodology. The Company's actuaries' quarterly selections are summed by product and/or coverage levels to create the actuarial indication of the ultimate losses. More often than not, the actuarial indication for a particular product line and accident quarter is most heavily weighted towards the incurred loss development methodology, particularly for short-tail lines such as personal automobile insurance. Historically, the incurred loss development methodology has been more reliable in predicting ultimate losses for short-tail lines, especially in the more recent accident quarters, compared with the paid loss development methodology. However, in some circumstances changes can occur which impact numerous variables, including, but not limited to, those variables identified below that are difficult to quantify and/or impact the predictive value of prior

CRITICAL ACCOUNTING ESTIMATES (Continued)

development patterns relied upon in the incurred loss development methodology and paid loss development methodology. In those circumstances, the Company's actuaries must make adjustments to these loss reserving estimation methodologies or use additional generally accepted actuarial estimation methodologies. In those circumstances, the Company's actuaries, using their professional judgment, may place more weight on the adjusted loss reserving estimation methodologies or other generally accepted actuarial estimation methodologies until the newer development patterns fully emerge and the Company's actuaries can fully rely on the unadjusted loss reserving estimation methodologies. In the event of a wide variation among results generated by the different projection methodologies, the Company's actuaries further analyze the data using additional techniques.

In estimating reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify, such as:

- Changes in the level of minimum case reserves, and the automatic aging of those minimum case reserves;
- Changes to claims practices, including, but not limited to, changes in the reporting and impact of large losses, timing of reported claims, adequacy of case reserves, implementation of new systems for handling claims, turnover of claims department staffs, timing and depth of the audit review of claims handling procedures;
- Changes in underwriting practices;
- Changes in the mix of business by state, class and policy limit within product line;
- Growth in new lines of business;
- Changes in the attachment points of the Company's reinsurance programs;
- Medical costs, including, but not limited to, the ability to assess the extent of injuries and the impact of inflation;
- Repair costs, including, but not limited to, the impact of inflation and the availability of labor and materials;
- Changes in the judicial environment, including, but not limited to, the interpretation of policy provisions, the impact of jury awards and changes in case law; and
- Changes in state regulatory requirements.

A change in any one or more of the foregoing factors is likely to result in a projected ultimate net loss and LAE that is different from the previously estimated reserve and/or previous frequency and severity trends. Such changes in estimates may be material.

For example, the Company's actuaries review frequency (number of claims per policy or exposure), severity (dollars of loss per claim) and average premium (dollars of premium per exposure). Actual frequency and severity experienced will vary depending on changes in mix by class of insured risk. Similarly, the actual frequency and rate of recovery from reinsurance will vary depending on changes in the attachment point for reinsurance. In particular, in periods of high growth or expansion into new markets, there may be additional uncertainty in estimating the ultimate losses and LAE. The contributing factors of this potential risk are changes in the Company's mix by policy limit and mix of business by state or jurisdiction.

Actuaries use historical experience and trends as predictors of how losses and LAE will emerge over time. However, historical experience may not necessarily be indicative of how actual losses and LAE will emerge. Changes in case reserve adequacy, changes in minimum case reserves and changes in internal claims handling procedures could impact the timing and recognition of incurred claims and produce an estimate that is either too high or too low if not adjusted for by the actuary. For example, if, due to changes in claims handling procedures, actual claims are settled more rapidly than they were settled historically, the estimate produced by the paid loss development methodology would tend to be overstated if the actuary did not identify and adjust for the impact of the changes in claims handling procedures. Similarly, if, due to changes in claims handling procedures, actual claim reserves are set at levels higher than past experience, the estimate produced by the incurred loss development methodology would tend to be overstated if the actuary did not identify and adjust for the impact of the changes in claims handling procedures.

The final step in the quarterly loss and LAE reserving process involves a comprehensive review of the actuarial indications by the Company's corporate actuary and corporate management who apply their collective judgment and determine the appropriate estimated level of reserves to record. Numerous factors are considered in this determination process, including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, changes in claim handling practices or other changes that affect the timing of payment or development patterns, changes in the mix of business, the maturity of the accident year, pertinent trends observed over the recent past, the level of volatility within a particular line of business, the improvement or deterioration of actuarial indications in the current period as

CRITICAL ACCOUNTING ESTIMATES (Continued)

compared to prior periods, and the amount of reserves related to third party pools for which the Company does not have access to the underlying data and, accordingly, relies on calculations provided by such pools.

The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while sustaining minimal variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company's estimates of these losses and LAE over time, also referred to as "development," will occur and may be material. Favorable development is recognized and reported in the consolidated financial statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income. The Company reported total favorable development of \$31.5 million, \$33.1 million and \$24.9 million before tax for the years ended December 31, 2012, 2011 and 2010, respectively. Development for each of the Company's continuing business segments and Unitrin Business Insurance for the years ended December 31, 2012, 2011 and 2010, was:

<i><u>DOLLARS IN MILLIONS</u></i>	Favorable (Adverse) Development		
	2012	2011	2010
Continuing Operations:			
Kemper Preferred	\$ 4.8	\$ 19.1	\$ 23.8
Kemper Specialty	2.3	9.4	(4.1)
Kemper Direct	17.8	3.9	6.8
Life and Health Insurance	0.3	2.6	(4.5)
Total Favorable Development from Continuing Operations, Net	25.2	35.0	22.0
Discontinued Operations:			
Unitrin Business Insurance	6.3	(1.9)	2.9
Total Favorable Development, Net	\$ 31.5	\$ 33.1	\$ 24.9

Development in the Kemper Preferred segment comprised the largest portion of the Company's development reported in continuing operations in 2011 and 2010. Additional information regarding the Kemper Preferred development is discussed below. Development in the Kemper Direct segment comprised the largest portion of the Company's development reported in continuing operations in 2012. Development in the Kemper Direct segment in 2012 is due primarily to claims developing more favorably than expected for liability and PIP coverages. Development in the Life and Health Insurance segment in 2011 and 2010 is due primarily to development on certain hurricanes. See MD&A, "Life and Health Insurance."

Development in Unitrin Business Insurance comprised all of the Company's development reported in discontinued operations. In 2008, the Company sold its Unitrin Business Insurance operations. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to June 1, 2008, the effective date of the sale.

Estimated Variability of Property and Casualty Insurance Reserves

Although development will emerge in all of the Company's personal lines' product lines, development in Kemper Preferred segment's personal automobile insurance product line could have the most significant impact due to the relative size of its loss and LAE reserves. To further illustrate the sensitivity of Kemper Preferred segment's reserves for automobile insurance losses and LAE to changes in the cumulative development factors, for each quarterly evaluation point the Company's actuaries calculated the variability of cumulative development factors observed in the incurred loss development methodology using one standard deviation. The Company believes that one standard deviation of variability is a reasonably likely scenario to measure variability for its loss and LAE reserves under the incurred development method for automobile insurance. Assuming that the Kemper Preferred segment's automobile insurance loss and LAE reserves were based solely on the incurred loss development methodology and the variability in the cumulative development factors occurred within one standard deviation, the Company estimates that Kemper Preferred's automobile insurance loss and LAE reserves could have varied by \$34.7 million in either direction at December 31, 2012 for all accident years combined under this scenario. In addition to the factors described above, other factors may also impact loss reserve development in future periods. These factors include governmental actions, including court decisions interpreting existing laws, regulations or policy provisions, developments related to insurance policy claims and coverage issues, adverse or favorable outcomes in pending claims litigation, the number and severity of insurance claims, the impact of inflation on insurance claims and the impact of residual market assessments. Although the Company's actuaries do not make specific numerical assumptions about these factors, changes in these factors from past patterns will impact historical

CRITICAL ACCOUNTING ESTIMATES (Continued)

loss development factors and, in turn, future loss reserve development. Significant favorable changes in one or more factors will lead to favorable future loss reserve development, which could result in the actual loss developing closer to, or even below, the lower end of the Company's estimated reserve variability. Significant unfavorable changes in one or more factors will lead to unfavorable loss reserve development, which could result in the actual loss developing closer to, or even above, the higher end of the Company's estimated reserve variability. Accordingly, due to these factors and the other factors enumerated throughout the MD&A and the inherent limitations of the loss reserving estimation methodologies, the estimated and illustrated reserve variability may not necessarily be indicative of the Company's future reserve variability, which could ultimately be greater than the estimated and illustrated variability. In addition, as previously noted, development will emerge in all of the Company's product lines over time. Accordingly, the Company's future reserve variability could ultimately be greater than the illustrated variability.

Additional information pertaining to the estimation of and development of the Company's Property and Casualty Insurance Reserves is contained in Item 1 of Part I of this 2012 Annual Report under the heading "Property and Casualty Loss and Loss Adjustment Expense Reserves."

Goodwill Recoverability

While the Company believes that none of its reporting units with material goodwill are at risk of failing step one of the goodwill impairment test, the process of determining whether or not an asset, such as Goodwill, is impaired or recoverable relies on projections of future cash flows, operating results and market conditions. Such projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. In evaluating the recoverability of Goodwill, the Company performs a discounted cash flow analysis for each of the Company's reporting units carrying Goodwill. The discounted cash value may be different from the fair value that would result from an actual transaction between a willing buyer and a willing seller. Such analyses are particularly sensitive to changes in discount rates and investment rates. Changes to these rates might result in material changes in the valuation and determination of the recoverability of Goodwill. For example, an increase in the rate used to discount cash flows will decrease the discounted cash value. There is likely to be a similar, but not necessarily as large as, increase in the investment rate used to project the cash flows resulting from investment income earned on the Company's investments. Accordingly, an increase in the investment rate would increase the discounted cash value.

Pension Benefit Obligations

The process of estimating the Company's pension benefit obligations and pension benefit costs is inherently uncertain and the actual cost of benefits may vary materially from the estimates recorded. These liabilities are particularly volatile due to their long-term nature and are based on several assumptions. The main assumptions used in the valuation of the Company's pension benefit obligations are:

- Estimated mortality of the employees and retirees eligible for benefits;
- Estimated expected long-term rates of returns on investments;
- Estimated compensation increases;
- Estimated employee turnover; and
- Estimated rate used to discount the ultimate estimated liability to a present value.

A change in any one or more of these assumptions is likely to result in an ultimate liability different from the original actuarial estimate. Such changes in estimates may be material. For example, a one-percentage point decrease in the Company's estimated discount rate would increase the pension benefit obligation at December 31, 2012 by \$86.1 million, while a one-percentage point increase in the rate would decrease the pension benefit obligation at December 31, 2012 by \$69.1 million. A one-percentage point decrease in the Company's estimated long-term rate of return on plan assets would increase the pension expense for the year ended December 31, 2012 by \$4.3 million, while a one-percentage point increase in the rate would decrease pension expense by \$4.3 million for the same period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification ("ASC") is the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board ("FASB") and applicable to the Company. The FASB issues Accounting Standards Updates ("ASUs") to amend the authoritative literature in ASC. There were seven ASUs issued in 2012 that amend the original text of ASC. These ASU's are not expected to have an impact on the Company.

Changes in accounting standards that are most critical or relevant to the Company are discussed in Note 2 , " Summary of Accounting Policies and Accounting Changes ," to the Consolidated Financial Statements under the headings "Adoption of New Accounting Standards" and "Accounting Standards Not Yet Adopted." The accounting changes discussed are as follows:

- ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*;
- ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements*;
- ASU 2011-08, *Testing Goodwill for Impairment*; and
- ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative Information About Market Risk

The Company's consolidated balance sheet includes three types of financial instruments subject to the material market risk disclosures required by the SEC:

1. Investments in Fixed Maturities;
2. Investments in Equity Securities and;
3. Notes Payable.

Investments in Fixed Maturities and Notes Payable are subject to material interest rate risk. The Company's Investments in Equity Securities include common and preferred stocks and, accordingly, are subject to material equity price risk and interest rate risk, respectively.

For purposes of this disclosure, market risk sensitive financial instruments are divided into two categories: financial instruments acquired for trading purposes and financial instruments acquired for purposes other than trading. The Company's market risk sensitive financial instruments are generally classified as held for purposes other than trading. The Company has no significant holdings of financial instruments acquired for trading purposes. The Company has no significant holdings of derivatives.

The Company measures its sensitivity to market risk by evaluating the change in its financial assets and liabilities relative to fluctuations in interest rates and equity prices. The evaluation is made using instantaneous changes in interest rates and equity prices on a static balance sheet to determine the effect such changes would have on the Company's market value at risk and the resulting pre-tax effect on Shareholders' Equity. The changes chosen represent the Company's view of adverse changes which are reasonably possible over a one-year period. The selection of the changes chosen should not be construed as the Company's prediction of future market events, but rather an illustration of the impact of such events.

For the interest rate sensitivity analysis presented below, the Company assumed an adverse and instantaneous increase of 100-basis points in the yield curve at both December 31, 2012 and 2011 for Investments in Fixed Maturities. Such 100-basis point increase in the yield curve may not necessarily result in a corresponding 100-basis point increase in the interest rate for all investments in fixed maturities. For example, a 100-basis point increase in the yield curve for risk-free, taxable investments in fixed maturities may not result in a 100-basis point increase for tax-exempt investments in fixed maturities. For Investments in Fixed Maturities, the Company also anticipated changes in cash flows due to changes in the likelihood that investments would be called or prepaid prior to their contractual maturity. All other variables were held constant. For preferred stock equity securities the Company assumed an adverse and instantaneous increase of 100-basis points in market interest rates from their levels at both December 31, 2012 and 2011 . All other variables were held constant. For Notes Payable, the Company assumed an adverse and instantaneous decrease of 100-basis points in market interest rates from their levels at December 31, 2012 and 2011 . All other variables were held constant. The Company measured equity price sensitivity assuming an adverse and instantaneous 30% decrease in the Standard and Poor's Stock Index (the "S&P 500") from its level at December 31, 2012 and 2011 , with all other variables held constant. The Company's investments in common stock equity securities were correlated with the S&P 500 using the portfolio's weighted-average beta of 0.91 and 0.92 at December 31, 2012 and 2011 , respectively. The portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended December 31, 2012 and 2011 , and weighted on the fair value of such securities at December 31, 2012 and 2011 , respectively. For equity securities without observable market inputs the Company assumed a beta of 1.00 at December 31, 2012 and 2011 . Beta measures a stock's relative volatility in relation to the rest of the stock market, with the S&P 500 having a beta coefficient of 1.00.

The estimated adverse effects on the market value of the Company's financial instruments at December 31, 2012 using these assumptions were:

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value	Pro Forma Increase (Decrease)		
		Interest Rate Risk	Equity Price Risk	Total Market Risk
ASSETS				
Investments in Fixed Maturities	\$ 4,860.2	\$ (334.0)	\$ —	\$ (334.0)
Investments in Equity Securities	521.9	(19.0)	(82.3)	(101.3)
LIABILITIES				
Notes Payable	\$ 675.5	\$ 23.1	\$ —	\$ 23.1

The estimated adverse effects on the market value of the Company's financial instruments at December 31, 2011 using these assumptions were:

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value	Pro Forma Increase (Decrease)		
		Interest Rate Risk	Equity Price Risk	Total Market Risk
ASSETS				
Investments in Fixed Maturities	\$ 4,773.4	\$ (348.4)	\$ —	\$ (348.4)
Investments in Equity Securities	397.3	(10.4)	(63.3)	(73.7)
LIABILITIES				
Notes Payable	\$ 638.7	\$ 26.9	\$ —	\$ 26.9

The market risk sensitivity analysis assumes that the composition of the Company's interest rate sensitive assets and liabilities, including, but not limited to, credit quality, and the equity price sensitive assets existing at the beginning of the period remains constant over the period being measured. It also assumes that a particular change in interest rates is uniform across the yield curve regardless of the time to maturity. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Also, any future correlation, either in the near term or the long term, between the Company's common stock equity securities portfolio and the S&P 500 may differ from the historical correlation as represented by the weighted-average historical beta of the common stock equity securities portfolio. Accordingly, the market risk sensitivity analysis may not be indicative of, is not intended to provide, and does not provide, a precise forecast of the effect of changes of market rates on the Company's income or shareholders' equity. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates or equity prices.

To the extent that any adverse 100-basis point change occurs in increments over a period of time instead of instantaneously, the adverse impact on fair values would be partially mitigated because some of the underlying financial instruments would have matured. For example, proceeds from any maturing assets could be reinvested and any new liabilities would be incurred at the then current interest rates.

Qualitative Information About Market Risk

Market risk is a broad term related to economic losses due to adverse changes in the fair value of a financial instrument and is inherent to all financial instruments. SEC disclosure rules focus on only one element of market risk—price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates or other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company's primary market risk exposures are to changes in interest rates and equity prices.

The Company manages its interest rate exposures with respect to Investments in Fixed Maturities by investing primarily in investment-grade securities of moderate effective duration.

Item 8. Financial Statements and Supplementary Data.

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Kemper Corporation and Subsidiaries**

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Kemper Corporation and Subsidiaries
Consolidated Balance Sheets

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	December 31,	
	2012	2011
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2012 - \$4,283.8; 2011 - \$4,266.1)	\$ 4,860.2	\$ 4,773.4
Equity Securities at Fair Value (Cost: 2012 - \$462.7; 2011 - \$367.3)	521.9	397.3
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	253.0	306.3
Short-term Investments at Cost which Approximates Fair Value	327.5	247.4
Other Investments	497.5	498.3
Total Investments	6,460.1	6,222.7
Cash	96.3	251.2
Receivables from Policyholders	369.3	379.2
Other Receivables	206.1	218.7
Deferred Policy Acquisition Costs	303.4	294.0
Goodwill	311.8	311.8
Current and Deferred Income Tax Assets	5.4	6.4
Other Assets	256.7	250.7
Total Assets	\$ 8,009.1	\$ 7,934.7
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	\$ 3,161.6	\$ 3,102.7
Property and Casualty	970.6	1,029.1
Total Insurance Reserves	4,132.2	4,131.8
Unearned Premiums	650.9	666.2
Liabilities for Income Taxes	21.5	6.2
Notes Payable at Amortized Cost (Fair Value: 2012 - \$675.5; 2011 - \$638.7)	611.4	610.6
Accrued Expenses and Other Liabilities	431.4	403.3
Total Liabilities	5,847.4	5,818.1
Shareholders' Equity:		
Common Stock, \$0.10 Par Value Per Share, 100 Million Shares Authorized; 58,454,390 Shares Issued and Outstanding at December 31, 2012 and 60,248,582 Shares Issued and Outstanding at December 31, 2011	5.8	6.0
Paid-in Capital	725.0	743.9
Retained Earnings	1,118.2	1,108.7
Accumulated Other Comprehensive Income	312.7	258.0
Total Shareholders' Equity	2,161.7	2,116.6
Total Liabilities and Shareholders' Equity	\$ 8,009.1	\$ 7,934.7

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Income

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	For The Years Ended December 31,		
	2012	2011	2010
Revenues:			
Earned Premiums	\$ 2,107.1	\$ 2,173.6	\$ 2,289.4
Net Investment Income	295.9	298.0	325.7
Other Income	0.8	1.0	1.3
Net Realized Gains on Sales of Investments	65.4	33.7	42.6
Other-than-temporary Impairment Losses:			
Total Other-than-temporary Impairment Losses	(7.2)	(11.4)	(17.7)
Portion of Losses Recognized in Other Comprehensive Income	0.3	0.1	1.2
Net Impairment Losses Recognized in Earnings	(6.9)	(11.3)	(16.5)
Total Revenues	2,462.3	2,495.0	2,642.5
Expenses:			
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,582.1	1,645.7	1,647.2
Insurance Expenses	672.3	683.6	685.9
Write-off of Goodwill and Other Intangibles Acquired	—	13.5	14.8
Interest and Other Expenses	85.5	83.9	68.3
Total Expenses	2,339.9	2,426.7	2,416.2
Income from Continuing Operations before Income Taxes and Equity in Net Loss of Former Investee	122.4	68.3	226.3
Income Tax Expense	(30.6)	(6.6)	(63.8)
Income from Continuing Operations before Equity in Net Loss of Former Investee	91.8	61.7	162.5
Equity in Net Loss of Former Investee	—	—	(0.1)
Income from Continuing Operations	91.8	61.7	162.4
Discontinued Operations:			
Income from Discontinued Operations before Income Taxes	18.9	19.5	25.8
Income Tax Expense	(7.3)	(6.7)	(10.3)
Income from Discontinued Operations	11.6	12.8	15.5
Net Income	\$ 103.4	\$ 74.5	\$ 177.9
Income from Continuing Operations Per Unrestricted Share:			
Basic	\$ 1.55	\$ 1.02	\$ 2.62
Diluted	\$ 1.54	\$ 1.02	\$ 2.62
Net Income Per Unrestricted Share:			
Basic	\$ 1.75	\$ 1.23	\$ 2.87
Diluted	\$ 1.74	\$ 1.23	\$ 2.87
Dividends Paid to Shareholders Per Share	\$ 0.96	\$ 0.96	\$ 0.88

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

<i><u>DOLLARS IN MILLIONS</u></i>	Year Ended		
	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Net Income	\$ 103.4	\$ 74.5	\$ 177.9
Other Comprehensive Income Before Income Taxes:			
Unrealized Holding Gains	96.7	201.2	177.0
Foreign Currency Translation Adjustments	1.6	0.4	(0.5)
Equity in Other Comprehensive Income of Former Investee	—	—	2.9
Net Unrecognized Postretirement Benefit Costs	(13.2)	(45.2)	(26.7)
Other Comprehensive Income Before Income Taxes	85.1	156.4	152.7
Other Comprehensive Income Tax Expense	(30.4)	(55.8)	(54.1)
Other Comprehensive Income	54.7	100.6	98.6
Total Comprehensive Income	\$ 158.1	\$ 175.1	\$ 276.5

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Cash Flows

<i><u>DOLLARS IN MILLIONS</u></i>	For The Years Ended December 31,		
	2012	2011	2010
Operating Activities:			
Net Income	\$ 103.4	\$ 74.5	\$ 177.9
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Increase in Deferred Policy Acquisition Costs	(9.4)	(7.8)	(4.7)
Amortization of Insurance in Force Acquired	8.0	11.4	11.0
Equity in Net Loss of Former Investee before Taxes	—	—	0.2
Equity in Earnings of Equity Method Limited Liability Investments	(9.3)	(9.6)	(48.8)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	15.4	—	—
Amortization of Investment Securities and Depreciation of Investment Real Estate	15.2	16.0	17.6
Net Realized Gains on Sales of Investments	(65.4)	(34.1)	(42.6)
Net Impairment Losses Recognized in Earnings	6.9	11.3	16.5
Gain on Sale of Portfolio of Automobile Loan Receivables	(12.9)	(4.5)	—
Benefit for Loan Losses	(2.0)	(42.0)	(14.2)
Depreciation of Property and Equipment	15.3	10.9	14.5
Write-off of Goodwill	—	—	14.8
Impairment of P&C Customer Relationships Acquired	—	13.5	—
Decrease (Increase) in Other Receivables	13.9	(0.2)	28.0
Decrease in Insurance Reserves	(1.1)	(52.1)	(52.1)
Decrease in Unearned Premiums	(15.2)	(12.4)	(46.4)
Change in Income Taxes	(14.9)	17.2	8.7
Decrease in Accrued Expenses and Other Liabilities	(15.6)	(47.5)	(41.0)
Other, Net	33.4	30.4	19.1
Net Cash Provided (Used) by Operating Activities	65.7	(25.0)	58.5
Investing Activities:			
Sales and Maturities of Fixed Maturities	914.4	650.3	706.7
Purchases of Fixed Maturities	(872.6)	(663.4)	(532.1)
Sales of Equity Securities	70.8	248.3	33.8
Purchases of Equity Securities	(137.7)	(199.2)	(189.1)
Sales of Former Investee	—	—	2.7
Acquisition and Improvements of Investment Real Estate	(5.5)	(6.4)	(3.9)
Sales of Investment Real Estate	6.0	0.3	9.6
Return of Investment of Equity Method Limited Liability Investments	56.0	57.0	38.1
Acquisitions of Equity Method Limited Liability Investments	(31.0)	(25.7)	(31.9)
Decrease (Increase) in Short-term Investments	(80.0)	155.5	(7.3)
Receipts from Automobile Loan Receivables	2.0	166.5	339.6
Net Proceeds from Sale of Portfolio of Automobile Loan Receivables	16.7	220.7	—
Disposition of Business, Net of Cash Disposed	—	—	4.1
Increase in Other Investments	(12.4)	(15.6)	(14.7)
Other, Net	(32.9)	(23.7)	(36.3)
Net Cash Provided (Used) by Investing Activities	(106.2)	564.6	319.3
Financing Activities:			
Repayments of Certificates of Deposits	—	(321.8)	(366.9)
Proceeds from Issuance of Notes Payable	—	95.0	387.8
Repayments of Notes Payable	—	(95.0)	(340.1)
Common Stock Repurchases	(60.7)	(27.4)	(34.4)
Cash Dividends Paid to Shareholders	(56.9)	(58.2)	(54.6)
Cash Exercise of Stock Options	1.3	0.2	0.5
Excess Tax Benefits from Share-based Awards	0.5	0.2	0.2
Other, Net	1.4	1.4	3.2
Net Cash Used by Financing Activities	(114.4)	(405.6)	(404.3)
Increase (Decrease) in Cash	(154.9)	134.0	(26.5)
Cash, Beginning of Year	251.2	117.2	143.7
Cash, End of Period	\$ 96.3	\$ 251.2	\$ 117.2

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

Kemper Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

For The Years Ended December 31, 2012, 2011 and 2010

*DOLLARS AND SHARES IN
MILLIONS, EXCEPT PER SHARE
AMOUNTS*

	Number of Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCE, DECEMBER 31, 2009 As Reported	62.4	\$ 6.2	\$ 765.9	\$ 1,086.7	\$ 58.8	\$ 1,917.6
Cumulative Effect of Adoption of New Accounting Standard	—	—	—	(83.6)	—	(83.6)
BALANCE, DECEMBER 31, 2009 As Adjusted	62.4	\$ 6.2	\$ 765.9	\$ 1,003.1	\$ 58.8	\$ 1,834.0
Net Income	—	—	—	177.9	—	177.9
Other Comprehensive Income (note 13)	—	—	—	—	98.6	98.6
Cash Dividends to Shareholders (\$0.88 per share)	—	—	—	(54.6)	—	(54.6)
Repurchases of Common Stock	(1.4)	(0.1)	(17.0)	(17.3)	—	(34.4)
Equity-based Compensation Cost (note 10)	—	—	4.2	—	—	4.2
Equity-based Awards, Net of Shares Exchanged (note 10)	0.1	—	(2.0)	(0.6)	—	(2.6)
BALANCE, DECEMBER 31, 2010	61.1	\$ 6.1	\$ 751.1	\$ 1,108.5	\$ 157.4	\$ 2,023.1
Net Income	—	—	—	74.5	—	74.5
Other Comprehensive Income (note 13)	—	—	—	—	100.6	100.6
Cash Dividends to Shareholders (\$0.96 per share)	—	—	—	(58.2)	—	(58.2)
Repurchases of Common Stock	(0.9)	(0.1)	(11.6)	(15.7)	—	(27.4)
Equity-based Compensation Cost (note 10)	—	—	5.3	—	—	5.3
Equity-based Awards, Net of Shares Exchanged (note 10)	0.1	—	(0.9)	(0.4)	—	(1.3)
BALANCE, DECEMBER 31, 2011	60.3	\$ 6.0	\$ 743.9	\$ 1,108.7	\$ 258.0	\$ 2,116.6
Net Income	—	—	—	103.4	—	103.4
Other Comprehensive Income (note 13)	—	—	—	—	54.7	54.7
Cash Dividends to Shareholders (\$0.96 per share)	—	—	—	(56.9)	—	(56.9)
Repurchases of Common Stock	(2.0)	(0.2)	(24.9)	(35.6)	—	(60.7)
Equity-based Compensation Cost (note 10)	—	—	5.8	—	—	5.8
Equity-based Awards, Net of Shares Exchanged (note 10)	0.2	—	0.2	(1.4)	—	(1.2)
BALANCE, DECEMBER 31, 2012	58.5	\$ 5.8	\$ 725.0	\$ 1,118.2	\$ 312.7	\$ 2,161.7

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

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ESTIMATES

The Consolidated Financial Statements included herein have been prepared on the basis of accounting principles generally accepted in the United States (“GAAP”) and include the accounts of Kemper Corporation (“Kemper”) and its subsidiaries (individually and collectively referred to herein as the “Company”). All significant intercompany accounts and transactions have been eliminated.

As discussed in Note 2, “Summary of Accounting Policies and Accounting Changes,” to the Consolidated Financial Statements, on January 1, 2012, the Company adopted Accounting Standards Update (“ASU”) 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, and retrospectively adjusted its financial statements for prior periods for the impact of the adoption. On January 1, 2012, the Company also implemented a new model for allocating capital and net investment income to its business segments. Accordingly, the Company has also reclassified certain amounts in its segment results in the retrospectively adjusted financial statements to conform to the current presentation. The Company accounts for Kemper’s subsidiary, Fireside, and the Company’s former Unitrin Business Insurance operations as discontinued operations. See Note 3, “Discontinued Operations,” to the Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates and assumptions.

The fair values of the Company’s Investments in Fixed Maturities, Investments in Equity Securities, Short-term Investments and Notes Payable are estimated using a hierarchical framework which prioritizes and ranks market price observability. The carrying amounts reported in the Consolidated Balance Sheets approximate fair value for Cash, Short-term Investments and certain other assets and other liabilities because of their short-term nature. The actual value at which financial instruments could actually be sold or settled with a willing buyer or seller may differ from estimated fair values depending on a number of factors, including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

The process of estimating and establishing reserves for losses and LAE for property and casualty insurance is inherently uncertain and the actual ultimate net cost of a claim may vary materially from the estimated amount reserved. The reserving process is particularly imprecise for claims involving long-tailed exposures, which may not be discovered or reported until years after the insurance policy period has ended. Management considers a variety of factors, including, but not limited to, past claims experience, current claim trends and relevant legal, economic and social conditions, in estimating reserves. A change in any one or more factors is likely to result in the ultimate net claim cost to differ from the estimated reserve. Changes in such estimates may be material and would be recognized in the Consolidated Financial Statements when such estimates change.

The process of determining whether an asset is impaired or recoverable relies on projections of future cash flows, operating results and market conditions. Projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company’s assessment of the impairment of long-lived assets is susceptible to the risk inherent in making such projections.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES

Investments

Investments in Fixed Maturities include bonds, notes and redeemable preferred stocks. Investments in Fixed Maturities are classified as available for sale and reported at fair value. Net Investment Income, including amortization of purchased premiums and accretion of market discounts, on Investments in Fixed Maturities is recognized as interest earned using the effective yield method.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

Investments in Equity Securities include common and non-redeemable preferred stocks and other equity interests and are reported at fair value. Investments in common and non-redeemable preferred stocks with readily determinable fair values are classified as available for sale. Dividend income on investments in common and non-redeemable preferred stocks is recognized on the ex-dividend date. Other equity interests primarily consist of exchange traded funds and partnership interests in limited liability partnerships in which the Company's interests are deemed minor. The Company's share of distributed earnings from other equity interests is recognized as dividend income when received.

Unrealized appreciation or depreciation, net of applicable deferred income taxes, on fixed maturities and equity securities is reported in Accumulated Other Comprehensive Income included in Shareholders' Equity.

Equity Method Limited Liability Investments include investments in limited liability investment companies and limited partnerships in which the Company's interests are not deemed minor and are accounted for under the equity method of accounting.

Short-term Investments include fixed maturities that mature within one year from the date of purchase, money market mutual funds, Federal funds sold and repurchase agreements. Short-term Investments are reported at cost, which approximates fair value.

Other Investments primarily include loans to policyholders and real estate. Loans to policyholders are carried at unpaid principal balance. Real estate is carried at cost, net of accumulated depreciation. Real estate is depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Real estate is evaluated for impairment when events or circumstances indicate the carrying value of the real estate may not be recoverable. An impairment on real estate is recognized when carrying value exceeds the sum of undiscounted cash flows.

Gains and losses on sales of investments are computed on the specific identification method and are reported in the Consolidated Statements of Income in the period in which the sales occur. 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. Losses are computed on the specific identification method and reported in the Consolidated Statements of Income in the period that the decline is determined to be other than temporary. The portion of an impairment of an investment in a fixed maturity attributed to a credit loss is reported in Net Impairment Losses Recognized in Earnings in the Consolidated Statement of Income, with the balance of such impairment reported in Accumulated Other Comprehensive Income.

Fair Value Measurements

The Company uses a hierarchal framework which prioritizes and ranks the market price observability used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The Company classifies the inputs used to measure fair value into one of three levels as follows:

- Level 1 — Quoted prices in an active market for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and
- Level 3 — Assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the Company classifies the fair value measurement using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. In accordance with GAAP, the Company is not permitted to adjust quoted market prices in an active market, even if the Company owns a large investment, the sale of which could reasonably impact the quoted price.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of business, principally commissions and certain premium taxes and policy issuance costs, are deferred. On January 1, 2012, the Company retrospectively adopted ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. See discussion below under the caption “*Adoption of New Accounting Standards*” regarding the adoption of the new standard. Costs deferred on property and casualty insurance products and health insurance products are amortized over the period in which premiums are earned. Costs deferred on traditional life insurance products are primarily amortized over the anticipated premium-paying period of the related policies in proportion to the ratio of the annual premiums to the total premiums anticipated, which is estimated using the same assumptions used in calculating policy reserves.

Goodwill

The cost of an acquired entity over the fair value of net assets acquired is reported as Goodwill. Goodwill is not amortized, but rather is tested annually for recoverability or when certain triggering events require testing. On January 1, 2012, the Company adopted ASU 2011-08, *Testing Goodwill for Impairment*. See discussion below under the caption “*Adoption of New Accounting Standards*” regarding the adoption of the new standard.

Insurance Reserves

Reserves for losses and LAE on property and casualty insurance coverage and health insurance coverage represent the estimated claim cost and loss adjustment expense necessary to cover the ultimate net cost of investigating and settling all losses incurred and unpaid. Such estimates are based on individual case estimates for reported claims and estimates for incurred but not reported losses. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends, with any change in the estimated ultimate liabilities being reported in the Consolidated Statements of Income in the period of change. Changes in such estimates may be material.

For traditional life insurance products, the reserves for future policy benefits are estimated on the net level premium method based on rates for expected mortality, lapse rates and interest rates, including provisions for adverse mortality. These assumptions vary by such characteristics as plan, age at issue and policy duration. Mortality assumptions are based on the Company’s historical experience and industry standards. Interest rate assumptions principally range from 3% to 7% . Lapse rate assumptions are based on actual and industry experience.

Other Receivables

Other Receivables primarily include reinsurance recoverables and accrued investment income.

Other Assets

Other Assets primarily include property and equipment, internal use software, insurance licenses acquired in business combinations, the value of other intangible assets acquired and prepaid expenses. Property and equipment is depreciated over the useful lives of the assets, generally using the straight-line or double declining balance methods of depreciation depending on the asset involved. Internal use software is primarily amortized over the useful life of the asset using the straight-line method of amortization. Insurance licenses acquired in business combinations and other indefinite life intangibles are not amortized, but rather tested periodically for recoverability.

The Company accounts for the present value of the future profits embedded in life insurance in force acquired (“Life VIF”) based on actuarial estimates of the present value of estimated net cash flows. Life VIF was \$46.4 million and \$52.1 million at December 31, 2012 and 2011 , respectively. Life VIF is amortized using the effective interest method using interest rates consistent with the rates in the underlying insurance contracts. The Company estimates that it will record Life VIF amortization, net of interest, of \$5.2 million in 2013, \$4.6 million in 2014, \$4.2 million in 2015, \$3.7 million in 2016 and \$3.2 million in 2017. The Company evaluates the Life VIF for recoverability annually.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

The Company accounts for the present value of the future profits embedded in Property and Casualty Insurance customer relationships acquired (“P&C Customer Relationships”) based on the present value of estimated future cash flows from the customer relationships acquired. P&C Customer Relationships was \$18.7 million and \$20.8 million at December 31, 2012 and 2011, respectively. P&C Customer Relationships is amortized using the effective interest method. P&C Customer Relationships are tested for recoverability using undiscounted projections of future cash flows and written down to estimated fair value if the carrying value exceeds the sum of such projections of undiscounted cash flows. The Company recorded a loss of \$13.5 million before tax for the year ended December 31, 2011 to write down the carrying value of P&C Customer Relationships related to the acquisition of Direct Response to its estimated fair value.

Accrued Expenses and Other Liabilities

Accrued Expenses and Other Liabilities primarily include accrued salaries and commissions, pension benefits, postretirement medical benefits and accrued taxes, licenses and fees.

Recognition of Earned Premiums and Related Expenses

Property and casualty insurance and health insurance premiums are deferred when written and recognized and earned ratably over the periods to which the premiums relate. Unearned Premiums represent the portion of the premiums written related to the unexpired portion of policies in force which has been deferred and is reported as a liability. A premium deficiency reserve is established if the sum of expected claim costs, claim adjustment expenses, unamortized deferred policy acquisition costs and maintenance costs exceeds the related unearned premiums. For each business segment, the analysis is performed at a product line level, namely automobile insurance, homeowners insurance and other insurance, which is consistent with the manner in which the Company acquires, services and measures profitability. Anticipated investment income is excluded from such analysis.

Traditional life insurance premiums are recognized as revenue when due. Policyholders’ benefits are associated with related premiums to result in recognition of profits over the periods for which the benefits are provided using the net level premium method.

Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses include provisions for future policy benefits under life and certain accident and health insurance contracts and provisions for reported claims, estimates for claims incurred but not reported and loss adjustment expenses. Benefit payments in excess of policy account balances are expensed.

Reinsurance

In the normal course of business, Kemper’s insurance subsidiaries reinsure certain risks above certain retention levels with other insurance enterprises. These reinsurance agreements do not relieve Kemper’s insurance subsidiaries of their legal obligations to the policyholder. Amounts recoverable from reinsurers for benefits and losses are included in Other Receivables.

Gains related to long-duration reinsurance contracts are deferred and amortized over the life of the underlying reinsured policies. Losses related to long-duration reinsurance contracts are recognized immediately. Any gain or loss associated with reinsurance agreements for which Kemper’s insurance subsidiaries have been legally relieved of their obligations to the policyholder is recognized in the period of relief.

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is maintained for the portion of deferred income tax assets that the Company does not expect to recover. Increases in the valuation allowance for deferred income tax assets are recognized as income tax expense. Decreases in the valuation allowance for deferred income tax assets are recognized as income tax benefit. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is enacted.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in an income tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

Adoption of New Accounting Standards

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

The following line items presented in the Consolidated Balance Sheets at December 31, 2012 and 2011 were affected by the adoption of the new accounting standard:

<u>DOLLARS IN MILLIONS</u>	As Computed without Change in Accounting	As Reported with Change in Accounting	Effect of Change
Impact on Assets at December 31, 2012:			
Deferred Policy Acquisition Costs	\$ 467.7	\$ 303.4	\$ (164.3)
Total Assets	8,173.4	8,009.1	(164.3)
Impact on Liabilities and Shareholders' Equity at December 31, 2012:			
Liabilities for Income Taxes	\$ 80.0	\$ 21.5	\$ (58.5)
Total Liabilities	5,905.9	5,847.4	(58.5)
Retained Earnings	1,224.0	1,118.2	(105.8)
Total Shareholders' Equity	2,267.5	2,161.7	(105.8)
Total Liabilities and Shareholders' Equity	8,173.4	8,009.1	(164.3)

<u>DOLLARS IN MILLIONS</u>	As Originally Reported	As Adjusted	Effect of Change
Impact on Assets at December 31, 2011:			
Deferred Policy Acquisition Costs	\$ 448.5	\$ 294.0	\$ (154.5)
Current and Deferred Income Taxes	3.1	6.4	3.3
Total Assets	8,085.9	7,934.7	(151.2)
Impact on Liabilities and Shareholders' Equity at December 31, 2011:			
Liabilities for Income Taxes	\$ 57.9	\$ 6.2	\$ (51.7)
Total Liabilities	5,869.8	5,818.1	(51.7)
Retained Earnings	1,208.2	1,108.7	(99.5)
Total Shareholders' Equity	2,216.1	2,116.6	(99.5)
Total Liabilities and Shareholders' Equity	8,085.9	7,934.7	(151.2)

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

The following line items in the Consolidated Statement of Income for the year ended December 31, 2012 were affected by the adoption of the new accounting standard:

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	Year Ended December 31, 2012		
	As Computed without Change in Accounting	As Reported with Change in Accounting	Effect of Change
Total Revenues	\$ 2,462.3	\$ 2,462.3	\$ —
Expenses:			
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,582.1	1,582.1	—
Insurance Expenses	662.5	672.3	9.8
Interest and Other Expenses	85.5	85.5	—
Total Expenses	2,330.1	2,339.9	9.8
Income from Continuing Operations before Income Taxes	132.2	122.4	(9.8)
Income Tax Expense	(34.1)	(30.6)	3.5
Income from Continuing Operations	98.1	91.8	(6.3)
Income from Discontinued Operations	11.6	11.6	—
Net Income	\$ 109.7	\$ 103.4	\$ (6.3)
Income from Continuing Operations per Unrestricted Share:			
Basic	\$ 1.65	\$ 1.55	\$ (0.10)
Diluted	\$ 1.65	\$ 1.54	\$ (0.11)
Net Income Per Unrestricted Share:			
Basic	\$ 1.85	\$ 1.75	\$ (0.10)
Diluted	\$ 1.85	\$ 1.74	\$ (0.11)

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

The following line items in the Consolidated Statement of Income for the year ended December 31, 2011 were affected by the adoption of the new accounting standard:

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	Year Ended December 31, 2011		
	As Originally Reported	As Adjusted	Effect of Change
Total Revenues	\$ 2,495.0	\$ 2,495.0	\$ —
Expenses:			
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,645.7	1,645.7	—
Insurance Expenses	669.3	683.6	14.3
Write-off of Goodwill and Other Intangibles Acquired	13.5	13.5	—
Interest and Other Expenses	83.9	83.9	—
Total Expenses	2,412.4	2,426.7	14.3
Income from Continuing Operations before Income Taxes	82.6	68.3	(14.3)
Income Tax Expense	(11.7)	(6.6)	5.1
Income from Continuing Operations	70.9	61.7	(9.2)
Income from Discontinued Operations	12.8	12.8	—
Net Income	\$ 83.7	\$ 74.5	\$ (9.2)
Income from Continuing Operations per Unrestricted Share:			
Basic	\$ 1.17	\$ 1.02	\$ (0.15)
Diluted	\$ 1.17	\$ 1.02	\$ (0.15)
Net Income Per Unrestricted Share:			
Basic	\$ 1.38	\$ 1.23	\$ (0.15)
Diluted	\$ 1.38	\$ 1.23	\$ (0.15)

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

The following line items in the Consolidated Statement of Income for the year ended December 31, 2010 were affected by the adoption of the new accounting standard:

<i><u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u></i>	Year Ended December 31, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Total Revenues	\$ 2,642.5	\$ 2,642.5	\$ —
Expenses:			
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	1,647.2	1,647.2	—
Insurance Expenses	675.5	685.9	10.4
Write-off of Goodwill and Other Intangibles Acquired	14.8	14.8	—
Interest and Other Expenses	68.3	68.3	—
Total Expenses	2,405.8	2,416.2	10.4
Income from Continuing Operations before Income Taxes and Equity in Net Loss of Former Investee	236.7	226.3	(10.4)
Income Tax Expense	(67.5)	(63.8)	3.7
Income from Continuing Operations before Equity in Net Loss of Former Investee	169.2	162.5	(6.7)
Equity in Net Loss of Former Investee	(0.1)	(0.1)	—
Income from Continuing Operations	169.1	162.4	(6.7)
Income from Discontinued Operations	15.5	15.5	—
Net Income	\$ 184.6	\$ 177.9	\$ (6.7)
Income from Continuing Operations per Unrestricted Share:			
Basic	\$ 2.73	\$ 2.62	\$ (0.11)
Diluted	\$ 2.73	\$ 2.62	\$ (0.11)
Net Income Per Unrestricted Share:			
Basic	\$ 2.98	\$ 2.87	\$ (0.11)
Diluted	\$ 2.98	\$ 2.87	\$ (0.11)

The following line items presented in the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010 were affected by the adoption of the new accounting standard:

<i><u>DOLLARS IN MILLIONS</u></i>	Year Ended December 31, 2012		
	As Computed without Change in Accounting	As Reported with Change in Accounting	Effect of Change
Net Income	\$ 109.7	\$ 103.4	\$ (6.3)
Total Comprehensive Income	164.4	158.1	(6.3)

<i><u>DOLLARS IN MILLIONS</u></i>	Year Ended December 31, 2011		
	As Originally Reported	As Adjusted	Effect of Change
Net Income	\$ 83.7	\$ 74.5	\$ (9.2)
Total Comprehensive Income	184.3	175.1	(9.2)

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

<u>DOLLARS IN MILLIONS</u>	Year Ended December 31, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Net Income	\$ 184.6	\$ 177.9	\$ (6.7)
Total Comprehensive Income	283.2	276.5	(6.7)

The following line items in the Consolidated Statements of Cash Flows for the years ended December 31, 2012 , 2011 and 2010 were affected by the adoption of the new accounting standard:

<u>DOLLARS IN MILLIONS</u>	Year Ended December 31, 2012		
	As Computed without Change in Accounting	As Reported with Change in Accounting	Effect of Change
Impact on Operating Activities:			
Net Income	\$ 109.7	\$ 103.4	\$ (6.3)
Increase in Deferred Policy Acquisition Costs	(19.2)	(9.4)	9.8
Change in Income Taxes	(11.4)	(14.9)	(3.5)
Net Cash Provided by Operating Activities	65.7	65.7	—

<u>DOLLARS IN MILLIONS</u>	Year Ended December 31, 2011		
	As Originally Reported	As Adjusted	Effect of Change
Impact on Operating Activities:			
Net Income	\$ 83.7	\$ 74.5	\$ (9.2)
Increase in Deferred Policy Acquisition Costs	(22.1)	(7.8)	14.3
Change in Income Taxes	22.3	17.2	(5.1)
Net Cash Used by Operating Activities	(25.0)	(25.0)	—

<u>DOLLARS IN MILLIONS</u>	Year Ended December 31, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Impact on Operating Activities:			
Net Income	\$ 184.6	\$ 177.9	\$ (6.7)
Increase in Deferred Policy Acquisition Costs	(15.1)	(4.7)	10.4
Change in Income Taxes	12.4	8.7	(3.7)
Net Cash Provided by Operating Activities	58.5	58.5	—

Line items presented in the Investing Activities and Financing Activities sections of the Consolidated Statements of Cash Flows for the years ended December 31, 2012 , 2011 and 2010 were unaffected by the adoption of the new accounting standard.

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

NOTE 2. SUMMARY OF ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. The standard is effective for the first interim or annual period beginning on or after December 15, 2011. The standard amends ASC Topic 350, “*Intangibles*” — *Goodwill and Other*, and gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company adopted the standard in the first quarter of 2012 and the initial application of the standard did not have an impact on the Company.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The standard deferred certain paragraphs in ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, related to the presentation of reclassification adjustments but also required companies to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company adopted the standard in the first quarter of 2012. Other than the inclusion of the Consolidated Statement of Comprehensive Income, the initial application of the standard did not have an impact on the Company.

Accounting Standards Not Yet Adopted

The FASB issues ASUs to amend the authoritative literature in ASC. There were seven ASUs issued in 2012 that amend the original text of the ASC. The ASUs are not expected to have a material impact on the Company.

NOTE 3. DISCONTINUED OPERATIONS

The Company accounts for Kemper’s subsidiary, Fireside, and the Company’s former Unitrin Business Insurance operations as discontinued operations.

Summary financial information included in Income from Discontinued Operations for the years ended December 31, 2012, 2011 and 2010 is presented below:

<u>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interest, Loan Fees and Earned Discounts	\$ —	\$ 31.8	\$ 97.6
Other Automobile Finance Revenues	—	1.4	1.4
Gain on Sale of Loan Portfolios	12.9	4.5	—
Total Automobile Finance Revenues	12.9	37.7	99.0
Net Investment Income	—	0.5	1.9
Net Realized Gains on Sales of Investments	—	0.4	—
Total Revenues Included in Discontinued Operations	\$ 12.9	\$ 38.6	\$ 100.9
Income (Loss) from Discontinued Operations before Income Taxes:			
Fireside:			
Results of Operations	\$ (0.2)	\$ 18.7	\$ 24.6
Gain on Sale of Loan Portfolios	12.9	4.5	—
Unitrin Business Insurance:			
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	6.2	(3.7)	1.2
Income from Discontinued Operations before Income Taxes	18.9	19.5	25.8
Income Tax Expense	(7.3)	(6.7)	(10.3)
Income from Discontinued Operations	\$ 11.6	\$ 12.8	\$ 15.5
Income from Discontinued Operations Per Unrestricted Share:			
Basic	\$ 0.20	\$ 0.21	\$ 0.25
Diluted	\$ 0.20	\$ 0.21	\$ 0.25

NOTE 3. DISCONTINUED OPERATIONS (Continued)

During the first four months of 2011, all of the Certificates of Deposits that were outstanding at December 31, 2010 either matured or were redeemed by Fireside in advance of their respective maturity dates. On March 31, 2012, Kemper's subsidiary, Fireside, converted from an industrial bank to a general business corporation. Accordingly, Fireside is no longer regulated by the Federal Depository Insurance Corporation or the California Department of Financial Institutions.

During 2011, Fireside sold its active portfolio of automobile loan receivables at a gain of \$4.5 million, net of transaction and other costs, while retaining its inactive portfolio of loans that had been previously charged-off (the "Inactive Portfolio"). The Inactive Portfolio was not carried on the Company's Consolidated Balance Sheet. During 2012, Fireside sold \$283 million of loans in the Inactive Portfolio at a gain of \$12.9 million, net of transaction, shutdown and other costs of \$13.3 million, of which \$3.7 million was unpaid at December 31, 2012.

In 2008, the Company sold its Unitrin Business Insurance operations. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to the date of the sale. Property and Casualty Insurance Reserves reported in the Company's Consolidated Balance Sheets include \$99.2 million and \$125.6 million at December 31, 2012 and 2011, respectively, for the retained liabilities. In accordance with GAAP, changes in the Company's estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations. See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements.

NOTE 4. INVESTMENTS

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

<i><u>DOLLARS IN MILLIONS</u></i>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
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	<u>\$ 4,283.8</u>	<u>\$ 584.5</u>	<u>\$ (8.1)</u>	<u>\$ 4,860.2</u>

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 December 31, 2011 were:

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

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

NOTE 4. INVESTMENTS (Continued)

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

<u>DOLLARS IN MILLIONS</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in One Year or Less	\$ 64.0	\$ 65.8
Due after One Year to Five Years	606.0	639.0
Due after Five Years to Ten Years	1,139.2	1,251.8
Due after Ten Years	2,280.9	2,690.2
Asset-backed Securities Not Due at a Single Maturity Date	193.7	213.4
Investments in Fixed Maturities	<u>\$ 4,283.8</u>	<u>\$ 4,860.2</u>

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 December 31, 2012 consisted of securities issued by the Government National Mortgage Association with a fair value of \$189.3 million, securities issued by the Federal National Mortgage Association with a fair value of \$19.6 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$0.6 million and securities of other issuers with a fair value of \$3.9 million.

There were no unsettled sales of Investments in Fixed Maturities at December 31, 2012. 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. There were no unsettled sales or purchases of Investments in Fixed Maturities at December 31, 2011.

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

<u>DOLLARS IN MILLIONS</u>	<u>Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
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	<u>\$ 462.7</u>	<u>\$ 62.5</u>	<u>\$ (3.3)</u>	<u>\$ 521.9</u>

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 4. INVESTMENTS (Continued)

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

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

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2012 is presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	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	<u>315.6</u>	<u>(5.5)</u>	<u>40.5</u>	<u>(2.6)</u>	<u>356.1</u>	<u>(8.1)</u>
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	<u>28.3</u>	<u>(2.1)</u>	<u>14.1</u>	<u>(1.2)</u>	<u>42.4</u>	<u>(3.3)</u>
Total	<u>\$ 343.9</u>	<u>\$ (7.6)</u>	<u>\$ 54.6</u>	<u>\$ (3.8)</u>	<u>\$ 398.5</u>	<u>\$ (11.4)</u>

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 Consolidated Statements of Income in the periods when such determinations are made.

NOTE 4. INVESTMENTS (Continued)

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" there 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.

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

NOTE 4. INVESTMENTS (Continued)

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

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

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2011, were \$11.1 million, of which \$5.9 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. Unrealized losses at December 31, 2011 related to securities for which the Company has recognized credit losses in earnings in the preceding table under either the heading "Less Than 12 Months" were insignificant. There were no unrealized losses at December 31, 2011 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of \$0.2 million at December 31, 2011 related to securities for which the Company has recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised \$5.7 million and below-investment-grade fixed maturity investments comprised \$5.4 million of the unrealized losses on investments in fixed maturities at December 31, 2011. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling \$0.2 million for one issuer that the Company recognized foreign currency impairment losses in earnings for the year ended December 31, 2011. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At December 31, 2011, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at December 31, 2011 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

The vast majority of the Company's preferred stocks in an unrealized loss position at December 31, 2011 were perpetual preferred stocks of financial institutions. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate.

NOTE 4. INVESTMENTS (Continued)

during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at December 31, 2011 . The Company concluded that the unrealized losses on its investments in common stocks at December 31, 2011 were temporary based on the relative short length and magnitude of the losses. The Company's investments in other equity interests include investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in the limited liability partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations of the factors described above that the Company considers when determining whether a decline in the fair value of an investment in equity securities is other than temporary, the Company concluded that the declines in the fair values of the Company's investments in equity securities were temporary at December 31, 2011 .

The following table sets forth the pre-tax amount of OTTI credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of December 31, 2012 , 2011 and 2010 , for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at Beginning of Year	\$ 3.9	\$ 2.4	\$ 3.7
Additions for Previously Unrecognized OTTI Credit Losses	1.1	2.2	5.3
Increases to Previously Recognized OTTI Credit Losses	—	—	0.4
Reductions to Previously Recognized OTTI Credit Losses	(0.1)	(0.7)	(1.7)
Reductions due to Intent to Sell Investments	—	—	(5.1)
Reductions for Investments Sold During Period	(0.3)	—	(0.2)
Balance at End of Year	<u>\$ 4.6</u>	<u>\$ 3.9</u>	<u>\$ 2.4</u>

Equity Method Limited Liability Investments include investments in limited liability investment companies and limited partnerships in which the Company's interests are not deemed minor and are accounted for under the equity method of accounting. The Company's investments in Equity Method Limited Liability Investments are generally of a passive nature in that the Company does not take an active role in the management of the Equity Method Limited Liability Investments. In 2012, aggregate investment income (losses) from Equity Method Limited Liability Investments exceeded 10% of the Company's pretax consolidated net income. Accordingly, the Company is disclosing aggregated summarized financial data for its Equity Method Limited Liability Investments. Such aggregated summarized financial data does not represent the Company's proportionate share of the Equity Method Limited Liability Investment assets or earnings. Aggregate total assets of the Equity

Method Limited Liability Investments in which the Company invested totaled \$3,643.6 million and \$4,086.9 million as of December 31, 2012 and 2011 , respectively. Aggregate total liabilities of the Equity Method Limited Liability Investments in which the Company invested totaled \$421.0 million and \$440.2 million as of December 31, 2012 and 2011 , respectively. Aggregate net income (loss) of the Equity Method Limited Liability Investments in which the Company invested totaled \$134.6 million , \$(13.8) million and \$401.6 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. As of, and for the year ended, December 31, 2012, the aggregated summarized financial data reflects the latest available financial information. The Company's maximum exposure to loss at December 31, 2012 is limited to the total carrying value of \$253.0 million . In addition, the Company had outstanding commitments totaling approximately \$52.8 million to fund Equity Method Limited Liability Investments at December 31, 2012 .

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 4. INVESTMENTS (Continued)

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

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
Loans to Policyholders at Unpaid Principal	\$ 266.3	\$ 253.9
Real Estate at Depreciated Cost	226.2	239.4
Trading Securities	4.5	4.4
Other	0.5	0.6
Total	<u>\$ 497.5</u>	<u>\$ 498.3</u>

NOTE 5. GOODWILL

Goodwill balances by business segment at December 31, 2012 and December 31, 2011 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
Kemper Preferred	\$ 49.6	\$ 49.6
Kemper Specialty	42.8	42.8
Life and Health Insurance	219.4	219.4
Total	<u>\$ 311.8</u>	<u>\$ 311.8</u>

The Company tests goodwill for recoverability on an annual basis at the beginning of the first quarter and, if circumstances or events indicate that the fair value of a reporting unit may have declined below its carrying value, such tests are performed at intervening interim periods. Accordingly, the Company tested goodwill associated with each of its reporting units for recoverability on January 1, 2012 and January 1, 2011. However, no goodwill was associated with, and, accordingly, no testing was required for the Kemper Direct segment. The Company principally used projections of discounted future cash flows to estimate the fair values of the reporting units tested. For each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit, and the Company concluded that the associated goodwill was recoverable at the aforementioned dates tested.

Goodwill activity by business segment for the year ended December 31, 2010 is presented below.

<u>DOLLARS IN MILLIONS</u>	<u>Balance at Beginning of Year</u>	<u>Write-off of Goodwill</u>	<u>Other</u>	<u>Balance at End of Year</u>
Kemper Preferred	\$ 49.6	\$ —	\$ —	\$ 49.6
Kemper Specialty	42.8	—	—	42.8
Life and Health Insurance	239.4	(14.8)	(5.2)	219.4
Total	<u>\$ 331.8</u>	<u>\$ (14.8)</u>	<u>\$ (5.2)</u>	<u>\$ 311.8</u>

The Company tested goodwill associated with each of its reporting units for recoverability on January 1, 2010. The quoted value of Kemper's common stock was significantly below the book value per share of the Company at September 30, 2010 and December 31, 2010. Accordingly, the Company also tested goodwill associated with each of its reporting units for recoverability at these intervening interim dates. However, no goodwill was associated with, and, accordingly, no testing was required for the Kemper Direct segment at any of the aforementioned dates in 2010. The Company principally used projections of discounted future cash flows to estimate the fair values of the reporting units tested. Except for the Company's Reserve National reporting unit, for each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit at January 1, 2010 and each of the aforementioned dates, and the Company concluded that the associated goodwill was recoverable at each aforementioned date tested.

NOTE 5. GOODWILL (continued)

With respect to the Company's Reserve National reporting unit, the Company evaluated the goodwill associated with it at four different evaluation dates - January 1, 2010, March 31, 2010, June 30, 2010 and September 30, 2010. The company concluded that the associated goodwill was recoverable at each of the first three aforementioned dates tested. With respect to the September 30, 2010 test date, the Company determined that the goodwill was not recoverable and wrote off the entire \$14.8 million of goodwill associated with Reserve National.

NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES

Property and Casualty Insurance Reserve activity for the years ended December 31, 2012, 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning Property and Casualty Insurance Reserves:			
Gross of Reinsurance at Beginning of Year	\$ 1,029.1	\$ 1,118.7	\$ 1,211.3
Less Reinsurance Recoverables and Indemnification at Beginning of Year	74.5	78.1	77.4
Property and Casualty Insurance Reserves, Net of Reinsurance and Indemnification at Beginning of Year	954.6	1,040.6	1,133.9
Incurred Losses and LAE related to:			
Current Year:			
Continuing Operations	1,253.1	1,338.5	1,310.5
Prior Years:			
Continuing Operations	(25.2)	(35.0)	(22.0)
Discontinued Operations	(6.3)	1.9	(2.9)
Total Incurred Losses and LAE related to Prior Years	(31.5)	(33.1)	(24.9)
Total Incurred Losses and LAE	1,221.6	1,305.4	1,285.6
Paid Losses and LAE related to:			
Current Year:			
Continuing Operations	801.4	887.7	825.7
Prior Years:			
Continuing Operations	451.2	472.9	510.8
Discontinued Operations	19.2	30.8	42.4
Total Paid Losses and LAE related to Prior Years	470.4	503.7	553.2
Total Paid Losses and LAE	1,271.8	1,391.4	1,378.9
Property and Casualty Insurance Reserves, Net of Reinsurance and Indemnification at End of Year	904.4	954.6	1,040.6
Plus Reinsurance and Indemnification Recoverables at End of Year	66.2	74.5	78.1
Property and Casualty Insurance Reserves, Gross of Reinsurance at End of Year	<u>\$ 970.6</u>	<u>\$ 1,029.1</u>	<u>\$ 1,118.7</u>

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 Consolidated Statements of Income in the period of change.

In 2012, the Company reduced its property and casualty insurance reserves by \$31.5 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$12.6 million and commercial lines insurance loss and LAE reserves developed favorably by \$18.9 million. Personal automobile insurance loss and LAE reserves developed adversely by \$2.2 million, homeowners insurance loss and LAE reserves developed favorably by \$11.7 million and other personal lines loss and LAE reserves developed favorably by \$3.1 million. Personal automobile loss and LAE reserves developed adversely for the 2011 accident year and developed favorably for the 2010, 2009 and 2008 accident years. Homeowners insurance loss and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the 2011, 2010 and 2009 accident years and favorable

NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)

development on certain catastrophes. Commercial lines insurance loss and LAE reserves included favorable development of \$12.6 million from continuing operations and \$6.3 million from discontinued operations. Commercial lines insurance losses and LAE reserves developed favorably from continuing operations due primarily to the emergence of more favorable loss patterns than expected for the four most recent accident years. Commercial lines insurance loss and LAE reserves developed favorably from discontinued operations due primarily to the commutation of certain insurance liabilities that had been previously assumed.

In 2011, the Company reduced its property and casualty insurance reserves by \$33.1 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$29.3 million and commercial lines insurance loss and LAE reserves developed favorably by \$3.8 million. Personal lines insurance loss and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the 2010, 2009 and 2008 accident years and favorable development on certain catastrophes.

In 2010, the Company reduced its property and casualty insurance reserves by \$24.9 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$21.6 million and commercial lines insurance loss and LAE reserves developed favorably by \$3.3 million. Personal lines insurance loss and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the 2009, 2007 and 2006 accident years, partially offset by adverse development on certain hurricanes.

The Company cannot predict whether loss and LAE reserves will develop favorably or unfavorably from the amounts reported in the Company's consolidated financial statements. The Company believes that any such development will not have a material effect on the Company's consolidated financial position, but could have a material effect on the Company's consolidated financial results for a given period.

Reinsurance and indemnification recoverables on property and casualty insurance reserves were \$66.2 million and \$74.5 million at December 31, 2012 and 2011, respectively. These recoverables are concentrated with several reinsurers, the vast majority of which are highly rated by one or more of the principal investor and/or insurance company rating agencies. While most of these recoverables were unsecured at December 31, 2012 and 2011, the agreements with the reinsurers generally provide for some form of collateralization upon the occurrence of certain events. The largest recoverable on property and casualty insurance is from General Security National Insurance Company ("GSNIC"), a subsidiary of SCOR and is unsecured. In 2002, the Company acquired two insurance companies from SCOR. Under the agreement governing the acquisition of these insurance companies, SCOR and/or GSNIC are responsible for all liabilities of these insurance companies incurred prior to the acquisition. Recoverables at December 31, 2012 and 2011 included \$16.9 million and \$21.8 million, respectively, from GSNIC.

NOTE 7. NOTES PAYABLE

Total debt outstanding at December 31, 2012 and 2011 was:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	\$ 357.3	\$ 356.8
6.00% Senior Notes due November 30, 2015	248.6	248.2
Mortgage Note Payable at Amortized Cost	5.5	5.6
Notes Payable at Amortized Cost	<u>\$ 611.4</u>	<u>\$ 610.6</u>

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 7. NOTES PAYABLE (Continued)

Interest Expense, including facility fees, accretion of discount and write-off of unamortized credit agreement issuance costs for the years ended December 31, 2012, 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Notes Payable under Revolving Credit Agreement	\$ 1.9	\$ 2.0	\$ 2.0
Senior Notes Payable:			
6.00% Senior Notes due May 15, 2017	22.1	22.0	22.0
6.00% Senior Notes due November 30, 2015	15.4	15.4	1.6
4.875% Senior Notes due November 1, 2010	—	—	8.4
Mortgage Note Payable	0.4	0.4	0.4
Interest Expense before Capitalization of Interest	39.8	39.8	34.4
Capitalization of Interest	(1.8)	(2.5)	(1.8)
Total Interest Expense	<u>\$ 38.0</u>	<u>\$ 37.3</u>	<u>\$ 32.6</u>

Interest Paid on Notes Payable, including facility fees, for the years ended December 31, 2012, 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Notes Payable under Revolving Credit Agreement	\$ 2.3	\$ 1.2	\$ 1.2
Senior Notes Payable:			
6.00% Senior Notes due May 15, 2017	21.6	21.6	21.6
6.00% Senior Notes due November 30, 2015	15.0	15.2	—
4.875% Senior Notes due November 1, 2010	—	—	9.8
Mortgage Note Payable	0.4	0.4	0.4
Total Interest Paid	<u>\$ 39.3</u>	<u>\$ 38.4</u>	<u>\$ 33.0</u>

On March 7, 2012, Kemper entered into the 2016 Credit Agreement, a four-year, \$325.0 million, unsecured, revolving credit agreement, expiring March 7, 2016, with a group of financial institutions. The 2016 Credit Agreement replaced Kemper's Former Credit Agreement, a \$245.0 million, unsecured, revolving credit agreement which was scheduled to expire on October 30, 2012 and was terminated on March 7, 2012. There were no borrowings under the Former Credit Agreement at either December 31, 2011 or at its termination. The 2016 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2016 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper's largest insurance subsidiaries, United Insurance and 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 December 31, 2012, and accordingly, \$325.0 million was available for future borrowings.

During the third quarter of 2011, Kemper borrowed \$95.0 million under the Former Credit Agreement. The proceeds from the borrowing were used, in part, to make a voluntary contribution of \$83.7 million to fully fund the Company's defined benefit pension plan under the funding requirements of Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The contribution consisted of cash of \$32.2 million and 7,309,764 shares of Intermec common stock purchased from Kemper's subsidiary, Trinity (see Note 17, "Pension Benefits," to the Consolidated Financial Statements). Kemper repaid \$30.0 million and \$65.0 million of the borrowing in September and October of 2011, respectively. Kemper had no outstanding advances under the Former Credit Agreement at December 31, 2011.

In the fourth quarter of 2010, Kemper borrowed \$140 million under the Former Credit Agreement. As discussed below, Kemper used a portion of the proceeds from the issuance of its 2015 Senior Notes to repay in full the borrowings under the Former Credit Agreement.

In 2010, Kemper issued \$250 million of its 6.00% senior notes due November 30, 2015. The 2015 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper issued the 2015 Senior Notes for proceeds of \$247.8 million, net of transaction costs, for an effective yield of 6.21%.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 7. NOTES PAYABLE (Continued)

Kemper used a portion of the proceeds from the sale of the 2015 Senior Notes to repay borrowings of \$140 million under the Former Credit Agreement and to make a capital contribution of \$60 million to its subsidiary, United Insurance.

In 2007, Kemper issued \$360 million of its 6.00% senior notes due May 15, 2017. The 2017 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper issued the 2017 Senior Notes for proceeds of \$354.8 million, net of transaction costs, for an effective yield of 6.19%.

In 2003, Kemper issued \$200 million of its 4.875% senior notes due November 1, 2010 for an effective yield of 5.04%. The 2010 Senior Notes were repaid and retired on November 1, 2010.

NOTE 8. LEASES

The Company leases certain office space under non-cancelable operating leases, with initial terms typically ranging from one to ten years, along with options that permit renewals for additional periods. The Company also leases certain equipment under non-cancelable operating leases, with initial terms typically ranging from one to five years. Minimum rent is expensed on a straight-line basis over the term of the lease.

Net rental expense for operating leases for the years ended December 31, 2012, 2011 and 2010 was:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Minimum Rental Expense	\$ 33.2	\$ 31.5	\$ 35.6
Less Sublease Rental Income	(2.5)	(2.1)	(2.4)
Net Rental Expense	<u>\$ 30.7</u>	<u>\$ 29.4</u>	<u>\$ 33.2</u>

Future minimum lease payments under capital and operating leases at December 31, 2012 were:

<u>DOLLARS IN MILLIONS</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2013	\$ 1.9	\$ 28.3
2014	1.4	23.5
2015	1.0	14.5
2016	1.0	12.2
2017	0.2	10.1
2018 and Thereafter	—	7.8
Total Future Payments	<u>\$ 5.5</u>	<u>\$ 96.4</u>
Less Imputed Interest	(0.6)	
Present Value of Minimum Capital Lease Payments	<u>\$ 4.9</u>	

The total of minimum rentals to be received in the future under non-cancelable subleases was \$6.5 million at December 31, 2012.

NOTE 9. SHAREHOLDERS' EQUITY

Kemper is authorized to issue 20 million shares of \$0.10 par value preferred stock and 100 million shares of \$0.10 par value common stock. No preferred shares were issued or outstanding at December 31, 2012 and 2011. There were 58,454,390 shares and 60,248,582 shares of common stock outstanding at December 31, 2012 and 2011, respectively. Common stock outstanding included 313,424 shares and 289,659 shares at December 31, 2012 and 2011, respectively, that have been issued, subject to certain vesting and other requirements, in connection with the Company's long-term equity compensation plans. See Note 10, "Long-Term Equity-based Compensation," to the Consolidated Financial Statements for an additional discussion of the restrictions and vesting provisions.

On August 4, 2004, the Board of Directors declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock of Kemper, pursuant to a shareholder rights plan. The rights have a term of 10 years. The description and terms of the rights are set forth in a rights agreement between Kemper and Computershare Trust Company, N.A., as rights agent.

NOTE 9. SHAREHOLDERS' EQUITY (Continued)

Kemper repurchased and retired 2.0 million shares of its common stock in open market transactions at an aggregate cost of \$60.7 million in 2012 . Kemper repurchased and retired 0.9 million shares of its common stock in open market transactions at an aggregate cost of \$27.4 million in 2011 . Kemper repurchased and retired 1.4 million shares of its common stock in open market transactions at an aggregate cost of \$34.4 million in 2010 .

Various state insurance laws restrict the amount that an insurance subsidiary may pay in the form of dividends, loans or advances without the prior approval of regulatory authorities. Also, that portion of an insurance subsidiary's net equity which results from differences between statutory insurance accounting practices and GAAP would not be available for cash dividends, loans or advances. Kemper's insurance subsidiaries paid dividends of \$95.0 million in cash to Kemper in 2012 . In 2013 , Kemper's insurance subsidiaries would be able to pay \$179 million in dividends to Kemper without prior regulatory approval. Kemper's insurance subsidiaries had net assets of \$2.5 billion , determined in accordance with GAAP, that were restricted from payment to Kemper without prior regulatory approval at December 31, 2012 .

Kemper's insurance subsidiaries are required to file financial statements prepared on the basis of statutory insurance accounting practices which is a comprehensive basis of accounting other than GAAP. Statutory capital and surplus for the Company's life and health insurance subsidiaries was \$457.8 million and \$475.1 million at December 31, 2012 and 2011 , respectively. Statutory net income for the Company's life and health insurance subsidiaries was \$102.0 million , \$116.2 million and \$80.4 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. Statutory capital and surplus for the Company's property and casualty insurance subsidiaries was \$844.8 million and \$829.6 million at December 31, 2012 and 2011 , respectively. Statutory net income for the Company's property and casualty insurance subsidiaries was \$40.6 million , \$30.6 million and \$117.3 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. Statutory capital and surplus and statutory net income exclude Fireside and parent company operations.

Kemper's insurance subsidiaries are also required to hold minimum levels of statutory capital and surplus to satisfy regulatory requirements. The minimum statutory capital and surplus, or company action level risk-based capital ("RBC"), necessary to satisfy regulatory requirements for the Company's life and health insurance subsidiaries collectively was \$118.6 million at December 31, 2012 . The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company's property and casualty insurance subsidiaries collectively was \$300.0 million at December 31, 2012 . Company action level RBC is the level at which a company is required to file a corrective action plan with its regulators and is equal to 200% of the authorized control level RBC.

In 2012 , Kemper paid dividends of \$56.9 million to its shareholders. Except for certain financial covenants under the 2016 Credit Agreement, there are no restrictions on Kemper's ability to pay dividends to its shareholders. Certain financial covenants, namely minimum net worth and a maximum debt to total capitalization ratio, under the 2016 Credit Agreement could limit the amount of dividends that Kemper may pay to shareholders at December 31, 2012 . Kemper had the ability to pay without restrictions \$332 million in dividends to its shareholders and still be in compliance with all financial covenants under the 2016 Credit Agreement at December 31, 2012 .

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION

On May 4, 2011, Kemper's shareholders approved the 2011 Omnibus Equity Plan ("Omnibus Plan"). The Omnibus Plan replaced the Company's previous employee stock option plans, director stock option plan and restricted stock plan (collectively, the "Prior Plans"). Awards previously granted under the Prior Plans remain outstanding in accordance with their original terms. Beginning May 4, 2011, equity-based compensation awards may only be granted under the Omnibus Plan. A maximum number of 10,000,000 shares of Kemper common stock may be issued under the Omnibus Plan (the "Share Authorization"). As of December 31, 2012 , there were 9,278,531 common shares available for future grants under the Omnibus Plan, of which 561,225 shares were reserved for future grants based on the achievement of performance goals under the terms of outstanding performance-based restricted stock awards.

The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to "full value awards" will reduce the number of shares available for future grant under the Share Authorization by three shares. "Full value awards" are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include restricted stock, restricted stock units, performance shares, performance units, if settled with stock, and other stock-based awards.

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

Outstanding awards under the Omnibus Plan and Prior Plans at December 31, 2012 consisted of stand-alone stock options, tandem stock option and stock appreciation rights, time-vested restricted stock and performance-based restricted stock. Recipients of restricted stock are entitled to full dividend and voting rights on the same basis as all other outstanding shares of Kemper common stock, and all awards are subject to forfeiture until certain restrictions have lapsed.

For equity-based compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately-vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Equity-based compensation expense was \$5.8 million, \$5.3 million and \$4.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total unamortized compensation expense related to nonvested awards at December 31, 2012 was \$5.3 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The Compensation Committee of the Board of Directors, or the Board's authorized designee, has sole discretion to determine the persons to whom awards under the Omnibus Plan are granted, and the material terms of the awards. For stock options, material terms include the number of shares covered by such options and the exercise price, vesting and expiration dates of such options. Options are non-transferable and are exercisable in installments. Options to purchase Kemper's common stock are granted at prices equal to the fair value of Kemper's common stock on the date of grant. Prior to 2003, only non-qualified stock options had been granted. Beginning in 2003, options granted to employees were coupled with tandem stock appreciation rights ("SARs"), settled in Kemper common stock. Employee options generally vest over a period of three and one-half years and expire ten years from the date of grant. Each new member of the Board of Directors who is not employed by the Company ("Non-Employee Director") receives an initial option to purchase 4,000 shares of Kemper common stock immediately upon becoming a director. Thereafter, on the date of each annual meeting of Kemper's shareholders, eligible Non-Employee Directors automatically receive annual grants of options to purchase 4,000 shares of common stock for so long as they remain eligible directors. Such options granted to Non-Employee Directors are 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 expire 10 years from the date of grant.

All of the Company's prior stock option plans included provisions, subject to certain limitations, to automatically grant restorative, or reload stock options ("Restorative Options"), to replace shares of previously owned Kemper common stock that an exercising option holder surrenders, either actually or constructively, to satisfy the exercise price and/or tax withholding obligations relating to the exercise. The restorative feature was eliminated prospectively for original option awards granted on or after February 3, 2009. Restorative Options may still be granted, subject to certain limitations, in connection with the exercise of original options granted before February 3, 2009. Restorative Options are subject to the same terms and conditions as the original options, including the expiration date, except that the exercise price is equal to the fair value of Kemper common stock on the date of grant of a Restorative Option and cannot be exercised until six months after the date of grant. The grant of a Restorative Option does not result in an increase in the total number of shares and options held by an employee, but changes the mix of the two.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company's historical share option exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Further, the Company aggregates individual awards into relatively homogenous groups that exhibit similar exercise behavior to obtain a more refined estimate of the expected term of options. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. For original option grants made in 2010, the dividend yield assumed was the annualized continuous dividend yield on Kemper common stock on the date of grant. The dividend yield in 2012 and 2011 was calculated by taking the natural logarithm of the annualized yield divided by the Kemper common stock price on the date of grant. The Company believes that basing the dividend yield on the current annualized yield is likely to be more consistent with the actual yield during the expected life of the option. The risk free interest rate was the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

The assumptions used in the Black-Scholes pricing model for options granted during the years ended December 31, 2012 , 2011 and 2010 , were as follows:

	2012		2011		2010	
<u>RANGE OF VALUATION ASSUMPTIONS</u>						
Expected Volatility	29.36%	- 53.84%	41.26%	- 55.16%	40.55%	- 50.51%
Risk Free Interest Rate	0.16	- 1.26	1.30	- 2.87	1.70	- 3.20
Expected Dividend Yield	2.92	- 3.26	3.15	- 3.38	3.25	- 3.58
<u>WEIGHTED-AVERAGE EXPECTED LIFE IN YEARS</u>						
Employee Grants	1	- 7	3.5	- 7	4	- 7
Director Grants	6		6		6	

Option and SAR activity for the year ended December 31, 2012 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (\$ In Millions)
Outstanding at Beginning of the Year	3,632,398	\$ 40.70		
Granted	265,451	29.81		
Exercised	(222,949)	16.32		
Forfeited or Expired	(482,846)	47.10		
Outstanding at December 31, 2012	3,192,054	40.53	3.97	\$ 3.0
Vested and Expected to Vest at December 31, 2012	3,162,634	\$ 40.64	3.93	\$ 2.9
Exercisable at December 31, 2012	2,736,989	\$ 42.69	3.24	\$ 2.0

The weighted-average grant-date fair values of options granted during 2012 , 2011 and 2010 were \$9.40 , \$9.11 and \$7.60 , respectively. Total intrinsic value of stock options exercised was \$3.0 million , \$0.3 million and \$0.3 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. Cash received from option exercises was \$1.3 million , \$0.2 million and \$0.5 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. Total tax benefits realized for tax deductions from option exercises were \$1.0 million , \$0.1 million and \$0.1 million for the years ended December 31, 2012 , 2011 and 2010 , respectively.

Information pertaining to options outstanding at December 31, 2012 is presented below:

Range of Exercise Prices (\$)	Outstanding			Exercisable	
	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)	Weighted-Average Remaining Contractual Life (in Years)	Shares Subject to Options	Weighted-Average Exercise Price Per Share (\$)
\$ 10.00 - \$ 15.00	38,000	\$ 13.55	6.09	38,000	\$ 13.55
15.01 - 20.00	8,000	16.48	6.35	8,000	16.48
20.01 - 25.00	293,750	23.75	7.28	161,312	23.64
25.01 - 30.00	584,750	28.64	8.16	266,123	28.20
30.01 - 35.00	6,614	31.92	5.84	2,614	31.18
35.01 - 40.00	340,577	37.25	4.81	340,577	37.25
40.01 - 45.00	400,084	43.56	1.46	400,084	43.56
45.01 - 50.00	1,185,747	48.62	2.42	1,185,747	48.62
50.01 - 55.00	334,532	50.85	1.03	334,532	50.85
10.00 - 55.00	3,192,054	40.53	3.97	2,736,989	42.69

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

The grant-date fair values of time-based restricted stock awards are determined using the closing price of Kemper common stock on the date of grant. Activity related to nonvested time-based restricted stock for the year ended December 31, 2012 was as follows:

	Time-Based Restricted Shares	Weighted- Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	116,784	\$ 23.33
Granted	72,125	29.90
Vested	(42,824)	24.41
Forfeited	(19,736)	26.70
Nonvested Balance at End of Period	<u>126,349</u>	<u>\$ 26.19</u>

Prior to February 3, 2009, only awards of time-vested restricted stock had been granted. Beginning on February 3, 2009, in addition to time-vested restricted stock granted to certain employees and officers, the Company began awarding performance-based restricted stock to certain officers and employees. The initial number of shares awarded to each participant of a performance-based restricted stock award represents the shares that would vest if the performance goals were achieved at the “target” performance level. The final payout of these awards will be determined based on Kemper’s total shareholder return over a three-year performance period relative to a peer group comprised of all the companies in the S&P Supercomposite Insurance Index.

Performance-based restricted stock awards are earned over a three-year performance period. If, at the end of the performance period, the Company’s relative performance:

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

The grant date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Kemper and each of the other companies included in the Peer Group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Kemper’s simulated ranking is converted to a payout percentage based on the terms of the performance-based restricted stock awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant date fair value is equal to the average of the results from these trials.

Activity related to nonvested performance-based restricted stock for the year ended December 31, 2012 was as follows:

	Performance- Based Restricted Shares	Weighted- Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	172,875	\$ 29.86
Granted	68,575	36.65
Vested	(51,596)	14.04
Forfeited	(2,779)	31.11
Nonvested Balance at End of Period	<u>187,075</u>	<u>\$ 36.70</u>

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares for the 2012 and 2011 three-year performance periods was 68,275 common shares and 63,725 common shares, respectively, (as “full value awards,” the equivalent of 204,825 shares and 191,175 shares, respectively, under the Share Authorization) at December 31, 2012 . 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 . For the 2009 three-year performance period, the Company exceeded target performance levels with a payout percentage of 183% . Accordingly, an additional 40,727 shares of stock were issued to award recipients on January 31, 2012 (the “2009 Additional Shares”).

The total fair value of restricted stock, including the 2009 Additional Shares, that vested during the year ended December 31, 2012 was \$4.0 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was \$1.4 million . The total fair value of restricted stock that vested during the year ended December 31, 2011 was \$1.4 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was \$0.5 million . The total fair value of restricted stock that vested during the year ended December 31, 2010 was \$2.2 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was \$0.8 million .

NOTE 11. RESTRUCTURING EXPENSES

Activity related to restructuring costs from continuing operations for the years ended December 31, 2012 , 2011 and 2010 is presented below:

<i>DOLLARS IN MILLIONS</i>	2012	2011	2010
Liability at the Beginning of Year:			
Employee Termination Costs	\$ 0.7	\$ 0.6	\$ 1.6
Early Lease Termination Costs	1.0	0.1	0.6
Other Associated Costs	—	—	—
Liability at the Beginning of Year	<u>1.7</u>	<u>0.7</u>	<u>2.2</u>
Expenses Incurred:			
Employee Termination Costs	5.1	2.1	1.1
Early Lease Termination Costs	2.0	1.4	—
Other Associated Costs	0.1	0.1	—
Total Expenses Incurred	<u>7.2</u>	<u>3.6</u>	<u>1.1</u>
Payments of:			
Employee Termination Costs	3.2	2.0	2.1
Early Lease Termination Costs	0.7	0.5	0.5
Other Associated Costs	0.1	0.1	—
Total Payments	<u>4.0</u>	<u>2.6</u>	<u>2.6</u>
Liability at End of Year:			
Employee Termination Costs	2.6	0.7	0.6
Early Lease Termination Costs	2.3	1.0	0.1
Other Associated Costs	—	—	—
Liability at End of Year	<u>\$ 4.9</u>	<u>\$ 1.7</u>	<u>\$ 0.7</u>

NOTE 12. INCOME FROM CONTINUING OPERATIONS PER UNRESTRICTED SHARE

The Company's awards of restricted common 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 years ended December 31, 2012, 2011 and 2010 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>DOLLARS IN MILLIONS</u>			
Income from Continuing Operations	\$ 91.8	\$ 61.7	\$ 162.4
Less Income from Continuing Operations Attributed to Restricted Shares	0.5	0.3	0.8
Income from Continuing Operations Attributed to Unrestricted Shares	91.3	61.4	161.6
Dilutive Effect on Income of Kemper Equity-based Compensation Equivalent Shares	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	<u>\$ 91.3</u>	<u>\$ 61.4</u>	<u>\$ 161.6</u>
<u>SHARES IN THOUSANDS</u>			
Weighted-Average Unrestricted Shares Outstanding	58,857.3	60,262.6	61,681.2
Kemper Equity-based Compensation Equivalent Shares	141.7	103.9	85.7
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	<u>58,999.0</u>	<u>60,366.5</u>	<u>61,766.9</u>
<u>PER UNRESTRICTED SHARE IN WHOLE DOLLARS</u>			
Basic Income from Continuing Operations Per Unrestricted Share	<u>\$ 1.55</u>	<u>\$ 1.02</u>	<u>\$ 2.62</u>
Diluted Income from Continuing Operations Per Unrestricted Share	<u>\$ 1.54</u>	<u>\$ 1.02</u>	<u>\$ 2.62</u>

The dilutive effect of Investee Equivalent Shares on Income from Continuing Operations was not significant for the year ended December 31, 2010.

Options outstanding to purchase 2.8 million, 3.3 million and 4.1 million shares of Kemper common stock were excluded from the computation of Kemper Equity-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the years ended December 31, 2012, 2011 and 2010, respectively, because the exercise price exceeded the average market price.

NOTE 13. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of Other Comprehensive Income Before Income Taxes for the years ended December 31, 2012 , 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
Other Comprehensive Income (Loss) Before Income Taxes:			
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	\$ 157.9	\$ 232.1	\$ 195.8
Reclassification Adjustment for Amounts Included in Net Income	(61.2)	(30.9)	(18.8)
Unrealized Holding Gains (Losses)	96.7	201.2	177.0
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	1.6	0.4	(2.6)
Reclassification Adjustment for Amounts Included in Net Income	—	—	2.1
Foreign Currency Translation Adjustments	1.6	0.4	(0.5)
Equity in Other Comprehensive Income of Former Investee	—	—	2.9
Unrecognized Postretirement Benefit Costs Arising During the Year	(29.4)	(53.9)	(27.9)
Amortization of Unrecognized Postretirement Benefit Costs	16.2	8.7	1.2
Net Unrecognized Postretirement Benefit Costs	(13.2)	(45.2)	(26.7)
Other Comprehensive Income Before Income Taxes	<u>\$ 85.1</u>	<u>\$ 156.4</u>	<u>\$ 152.7</u>

The components of Other Comprehensive Income Tax Benefit (Expense) for the years ended December 31, 2012 , 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
Income Tax Benefit (Expense):			
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	\$ (55.9)	\$ (82.5)	\$ (69.2)
Reclassification Adjustment for Amounts Included in Net Income	21.5	10.9	6.6
Unrealized Holding Gains and Losses	(34.4)	(71.6)	(62.6)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(0.6)	(0.1)	1.0
Reclassification Adjustment for Amounts Included in Net Income	—	—	(0.8)
Foreign Currency Translation Adjustment	(0.6)	(0.1)	0.2
Equity in Other Comprehensive (Income) Loss of Former Investee	—	—	(1.0)
Unrecognized Postretirement Benefit Costs Arising During the Year	10.3	19.0	9.8
Amortization of Unrecognized Postretirement Benefit Costs	(5.7)	(3.1)	(0.5)
Net Unrecognized Postretirement Benefit Costs	4.6	15.9	9.3
Other Comprehensive Income Tax Benefit (Expense)	<u>\$ (30.4)</u>	<u>\$ (55.8)</u>	<u>\$ (54.1)</u>

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

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	\$ 1.4	\$ 1.5
Other Net Unrealized Gains on Investments	408.1	345.7
Foreign Currency Translation Adjustments, Net of Income Taxes	0.7	(0.3)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(97.5)	(88.9)
Accumulated Other Comprehensive Income	<u>\$ 312.7</u>	<u>\$ 258.0</u>

NOTE 14. INCOME FROM INVESTMENTS

Net Investment Income for the years ended December 31, 2012 , 2011 and 2010 was:

<i>DOLLARS IN MILLIONS</i>	2012	2011	2010
Investment Income:			
Interest and Dividends on Fixed Maturities	\$ 246.1	\$ 246.6	\$ 243.8
Dividends on Equity Securities	25.7	25.2	16.0
Short-term Investments	0.2	0.1	0.3
Loans to Policyholders	18.9	17.7	16.5
Real Estate	27.4	26.0	27.1
Equity Method Limited Liability Investments	9.3	9.6	48.8
Other	0.1	0.3	—
Total Investment Income	327.7	325.5	352.5
Investment Expenses:			
Real Estate	26.1	25.9	25.7
Other Investment Expenses	5.7	1.6	1.1
Total Investment Expenses	31.8	27.5	26.8
Net Investment Income	\$ 295.9	\$ 298.0	\$ 325.7

Other Receivables includes accrued investment income of \$72.4 million and \$76.1 million at December 31, 2012 and 2011 , respectively.

The components of Net Realized Gains on Sales of Investments for the years ended December 31, 2012 , 2011 and 2010 were:

<i>DOLLARS IN MILLIONS</i>	2012	2011	2010
Fixed Maturities:			
Gains on Sales	\$ 56.9	\$ 14.2	\$ 21.5
Losses on Sales	(0.1)	(0.1)	(0.1)
Equity Securities:			
Gains on Sales	8.3	34.0	11.7
Losses on Sales	(0.2)	(13.5)	—
Former Investee – Intermecc:			
Gains on Sales	—	—	0.8
Real Estate:			
Gains on Sales	0.2	0.1	8.2
Other Investments:			
Gains on Sales	—	—	0.1
Losses on Sales	—	(0.1)	(0.1)
Trading Securities Net Gains (Losses)	0.3	(0.9)	0.5
Net Realized Gains on Sales of Investments	\$ 65.4	\$ 33.7	\$ 42.6

During the second and third quarters of 2010, Trinity sold a total of 1.5 million shares of Intermecc common stock. As a result of these sales, the Company's approximate voting percentage in Intermecc was reduced to 18% at September 30, 2010. As a result of this change in ownership and other qualitative factors, the Company determined that its investment in the common stock of Intermecc no longer qualified for the equity method of accounting. Accordingly, Equity in Net Loss of Former Investee for the year ended December 31, 2010 relates to the Company's proportionate share of results that Intermecc reported for a portion of the year. During the fourth quarter of 2010, Trinity sold an additional 0.3 million shares of Intermecc common stock. Net Realized Gains on Sales of Investments includes gains of \$5.4 million arising from the sales of Intermecc common stock for the year ended December 31, 2010, of which \$0.8 million has been reported as net realized gains on sales of investee and \$4.6 million has been included in net realized gains on sales of equity securities. In 2011, the Company disposed of its remaining

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 14. INCOME FROM INVESTMENTS (Continued)

holdings of 10.9 million shares of Intermecc common stock, of which 3.6 million shares were sold in open market transactions at a gain of \$8.3 million and 7.3 million shares were contributed to Company's pension plan at a loss of \$7.0 million . See Note 17 , " Pension Benefits ," to the Consolidated Financial Statements.

The components of Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income for the years ended December 31, 2012 , 2011 and 2010 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fixed Maturities	\$ (1.9)	\$ (2.2)	\$ (14.4)
Equity Securities	(1.9)	(1.9)	(2.1)
Real Estate	(3.1)	(7.2)	—
Net Impairment Losses Recognized in Earnings	<u>\$ (6.9)</u>	<u>\$ (11.3)</u>	<u>\$ (16.5)</u>

NOTE 15. INSURANCE EXPENSES

Insurance Expenses for the years ended December 31, 2012 , 2011 and 2010 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Commissions	\$ 366.1	\$ 363.5	\$ 358.8
General Expenses	262.9	270.1	273.5
Taxes, Licenses and Fees	44.7	46.4	47.3
Total Costs Incurred	<u>673.7</u>	<u>680.0</u>	<u>679.6</u>
Policy Acquisition Costs:			
Deferred	(266.4)	(268.5)	(276.9)
Amortized	257.0	260.7	272.2
Net Policy Acquisition Costs Deferred	<u>(9.4)</u>	<u>(7.8)</u>	<u>(4.7)</u>
Life VIF and P&C Customer Relationships Amortized	8.0	11.4	11.0
Insurance Expenses	<u>\$ 672.3</u>	<u>\$ 683.6</u>	<u>\$ 685.9</u>

Commissions for servicing policies are expensed as incurred, rather than deferred and amortized.

NOTE 16. INCOME TAXES

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

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>
Current Income Tax Assets	\$ 5.4	\$ 2.5
Deferred Income Tax Assets	6.6	10.7
Valuation Allowance for State Income Taxes	(6.6)	(6.8)
Current and Deferred Income Tax Assets	<u>\$ 5.4</u>	<u>\$ 6.4</u>

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

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>
Deferred Income Tax Liabilities	\$ 15.1	\$ —
Unrecognized Tax Benefits	6.4	6.2
Liabilities for Income Taxes	<u>\$ 21.5</u>	<u>\$ 6.2</u>

NOTE 16. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the Company's Net Deferred Income Tax Assets (Liabilities) at December 31, 2012 and 2011 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
Deferred Income Tax Assets:		
Insurance Reserves	\$ 79.3	\$ 76.8
Unearned Premium Reserves	44.1	45.0
Tax Capitalization of Policy Acquisition Costs	73.6	73.5
Net Operating Loss Carryforward	100.7	98.1
Payroll and Employee Benefit Accruals	79.9	67.8
Other	10.7	11.7
Total Deferred Income Tax Assets	<u>388.3</u>	<u>372.9</u>
Deferred Income Tax Liabilities:		
Deferred Policy Acquisition Costs	104.1	102.9
Value of Insurance in Force Acquired	25.2	25.9
Investments	208.4	182.3
Depreciable Assets	29.3	22.5
Goodwill and Licenses	23.5	22.9
Other	6.3	5.7
Total Deferred Income Tax Liabilities	<u>396.8</u>	<u>362.2</u>
Valuation Allowance for State Income Taxes	6.6	6.8
Net Deferred Income Tax Assets (Liabilities)	<u>\$ (15.1)</u>	<u>\$ 3.9</u>

Deferred Income Tax Assets include Net Operating Loss ("NOL") Carryforwards of \$100.7 million and \$98.1 million at December 31, 2012 and 2011, respectively, which include federal net operating loss carryforwards of \$94.4 million and \$91.2 million, respectively, and state net operating loss carryforwards of \$6.3 million and \$6.9 million, respectively. The expiration of the federal net operating loss carryforwards and the related deferred income tax assets is presented below by year of expiration.

<u>DOLLARS IN MILLIONS</u>	<u>NOL Carryforwards</u>	<u>Deferred Tax Asset</u>
<i>Expiring in:</i>		
2017 through 2020	\$ 109.0	\$ 38.2
2021 through 2025	53.6	18.8
2026 through 2030	32.1	11.2
2031 through 2032	74.9	26.2
Total All Years	<u>\$ 269.6</u>	<u>\$ 94.4</u>

Except for the net operating losses scheduled to expire in 2031 through 2032, all of the federal net operating loss carryforwards were acquired in connection with business acquisitions made in prior years and are subject to annual usage limitations under the Internal Revenue Code. The Company expects to fully utilize these federal net operating loss carryforwards. The state net operating loss carryforwards relate to Fireside, the majority of which are scheduled to expire in 2029. Deferred tax asset valuation allowances of \$6.6 million and \$6.8 million were required at December 31, 2012 and 2011, respectively, and relate to state income taxes for Fireside.

Income taxes paid were \$52.2 million in 2012. Income taxes refunded, net of income tax paid of \$57.1 million, were \$4.1 million in 2011, and income taxes paid were \$65.1 million in 2010, respectively.

The Company has not provided Federal income taxes on \$14.7 million of Mutual Savings Life's income earned prior to 1984 which is not subject to income taxes under certain circumstances. Federal income taxes of \$5.1 million would be paid on such income if it is distributed to shareholders in the future or if it does not continue to meet certain limitations.

NOTE 16. INCOME TAXES (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2012 , 2011 and 2010 is as follows:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at Beginning of Year	\$ 6.2	\$ 7.8	\$ 11.7
Reductions for Tax Positions of Current Period	—	(1.8)	(1.7)
Additions for Tax Positions of Prior Years	0.2	0.2	26.6
Reduction for Expiration of Federal Statute of Limitations	—	—	(28.8)
Balance at End of Year	<u>\$ 6.4</u>	<u>\$ 6.2</u>	<u>\$ 7.8</u>

The statute of limitations related to Kemper and its eligible subsidiaries' consolidated Federal income tax returns is closed for all tax years up to and including 2006. The expiration of the statute of limitations related to the various state income tax returns that Kemper and its subsidiaries file varies by state.

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

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

Included in the balance of unrecognized tax benefits at December 31, 2012 , 2011 and 2010 are tax positions of \$3.5 million , \$3.7 million and \$5.7 million , respectively, for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for unrecognized tax benefits included accrued interest of \$2.9 million , \$2.5 million and \$2.1 million at December 31, 2012 , 2011 and 2010 , respectively. Tax expense for the year ended December 31, 2012 includes interest expense of \$0.4 million related to unrecognized tax benefits for prior years. Tax expense for the year ended December 31, 2011 includes interest expense of \$0.4 million related to unrecognized tax benefits for prior years. Tax expense for the year ended December 31, 2010 includes a net interest benefit of \$2.1 million , which is comprised of an interest benefit of \$2.8 million resulting from the expiration of the statutes of limitations referred to above, and interest expense of \$0.7 million on unrecognized tax benefits for prior years.

The components of Income Tax Expense from Continuing Operations for the years ended December 31, 2012 , 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Income Tax Expense	\$ (43.3)	\$ (43.4)	\$ (42.6)
Deferred Income Tax Benefit (Expense)	12.9	35.2	(25.1)
Unrecognized Tax Benefit	(0.2)	1.6	3.9
Income Tax Expense	<u>\$ (30.6)</u>	<u>\$ (6.6)</u>	<u>\$ (63.8)</u>

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 16. INCOME TAXES (Continued)

A reconciliation of the Statutory Federal Income Tax Expense and Rate to the Company's Effective Income Tax Expense and Rate from Continuing Operations for the years ended December 31, 2012, 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012		2011		2010	
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory Federal Income Tax Expense	\$ (42.8)	35.0 %	\$ (23.9)	35.0 %	\$ (79.3)	35.0 %
Tax-exempt Income and Dividends Received Deduction	13.9	(11.4)	17.7	(26.0)	19.0	(8.4)
State Income Taxes	(0.8)	0.7	(1.0)	1.5	(1.0)	0.4
Nondeductible Goodwill	—	—	—	—	(5.2)	2.3
Other, Net	(0.9)	0.7	0.6	(1.0)	2.7	(1.1)
Effective Income Tax Expense	\$ (30.6)	25.0 %	\$ (6.6)	9.5 %	\$ (63.8)	28.2 %

Comprehensive Income Tax Expense included in the Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
Income Tax Expense:			
Continuing Operations	\$ (30.6)	\$ (6.6)	\$ (63.8)
Discontinued Operations	(7.3)	(6.7)	(10.3)
Equity in:			
Net Loss of Former Investee	—	—	0.1
Other Comprehensive (Income) Loss of Former Investee	—	—	(1.0)
Unrealized Appreciation on Securities	(34.4)	(71.6)	(62.6)
Foreign Currency Translation Adjustments on Investments	(0.6)	(0.1)	0.2
Tax Effects from Postretirement Benefit Plans	4.6	15.9	9.3
Tax Effects from Long-Term Equity-based Compensation included in Paid-in Capital	(0.1)	(1.0)	(2.0)
Comprehensive Income Tax Expense	\$ (68.4)	\$ (70.1)	\$ (130.1)

NOTE 17. PENSION BENEFITS

The Company sponsored two qualified defined benefit pension plans which merged on December 31, 2012 (the "Pension Plan"). The Pension Plan covers approximately 3,100 retired and 2,800 active employees. The Pension Plan is generally non-contributory, but participation requires or required some employees to contribute 3% of pay, as defined, per year. Benefits for participants who are or were required to contribute to the Pension Plan are based on compensation during plan participation and the number of years of participation. Benefits for the vast majority of participants who are not required to contribute to the Pension Plan are based on years of service and final average pay, as defined. Prior to the merger of the plans, participants in one of the plans were no longer accruing benefits and their benefits were frozen. The Company funds the Pension Plan in accordance with the requirements of ERISA.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 17. PENSION BENEFITS (Continued)

Changes in Fair Value of Plan Assets and Changes in Projected Benefit Obligation for the years ended December 31, 2012 and 2011 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>
Fair Value of Plan Assets at Beginning of Year	\$ 441.3	\$ 352.7
Actual Return on Plan Assets	38.0	25.6
Employer Contributions	—	83.7
Plan Participants' Contributions	—	0.1
Benefits Paid	(21.5)	(20.4)
Settlement Benefits	(0.2)	(0.4)
Fair Value of Plan Assets at End of Year	<u>457.6</u>	<u>441.3</u>
Benefit Obligation at Beginning of Year	499.2	433.1
Service Cost	10.8	10.2
Interest Cost	22.4	22.9
Plan Participants' Contributions	—	0.1
Benefits Paid	(21.5)	(20.4)
Settlement Benefits	(0.2)	(0.4)
Actuarial Losses	43.2	53.7
Benefit Obligations at End of Year	<u>553.9</u>	<u>499.2</u>
Funded Status—Benefit Obligation in Excess of Plan Assets	<u>\$ (96.3)</u>	<u>\$ (57.9)</u>
Amount Recognized in Accumulated Other Comprehensive Income:		
Accumulated Actuarial Loss	\$ (166.4)	\$ (150.4)
Prior Service Cost	0.1	0.2
Amount Recognized in Accumulated Other Comprehensive Income	<u>\$ (166.3)</u>	<u>\$ (150.2)</u>
Accumulated Benefit Obligation	<u>\$ 531.3</u>	<u>\$ 480.5</u>

The measurement dates of the assets and liabilities at end of year presented in the preceding table under the headings, "2012" and "2011" were December 31, 2012 and December 31, 2011, respectively.

For one of the plans, the accumulated benefit obligation exceeded the value of plan assets at December 31, 2011. The Projected Benefit Obligation, Accumulated Benefit Obligation and Fair Value of Plan Assets was \$496.8 million, \$478.1 million and \$438.7 million, respectively, at December 31, 2011 for such plan.

The actuarial assumptions used to develop the components of the Projected Benefit Obligation at December 31, 2012 and 2011 were:

	<u>2012</u>	<u>2011</u>
Discount Rate	4.05%	4.60%
Rate of Increase in Future Compensation Levels	3.08	3.27

Weighted-average asset allocations at December 31, 2012 and 2011 by asset category were:

<i><u>ASSET CATEGORY</u></i>	<u>2012</u>	<u>2011</u>
Cash and Short-term Investments	12%	11%
Corporate Bonds and Notes	33	31
Common and Preferred Stocks	31	36
Exchange Traded Funds	17	12
Other Assets	7	10
Total	<u>100%</u>	<u>100%</u>

NOTE 17. PENSION BENEFITS (Continued)

The investment objective of the Pension Plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions and any required employee contributions, is adequate to provide for the payment of the benefit obligations of the Pension Plan. The assets of the Pension Plan may be invested in both fixed income and equity investments. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. Equity investments may include various types of stock, such as large-cap, mid-cap and small-cap stocks, and may also include investments in investment companies and Kemper common stock (subject to Section 407 and other requirements of ERISA). The Pension Plan has not invested in Kemper common stock.

The trust investment committee for the Pension Plan, along with its third party fiduciary advisor, periodically reviews the performance of the Pension Plan's investments and asset allocation. Several external investment managers, one of which is Faye Sarofim & Co. ("FS&C"), manage the equity investments of the trust for the Pension Plan. One of Kemper's directors, Mr. Faye Sarofim, is Chairman of the Board, Chief Executive Officer and the majority shareholder of FS&C, a registered investment advisory firm (see Note 24, "Related Parties," to the Consolidated Financial Statements). Each manager is allowed to exercise investment discretion, subject to limitations, if any, established by the trust investment committee for the Pension Plan. An independent fiduciary had sole investment discretion with respect to shares of Intermec common stock contributed by the Company to one of the pension plans in 2011 until such shares were fully disposed of in 2012. All other investment decisions are made by the Company, subject to general guidelines as set by the trust investment committee for the Pension Plan.

The Company determines its Expected Long Term Rate of Return on Plan Assets based primarily on the Company's expectations of future returns for the Pension Plan's investments, based on target allocations of the Pension Plan's investments. Additionally, the Company considers historical returns on comparable fixed income investments and equity investments and adjusts its estimate as deemed appropriate.

Fair value measurements for the Pension Plans' assets at December 31, 2012 are summarized below:

<i>DOLLARS IN MILLIONS</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Dec. 31, 2012
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	\$ 6.1	\$ —	\$ —	\$ 6.1
States and Political Subdivisions	—	3.3	—	3.3
Corporate Bonds and Notes	—	142.7	—	142.7
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	3.4	—	3.4
Common Stocks:				
Manufacturing	82.2	5.6	—	87.8
Other Industries	48.2	0.7	—	48.9
Other Equity Interests:				
Exchange Traded Funds	79.6	—	—	79.6
Limited Liability Companies and Limited Partnerships	—	—	26.9	26.9
Short-term Investments	55.8	—	—	55.8
Receivables and Other	2.5	—	0.6	3.1
Total	\$ 274.4	\$ 155.7	\$ 27.5	\$ 457.6

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 17. PENSION BENEFITS (Continued)

Additional information pertaining to the changes in the fair value of the Pension Plans' assets classified as Level 3 for the year ended December 31, 2012 is presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Corporate Bonds	Other Equity Interests	Receivables and Other	Total
Balance at Beginning of Year	\$ 1.0	\$ 37.2	\$ 3.2	\$ 41.4
Return on Plan Assets Held	—	1.7	0.1	1.8
Purchases, Sales and Settlements, Net	—	(12.0)	(2.7)	(14.7)
Transfer out of Level 3	(1.0)	—	—	(1.0)
Balance at December 31, 2012	\$ —	\$ 26.9	\$ 0.6	\$ 27.5

Fair value measurements for the Pension Plans' assets at December 31, 2011 are summarized below:

<i><u>DOLLARS IN MILLIONS</u></i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Dec. 31, 2011
Fixed Maturities:				
States and Political Subdivisions	\$ —	\$ 3.1	\$ —	\$ 3.1
Corporate Bonds and Notes	—	135.4	1.0	136.4
Equity Securities:				
Common Stocks:				
Intermec	40.2	—	—	40.2
Manufacturing	74.4	4.2	—	78.6
Other Industries	38.4	—	—	38.4
Other Equity Interests:				
Exchange Traded Funds	53.6	—	—	53.6
Limited Liability Companies and Limited Partnerships	—	—	37.2	37.2
Short-term Investments	47.7	—	—	47.7
Receivables and Other	2.9	—	3.2	6.1
Total	\$ 257.2	\$ 142.7	\$ 41.4	\$ 441.3

Additional information pertaining to the changes in the fair value of the Pension Plans' assets classified as Level 3 for the year ended December 31, 2011 is presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Corporate Bonds	Other Equity Interests	Receivables and Other	Total
Balance at Beginning of Year	\$ —	\$ 41.5	\$ 3.7	\$ 45.2
Return on Plan Assets Held	—	1.7	—	1.7
Purchases, Sales and Settlements, Net	—	(6.0)	(0.5)	(6.5)
Transfers into Level 3	1.0	—	—	1.0
Balance at December 31, 2011	\$ 1.0	\$ 37.2	\$ 3.2	\$ 41.4

NOTE 17. PENSION BENEFITS (Continued)

The components of Comprehensive Pension Expense for the years ended December 31, 2012 , 2011 and 2010 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Service Cost Earned During the Year	\$ 10.8	\$ 10.2	\$ 9.0
Interest Cost on Projected Benefit Obligation	22.4	22.9	22.4
Expected Return on Plan Assets	(29.8)	(24.4)	(23.7)
Net Amortization and Deferral	18.8	9.4	2.3
Settlements	0.3	—	—
Pension Expense Recognized	22.5	18.1	10.0
Unrecognized Pension Loss Arising During the Year	34.8	52.4	23.6
Amortization of Accumulated Unrecognized Pension Loss	(18.8)	(9.4)	(2.3)
Comprehensive Pension Expense	<u>\$ 38.5</u>	<u>\$ 61.1</u>	<u>\$ 31.3</u>

The Company estimates that Pension Expense for the year ended December 31, 2013 will include expense of \$23.9 million resulting from the amortization of the related accumulated actuarial loss included in Accumulated Other Comprehensive Income at December 31, 2012 .

Total Pension Expense Recognized as presented in the preceding table includes service cost benefits earned and reported in discontinued operations of \$0.5 million , \$0.6 million and \$0.5 million for the years ended December 31, 2012 , 2011 and 2010 , respectively.

The actuarial assumptions used to develop the components of the Pension Expense for the years ended December 31, 2012 , 2011 and 2010 were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount Rate	4.60%	5.35%	6.00%
Rate of Increase in Future Compensation Levels	3.27	2.47	2.88
Expected Long Term Rate of Return on Plan Assets	7.00	7.00	7.00

On September 14, 2011, the Company made a voluntary contribution of \$83.7 million to its defined benefit pension plan. The contribution consisted of \$32.2 million in cash and 7,309,764 shares of Intermecc common stock with a fair value of \$51.5 million on the date of contribution. On May 23, 2011, the Company requested a waiver from the U.S. Department of Labor (“DOL”) related to the prohibited transaction rules under ERISA and the Internal Revenue Code for the one-time in-kind contribution of the shares of Intermecc common stock. On January 19, 2012, the DOL granted relief, from the prohibited transaction rules retroactive to September 1, 2011.

The Company does not expect that it will be required to contribute to its Pension Plan in 2013, but could make a voluntary contribution pursuant to the maximum funding limits under ERISA.

The following benefit payments (net of participant contributions), which consider expected future service, as appropriate, are expected to be paid:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>Years Ending December 31,</u>					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018-2022</u>
Pension Benefits	<u>\$ 22.7</u>	<u>\$ 23.9</u>	<u>\$ 25.0</u>	<u>\$ 26.2</u>	<u>\$ 27.4</u>	<u>\$ 155.3</u>

The Company also sponsors a non-qualified supplemental defined benefit pension plan (the “Supplemental Plan”). The unfunded liability related to the Supplemental Plan was \$24.0 million and \$21.7 million at December 31, 2012 and 2011 , respectively. Pension expense for the Supplemental Plan was \$1.8 million , \$3.3 million and \$3.1 million in 2012 , 2011 and 2010 , respectively. An actuarial loss of \$1.3 million before tax and an actuarial gain of \$2.9 million before tax is included Other Comprehensive Income for the years ended December 31, 2012 and 2011 , respectively.

NOTE 17. PENSION BENEFITS (Continued)

The Company also sponsors several defined contribution benefit plans covering most of its employees. The Company made contributions to those plans of \$7.8 million, \$7.3 million and \$6.8 million in 2012, 2011 and 2010, respectively. Under these plans, the participants have several investment alternatives, including Kemper's common stock held through the Kemper Employee Stock Ownership Plan ("ESOP") Fund and the Dreyfus Appreciation Fund. FS&C is a sub-investment advisor of the Dreyfus Appreciation Fund. One of Kemper's directors, Mr. Fayez Sarofim, is the Chairman of the Board, Chief Executive Officer and majority shareholder of FS&C (see Note 24, "Related Parties," to the Consolidated Financial Statements). The fair value of participants' investments in Kemper's ESOP Fund was \$15.0 million, or 5.0% of the total investments in the defined contribution benefit plans at December 31, 2012. The fair value of participants' investments in the Dreyfus Appreciation Fund was \$20.1 million, or 6.7% of the total investments in the defined contribution benefit plans at December 31, 2012.

NOTE 18. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors an other than pension postretirement employee benefit plan ("OPEB") that provides medical, dental and/or life insurance benefits to approximately 600 retired and 400 active employees (the "OPEB Plan"). The Company generally is self-insured for the benefits under the OPEB Plan. The medical plan generally provides for a limited number of years of medical insurance benefits at retirement based on the participant's attained age at retirement and number of years of service until specified dates and generally requires participant contributions, with most contributions adjusted annually.

Changes in Fair Value of Plan Assets and Changes in Accumulated Benefit Obligation for the years ended December 31, 2012 and 2011 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>
Fair Value of Plan Assets at Beginning of Year	\$ —	\$ —
Employer Contributions	3.0	3.2
Plan Participants' Contributions	1.0	1.1
Benefits Paid	(4.0)	(4.3)
Fair Value of Plan Assets at End of Year	—	—
Benefit Obligation at Beginning of Year	44.7	41.1
Service Cost	0.2	0.1
Interest Cost	1.6	1.9
Plan Participants' Contributions	1.0	1.1
Benefits Paid	(4.0)	(4.3)
Modernization Act Subsidy Received	1.0	0.4
Actuarial (Gains) Losses	(5.5)	4.4
Obligations Transferred Into Plan	3.8	—
Benefit Obligation at End of Year	42.8	44.7
Funded Status—Benefit Obligation in Excess of Plan Assets	\$ (42.8)	\$ (44.7)
Actuarial Gain Recognized in Accumulated Other Comprehensive Income	\$ 13.4	\$ 9.2

The measurement dates of the assets and liabilities at end of year in the preceding table under the headings "2012" and "2011" were December 31, 2012 and December 31, 2011, respectively.

The actuarial assumptions used to develop the components of the Accumulated Benefit Obligation at December 31, 2012 and 2011 were:

	<u>2012</u>	<u>2011</u>
Discount Rate	3.15%	4.25%
Rate of Increase in Future Compensation Levels	2.10	2.10

NOTE 18. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The assumed health care cost trend rate used in measuring the Accumulated Benefit Obligation at December 31, 2012 was 7.0% for 2013, gradually declining to 5.0% in the year 2017 and remaining at that level thereafter for medical benefits and 8.5% for 2013, gradually declining to 5.0% in the year 2020 and remaining at that level thereafter for prescription drug benefits. The assumed health care cost trend rate used in measuring the Accumulated Benefit Obligation at December 31, 2011 was 7.5% for 2012, gradually declining to 5.0% in the year 2017 and remaining at that level thereafter for medical benefits and 9.0% for 2012, gradually declining to 5.0% in the year 2020 and remaining at that level thereafter for prescription drug benefits.

A one-percentage point increase in the assumed health care cost trend rate for each year would increase the Accumulated Benefit Obligation at December 31, 2012 by \$2.8 million and 2012 OPEB expense by \$0.1 million. A one-percentage point increase in the assumed health care cost trend rate for each year would increase the Accumulated Benefit Obligation at December 31, 2011 by \$2.8 million and 2011 OPEB expense by \$0.1 million.

The components of Comprehensive OPEB Expense for the years ended December 31, 2012, 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Service Cost Earned During the Year	\$ 0.2	\$ 0.1	\$ 0.1
Interest Cost on Accumulated Benefit Obligation	1.6	1.9	2.1
Net Amortization and Deferral	(1.2)	(0.6)	(1.1)
OPEB Expense Recognized	0.6	1.4	1.1
Unrecognized OPEB (Gain) Loss Arising During the Year	(5.5)	4.4	4.3
Amortization of Accumulated Unrecognized OPEB Gain	1.2	0.6	1.1
Comprehensive OPEB Expense (Benefit)	<u>\$ (3.7)</u>	<u>\$ 6.4</u>	<u>\$ 6.5</u>

The Company estimates that OPEB Expense for the year ended December 31, 2013 will include income of \$1.0 million resulting from the amortization of the related accumulated actuarial gain included in Accumulated Other Comprehensive Income at December 31, 2012.

The actuarial assumptions used to develop the components of the OPEB Expense for the years ended December 31, 2012, 2011 and 2010 were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount Rate	4.25%	4.40%	5.25%
Rate of Increase in Future Compensation Levels	2.10	1.50	1.50

The Company expects to contribute \$4.3 million, net of expected Modernization Act Subsidy, to its OPEB Plan to fund benefit payments in 2013.

The following benefit payments (net of participant contributions), which consider expected future service, as appropriate, are expected to be paid:

<u>DOLLARS IN MILLIONS</u>	<u>Years Ending December 31,</u>					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018-2022</u>
Benefit Payments:						
Excluding Modernization Act Subsidy	\$ 4.8	\$ 4.8	\$ 4.8	\$ 4.7	\$ 4.6	\$ 19.3
Expected Modernization Act Subsidy	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(2.4)
Net Benefit Payments	<u>\$ 4.3</u>	<u>\$ 4.3</u>	<u>\$ 4.2</u>	<u>\$ 4.1</u>	<u>\$ 4.0</u>	<u>\$ 16.9</u>

NOTE 19. 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 currently distributes personal automobile, homeowners and renters insurance products through employer-sponsored voluntary benefit programs and other affinity relationships. Prior to ceasing direct-to-consumer marketing activities in the third quarter of 2012, Kemper Direct also distributed its products directly to consumers through a variety of direct-to-consumer websites, including its own websites. The Life and Health Insurance segment provides individual life, accident, health and property insurance.

The Company's earned premiums are derived in the United States. The accounting policies of the segments are the same as those described in Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements. Capital expenditures for long-lived assets by operating segment are immaterial.

The Company does not allocate insurance reserves from its 2002 acquisition of certain insurance companies from SCOR (see Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements). It is also the Company's management practice to allocate certain corporate expenses, primarily compensation costs for corporate employees and related facility costs, included in Interest and Other Expenses in the Consolidated Statements of Income to its insurance operations. The amount of such allocated corporate expenses was \$31.7 million, \$33.0 million and \$30.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company does not allocate Net Realized Gains on Sales of Investments, Net Impairment Losses Recognized in Earnings, interest expense on debt or retirement plans, and actuarial gains and losses on its retirement plans to its operating segments.

Segment Assets at December 31, 2012 and 2011 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>
SEGMENT ASSETS		
Kemper Preferred	\$ 1,562.0	\$ 1,544.0
Kemper Specialty	684.6	615.8
Kemper Direct	453.3	570.8
Life and Health Insurance	4,781.8	4,802.5
Corporate and Other, Net	527.4	401.6
Total Assets	<u>\$ 8,009.1</u>	<u>\$ 7,934.7</u>

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 19. BUSINESS SEGMENTS (Continued)

Segment Revenues for the years ended December 31, 2012, 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Kemper Preferred:			
Earned Premiums	\$ 879.4	\$ 859.8	\$ 888.0
Net Investment Income	45.0	48.8	55.4
Other Income	0.4	0.3	0.4
Total Kemper Preferred	<u>924.8</u>	<u>908.9</u>	<u>943.8</u>
Kemper Specialty:			
Earned Premiums	419.8	445.2	474.9
Net Investment Income	19.0	22.8	25.8
Other Income	0.3	0.5	0.6
Total Kemper Specialty	<u>439.1</u>	<u>468.5</u>	<u>501.3</u>
Kemper Direct:			
Earned Premiums	168.0	222.7	282.4
Net Investment Income	13.9	17.4	20.6
Other Income	—	0.1	0.1
Total Kemper Direct	<u>181.9</u>	<u>240.2</u>	<u>303.1</u>
Life and Health Insurance:			
Earned Premiums	639.9	645.9	644.1
Net Investment Income	204.3	200.5	213.0
Other Income	0.1	0.1	0.2
Total Life and Health Insurance	<u>844.3</u>	<u>846.5</u>	<u>857.3</u>
Total Segment Revenues	<u>2,390.1</u>	<u>2,464.1</u>	<u>2,605.5</u>
Net Realized Gains on the Sales of Investments	65.4	33.7	42.6
Net Impairment Losses Recognized in Earnings	(6.9)	(11.3)	(16.5)
Other	13.7	8.5	10.9
Total Revenues	<u>\$ 2,462.3</u>	<u>\$ 2,495.0</u>	<u>\$ 2,642.5</u>

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 19. BUSINESS SEGMENTS (Continued)

Segment Operating Profit for the years ended December 31, 2012 , 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
SEGMENT OPERATING PROFIT (LOSS)			
Kemper Preferred	\$ (28.0)	\$ (40.6)	\$ 66.9
Kemper Specialty	(2.8)	24.2	25.6
Kemper Direct	(4.8)	(47.2)	(7.9)
Life and Health Insurance	140.4	152.3	141.9
Total Segment Operating Profit	104.8	88.7	226.5
Corporate and Other Operating Loss	(40.9)	(42.8)	(26.3)
Total Operating Profit	63.9	45.9	200.2
Net Realized Gains on Sales of Investments	65.4	33.7	42.6
Net Impairment Losses Recognized in Earnings	(6.9)	(11.3)	(16.5)
Income from Continuing Operations before Income Taxes and Equity in Net Loss of Former Investee	<u>\$ 122.4</u>	<u>\$ 68.3</u>	<u>\$ 226.3</u>

Segment Net Operating Income for the years ended December 31, 2012 , 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
SEGMENT NET OPERATING INCOME (LOSS)			
Kemper Preferred	\$ (11.2)	\$ (17.6)	\$ 52.9
Kemper Specialty	1.2	19.8	21.0
Kemper Direct	(0.9)	(27.5)	(1.7)
Life and Health Insurance	90.8	98.9	87.4
Total Segment Net Operating Income	79.9	73.6	159.6
Unallocated Net Operating Loss	(26.1)	(26.5)	(14.4)
Consolidated Net Operating Income	53.8	47.1	145.2
Unallocated Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	42.5	21.9	27.9
Net Impairment Losses Recognized in Earnings	(4.5)	(7.3)	(10.7)
Income from Continuing Operations	<u>\$ 91.8</u>	<u>\$ 61.7</u>	<u>\$ 162.4</u>

Amortization of Deferred Policy Acquisition Costs by Operating Segment for the years ended December 31, 2012 , 2011 and 2010 was:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
Kemper Preferred	\$ 147.8	\$ 144.4	\$ 152.6
Kemper Specialty	58.7	62.6	67.7
Kemper Direct	6.1	8.8	9.8
Life and Health Insurance	44.4	44.9	42.1
Total Amortization	<u>\$ 257.0</u>	<u>\$ 260.7</u>	<u>\$ 272.2</u>

NOTE 19. BUSINESS SEGMENTS (Continued)

Earned Premiums by product line for the years ended December 31, 2012 , 2011 and 2010 were:

<i><u>DOLLARS IN MILLIONS</u></i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
EARNED PREMIUMS			
Life	\$ 393.4	\$ 395.1	\$ 396.7
Accident and Health	165.2	166.3	161.9
Property and Casualty:			
Personal Lines:			
Automobile	1,050.1	1,129.4	1,249.5
Homeowners	318.0	304.1	298.7
Other Personal	136.9	138.7	139.0
Total Personal Lines	<u>1,505.0</u>	<u>1,572.2</u>	<u>1,687.2</u>
Commercial Automobile	43.5	40.0	43.6
Total Earned Premiums	<u>\$ 2,107.1</u>	<u>\$ 2,173.6</u>	<u>\$ 2,289.4</u>

NOTE 20. CATASTROPHE REINSURANCE

Catastrophes and storms are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of the operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by ISO to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25.0 million or more in direct losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions that follow utilize ISO's definition of catastrophes.

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains various catastrophe reinsurance programs for its property and casualty insurance businesses.

NOTE 20. CATASTROPHE REINSURANCE (Continued)

Coverage for each catastrophe reinsurance program effective January 1, 2012 to December 31, 2012 is provided in various layers as presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Kemper Preferred, Kemper Direct and Kemper Specialty Segments:			
Retained	\$ —	\$ 50.0	—%
1st Layer of Coverage	50.0	100.0	65.0
2nd Layer of Coverage	100.0	200.0	95.0
3rd Layer of Coverage	200.0	350.0	90.0
4th Layer of Coverage	350.0	450.0	50.0
Life and Health Segment—Property Insurance Operations:			
Retained	\$ —	\$ 8.0	—%
1st Layer of Coverage	8.0	15.0	70.0
2nd Layer of Coverage	15.0	40.0	70.0

The catastrophe reinsurance program for the Kemper Preferred segment in 2012 also included reinsurance coverage for catastrophe losses in North Carolina at retentions lower than those described above. The catastrophe reinsurance program for the Life and Health Insurance and Kemper Direct segments in 2012 also included reinsurance coverage from FHCF for hurricane losses in Florida at retentions lower than those described above.

Coverage for each catastrophe reinsurance program effective January 1, 2011 to December 31, 2011 is provided in various layers as presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Kemper Preferred Segment:			
Retained	\$ —	\$ 50.0	—%
1st Layer of Coverage	50.0	100.0	65.0
2nd Layer of Coverage	100.0	200.0	95.0
3rd Layer of Coverage	200.0	350.0	90.0
Kemper Direct and Kemper Specialty Segments:			
Retained	\$ —	\$ 3.0	—%
1st Layer of Coverage	3.0	16.0	100.0
Life and Health Segment—Property Insurance Operations:			
Retained	\$ —	\$ 8.0	—%
1st Layer of Coverage	8.0	15.0	70.0
2nd Layer of Coverage	15.0	40.0	100.0

The catastrophe reinsurance program for the Kemper Preferred segment in 2011 also included reinsurance coverage for catastrophe losses in North Carolina at retentions lower than those described above. The catastrophe reinsurance program for the Life and Health Insurance and Kemper Direct segments in 2011 also included reinsurance coverage from FHCF for hurricane losses in Florida at retentions lower than those described above.

NOTE 20. CATASTROPHE REINSURANCE (Continued)

Coverage for each catastrophe reinsurance program effective January 1, 2010 to December 31, 2010 is provided in various layers as presented below:

<i><u>DOLLARS IN MILLIONS</u></i>	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Kemper Preferred Segment:			
Retained	\$ —	\$ 50.0	—%
1st Layer of Coverage	50.0	100.0	65.0
2nd Layer of Coverage	100.0	200.0	95.0
3rd Layer of Coverage	200.0	350.0	90.0
Kemper Direct and Kemper Specialty Segments:			
Retained	\$ —	\$ 3.0	—%
1st Layer of Coverage	3.0	16.0	100.0
Life and Health Segment—Property Insurance Operations:			
Retained	\$ —	\$ 8.0	—%
1st Layer of Coverage	8.0	15.0	88.5
2nd Layer of Coverage	15.0	40.0	100.0

The catastrophe reinsurance program for the Kemper Preferred segment in 2010 also included reinsurance coverage for catastrophe losses in North Carolina at retentions lower than those described above. The catastrophe reinsurance program for the Life and Health Insurance and Kemper Direct segments in 2010 also included reinsurance coverage from FHCF for hurricane losses in Florida at retentions lower than those described above.

In the event that the Company's incurred catastrophe losses and LAE covered by any of its catastrophe reinsurance programs presented in the three preceding tables exceed the retention for that particular layer, each of the programs required one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer. The reinstatement premium is a percentage of the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit.

Reinsurance premiums for the Company's primary catastrophe reinsurance programs, the Kemper Preferred NC Program and the FHCF Program reduced earned premiums for the years ended December 31, 2012, 2011 and 2010 by the following:

<i><u>DOLLARS IN MILLIONS</u></i>	2012	2011	2010
Kemper Preferred	\$ 24.6	\$ 20.0	\$ 21.9
Kemper Specialty	0.1	0.1	0.3
Kemper Direct	0.4	0.8	0.8
Life and Health Insurance	2.0	2.3	3.6
Total Ceded Catastrophe Reinsurance Premiums	\$ 27.1	\$ 23.2	\$ 26.6

Catastrophe reinsurance premiums for the year ended December 31, 2011 for the Life and Health Insurance segment in the preceding table includes a reduction of \$0.2 million in the Company's estimated reinsurance reinstatement premiums for prior years. Catastrophe reinsurance premiums for the Life and Health Insurance segment in the preceding table includes reinsurance reinstatement premiums of \$0.6 million for the year ended December 31, 2010 to reinstate coverage following certain hurricanes.

NOTE 20. CATASTROPHE REINSURANCE (Continued)

Catastrophe losses and LAE (including development), net of reinsurance recoveries, for the years ended December 31, 2012 , 2011 and 2010 by business segment are presented below.

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kemper Preferred	\$ 99.2	\$ 138.7	\$ 65.2
Kemper Specialty	4.9	3.9	3.0
Kemper Direct	8.0	7.2	2.0
Life and Health Insurance	6.1	7.6	7.9
Total Catastrophe Losses and LAE	<u>\$ 118.2</u>	<u>\$ 157.4</u>	<u>\$ 78.1</u>

Total Catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by \$6.3 million , \$6.4 million and \$1.2 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. The Kemper Preferred segment reported favorable catastrophe reserve development of \$6.2 million , \$5.5 million and \$4.9 million for the years ended December 31, 2012 , 2011 and 2010 , respectively. The Life and Health Insurance segment reported adverse catastrophe reserve development of \$0.1 million and \$3.4 million for the years ended December 31, 2012 and 2010 , respectively and favorable catastrophe reserve development of \$1.5 million for the year ended December 31, 2011 .

In late October 2012, Superstorm Sandy, at one point a level two hurricane while over the Atlantic Ocean, caused a significant amount of damage in several northeastern states. Catastrophe losses and LAE for the year ended December 31, 2012 include \$48.5 million related to Superstorm Sandy, of which \$44.0 million is included in the Kemper Preferred segment.

In the second quarter of 2011, the United States experienced a high volume of spring storms, including a record level of tornadoes in April. In the third quarter of 2011, the Company incurred claims related to Hurricane Irene. Catastrophe losses and LAE for the year ended December 31, 2011 include \$23.0 million related to Hurricane Irene, of which \$22.1 million is included in the Kemper Preferred segment.

For the year ended December 31, 2010 , compared to 2009 , the Kemper Preferred segment experienced a higher severity of catastrophe losses, due in part to a catastrophe loss of \$12.9 million resulting from damage caused by hail in the state of Arizona in the fourth quarter of 2010 . No major hurricanes that significantly impacted the Company made landfall in the United States during 2010 .

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of actual reinsurance recoveries, may vary materially from the estimated amount reserved. The Company's estimates of direct catastrophe losses are generally based on inspections by claims adjusters and historical loss development experience for areas that have not been inspected or for claims that have not yet been reported. The Company's estimates of direct catastrophe losses are based on the coverages provided by its insurance policies. The Company's homeowners and dwellings insurance policies do not provide coverage for losses caused by floods, but generally provide coverage for physical damage caused by wind or wind driven rain. Accordingly, the Company's estimates of direct losses for homeowners and dwellings insurance do not include losses caused by flood. Depending on the policy, automobile insurance may provide coverage for losses caused by flood. Estimates of the number and severity of claims ultimately reported are influenced by many variables, including, but not limited to, repair or reconstruction costs and determination of cause of loss that are difficult to quantify and will influence the final amount of claim settlements. All these factors, coupled with the impact of the availability of labor and material on costs, require significant judgment in the reserve setting process. A change in any one or more of these factors is likely to result in an ultimate net claim cost different from the estimated reserve. The Company's estimates of indirect losses from residual market assessments are based on a variety of factors, including, but not limited to, actual or estimated assessments provided by or received from the assessing entity, insurance industry estimates of losses, and estimates of the Company's market share in the assessable states. Actual assessments may differ materially from these estimated amounts.

NOTE 21. OTHER REINSURANCE

In addition to the reinsurance programs described in Note 20 , “ Catastrophe Reinsurance ,” to the Consolidated Financial Statements, Kemper’s insurance subsidiaries utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and to minimize exposures on larger risks. The ceding of insurance does not discharge the primary liability of the original insurer. Accordingly, insurance reserve liabilities are reported gross of any estimated recovery from reinsurers in the Consolidated Balance Sheets. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance reserve liability and are included in Other Receivables in the Consolidated Balance Sheets.

Earned Premiums ceded on long-duration and short-duration policies were not material for the years ended December 31, 2012 , 2011 and 2010 . Certain insurance subsidiaries assume business from other insurance companies and involuntary pools. Earned Premiums assumed on long-duration and short-duration policies for the years ended December 31, 2012 , 2011 and 2010 were:

<u>DOLLARS IN MILLIONS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Earned Premiums Assumed From:			
Capitol	\$ 25.0	\$ 27.9	\$ 30.1
ORCC	8.2	9.0	9.6
Other	10.9	6.8	6.0
Total Earned Premiums Assumed	\$ 44.1	\$ 43.7	\$ 45.7

Trinity and Capitol are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by Capitol. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. In the second quarter of 2012, Capitol requested regulatory approval to amend such agreement with Trinity, effective April 1, 2012, whereby ceded losses for dwelling coverage were capped. In the third quarter of 2012, Capitol received such regulatory approval. Incurred losses and LAE assumed by Trinity were reduced by \$2.6 million in the third quarter of 2012 in conjunction with such amendment. Trinity and ORCC, a subsidiary of Capitol, are also parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by ORCC.

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 Insurance, 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 Insurance, 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.

NOTE 22. 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 Consolidated Balance Sheet at December 31, 2012 is summarized below:

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	\$ 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

At December 31, 2012, the Company had unfunded commitments to invest an additional \$86.2 million in certain private equity funds and mezzanine debt funds that will be included in Other Equity Interests.

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2011 is summarized below:

<i><u>DOLLARS IN MILLIONS</u></i>	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	\$ 153.6	\$ 338.1	\$ —	\$ 491.7
States and Political Subdivisions	—	1,852.6	—	1,852.6
Corporate Securities:				
Bonds and Notes	—	2,107.2	235.1	2,342.3
Redeemable Preferred Stocks	—	75.6	6.1	81.7
Mortgage and Asset Backed	—	4.8	0.3	5.1
Total Investments in Fixed Maturities	153.6	4,378.3	241.5	4,773.4
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	86.7	—	86.7
Other Industries	—	14.9	5.6	20.5
Common Stocks:				
Manufacturing	74.7	5.0	3.7	83.4
Other Industries	42.8	—	4.2	47.0
Other Equity Interests:				
Exchange Traded Funds	66.6	—	—	66.6
Limited Liability Companies and Limited Partnerships	—	—	93.1	93.1
Total Investments in Equity Securities	184.1	106.6	106.6	397.3
Other Investments:				
Trading Securities	4.4	—	—	4.4
Total	\$ 342.1	\$ 4,484.9	\$ 348.1	\$ 5,175.1

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 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.

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

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 valuation techniques, including earnings multiples based on comparable public securities, comparable 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 yield approach. A 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 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 yield for each security. The yield selected is then used to discount the future cash flows of the security to determine the fair value. The Company separately evaluates yields based upon asset class to assess the reasonableness of the recorded fair value. For Investments in Fixed Maturities, corporate bonds and notes makes up the majority of the Company's investments classified as Level 3. For corporate bonds and notes, the primary asset classes are investment grade private placements, non-investment grade senior debt, non-investment grade junior debt and other debt. Non-investment grade senior debt includes those securities that receive first priority in a liquidation and non-investment grade 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.

<i>DOLLARS IN MILLIONS</i>	Unobservable Input	Total Fair Value	Range of Unobservable Inputs			Weighted Average Yield
Investment Grade Private Placements	Yield	\$ 94.6	1.3%	-	6.3%	4.0%
Non-investment Grade:						
Senior Debt	Yield	77.7	5.7	-	18.0	9.1
Junior Debt	Yield	173.2	8.8	-	21.4	14.8
Other Debt	Various	15.5				
Bonds and Notes Classified as Level 3		<u>\$ 361.0</u>				

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.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. 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 year ended December 31, 2012 is presented below:

<i>DOLLARS IN MILLIONS</i>	Fixed Maturities			Equity Securities		Total
	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset Backed	Preferred and Common Stocks	Other Equity Interests	
Balance at Beginning of Year	\$ 235.1	\$ 6.1	\$ 0.3	\$ 13.5	\$ 93.1	\$ 348.1
Total Gains (Losses):						
Included in Consolidated Statement of Income	4.0	(0.4)	—	3.2	—	6.8
Included in Other Comprehensive Income	1.4	0.5	—	(1.3)	8.3	8.9
Purchases	199.7	0.1	—	1.6	52.0	253.4
Settlements	(73.1)	(1.6)	(0.2)	—	(12.1)	(87.0)
Sales	(0.9)	—	—	(3.7)	—	(4.6)
Transfers into Level 3	0.9	—	—	—	—	0.9
Transfers out of Level 3	(6.1)	—	—	—	—	(6.1)
Balance at End of Year	\$ 361.0	\$ 4.7	\$ 0.1	\$ 13.3	\$ 141.3	\$ 520.4

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 for the year ended December 31, 2012. The transfers into Level 3 and out of Level 3 for the year ended December 31, 2012 were due to changes in the availability of market observable inputs.

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the year ended December 31, 2011 is presented below:

<i>DOLLARS IN MILLIONS</i>	Fixed Maturities			Equity Securities		Total
	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset Backed	Preferred and Common Stocks	Other Equity Interests	
Balance at Beginning of Year	\$ 146.2	\$ 4.5	\$ 0.4	\$ 14.7	\$ 75.2	\$ 241.0
Total Gains (Losses):						
Included in Consolidated Statement of Income	(0.7)	—	—	4.5	4.3	8.1
Included in Other Comprehensive Income	3.4	1.6	—	(3.1)	(6.2)	(4.3)
Purchases	131.6	—	—	3.5	39.3	174.4
Settlements	(50.3)	—	(0.1)	(0.4)	(19.5)	(70.3)
Sales	(0.5)	—	—	(5.7)	—	(6.2)
Transfers into Level 3	5.4	—	—	—	—	5.4
Balance at End of Year	\$ 235.1	\$ 6.1	\$ 0.3	\$ 13.5	\$ 93.1	\$ 348.1

Transfers into Level 2 from Level 1 were \$2.2 million for the year ended December 31, 2011. Transfers into Level 1 from Level 2 were \$2.2 million for the year ended December 31, 2011. Transfers between Levels 1 and 2 for the year ended December 31, 2011 were due to changes in the observable inputs for one security. Transfers into Level 3 for the year ended December 31, 2011 were due to changes in the availability of market observable inputs.

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 Level 1 measurements.

NOTE 23. 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 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. For example, Kentucky, New York, Maryland and Alabama have each enacted legislation, with effective dates of January 1, 2013, June 17, 2013, October 1, 2013 and January 1, 2014, respectively, that requires life insurers to compare their in-force policy records against the database of reported deaths maintained by the Social Security Administration (the "SSA Death Master File") for the purpose of proactively identifying potentially deceased insureds for whom the life insurer has not yet received a death claim. If state officials are successful in applying this new standard retroactively to existing life insurance policies, it will fundamentally alter the responsibilities of the parties to such contracts by effectively eliminating contract terms that condition claim settlement and payment on the receipt of notice and "due proof of death" of an insured. The outcome of the various state initiatives could have a significant effect on, including acceleration of, the payment and/or escheatment of policy benefits and significantly increase claims handling costs.

Kemper's life insurance companies are currently the subject of an unclaimed property compliance examination by a private firm retained by the treasurers of thirty-eight states. One state insurance regulator has also commenced a market conduct exam of Kemper's life insurance companies for the purpose of verifying such companies' compliance with relevant regulations governing life insurance claims handling and escheatment practices. It is the Company's position that state officials lack authority to establish new procedures that change existing contracts. In November 2012, the Company filed a declaratory judgment action in state court in Kentucky asking the court to construe the Kentucky Unclaimed Life Insurance Benefit Act (the "Kentucky Act") such that it would only apply prospectively, i.e., only with respect to those life insurance policies issued on or after the effective date of the Kentucky Act, consistent with the requirements of applicable Kentucky statutory law and Kentucky and federal constitutional provisions. The case is currently in the discovery phase.

The Company cannot predict which states, if any, may enact legislation of this type or the outcome of other initiatives by state officials. The Company does not use, nor does it believe it is required under applicable law or the terms of its life insurance policies to use, the SSA Death Master File. The Company cannot reasonably estimate the amount of loss, if any, that the Company would recognize if it were not to ultimately prevail in this matter.

NOTE 24. RELATED PARTIES

One of Kemper's directors, Mr. Fayez Sarofim, is the Chairman of the Board, Chief Executive Officer and the majority shareholder of FS&C, a registered investment advisory firm. In the second quarter of 2010, Kemper's subsidiary, Trinity, entered into 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. At December 31, 2012, Trinity had \$125.2 million in assets managed by FS&C. Investment Expenses incurred in connection with such agreement were \$0.3 million, \$0.3 million and \$0.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

FS&C also provides investment management services with respect to certain funds of the Company's defined benefit pension plans. The Company's defined benefit pension plans had \$120.7 million, \$107.1 million and \$98.3 million in assets managed by FS&C at December 31, 2012, 2011 and 2010, respectively. The Company's defined benefit pension plans incurred, in the aggregate, expenses of \$0.3 million, \$0.3 million and \$0.3 million to FS&C for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 24. RELATED PARTIES (Continued)

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 \$20.4 million, \$19.3 million and \$18.2 million for investment in the Dreyfus Appreciation Fund at December 31, 2012, 2011 and 2010, respectively, representing 7%, 7% and 6% of the total amount invested in the Company's defined contribution plans at such dates.

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

As described in Note 21, "Other Reinsurance," to the Consolidated Financial Statements, the Company also has certain relationships with Capitol, a mutual insurance company which is owned by its policyholders, and its subsidiary, ORCC.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited)

	Three Months Ended (Unaudited)				Year Ended
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Dec 31, 2012
<i>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</i>					
Revenues:					
Earned Premiums	\$ 529.2	\$ 529.8	\$ 527.3	\$ 520.8	\$ 2,107.1
Net Investment Income	77.4	75.2	70.4	72.9	295.9
Other Income	0.2	0.2	0.2	0.2	0.8
Net Realized Gains on Sales of Investments	4.9	4.1	50.9	5.5	65.4
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses	(0.5)	(0.4)	(3.2)	(3.1)	(7.2)
Portion of Losses Recognized in Other Comprehensive Income	—	—	—	0.3	0.3
Net Impairment Losses Recognized in Earnings	(0.5)	(0.4)	(3.2)	(2.8)	(6.9)
Total Revenues	611.2	608.9	645.6	596.6	2,462.3
Expenses:					
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	376.6	423.8	368.7	413.0	1,582.1
Insurance Expenses	162.4	167.7	172.7	169.5	672.3
Interest and Other Expenses	21.8	20.9	22.7	20.1	85.5
Total Expenses	560.8	612.4	564.1	602.6	2,339.9
Income (Loss) from Continuing Operations before Income Taxes	50.4	(3.5)	81.5	(6.0)	122.4
Income Tax Benefit (Expense)	(14.1)	5.1	(25.9)	4.3	(30.6)
Income (Loss) from Continuing Operations	36.3	1.6	55.6	(1.7)	91.8
Discontinued Operations:					
Income (Loss) from Discontinued Operations before Income Taxes	12.3	1.0	(0.1)	5.7	18.9
Income Tax Benefit (Expense)	(5.0)	(0.3)	0.1	(2.1)	(7.3)
Income from Discontinued Operations	7.3	0.7	—	3.6	11.6
Net Income	\$ 43.6	\$ 2.3	\$ 55.6	\$ 1.9	\$ 103.4
Income (Loss) from Continuing Operations Per Unrestricted Share:					
Basic	\$ 0.61	\$ 0.03	\$ 0.95	\$ (0.03)	\$ 1.55
Diluted	\$ 0.60	\$ 0.03	\$ 0.95	\$ (0.03)	\$ 1.54
Net Income Per Unrestricted Share:					
Basic	\$ 0.73	\$ 0.04	\$ 0.95	\$ 0.03	\$ 1.75
Diluted	\$ 0.72	\$ 0.04	\$ 0.95	\$ 0.03	\$ 1.74
Dividends Paid to Shareholders Per Share	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.96

The sum of quarterly per share amounts does not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.

NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited) (Continued)

	Three Months Ended (Unaudited)				Year Ended
	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Dec 31, 2011
<i>DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS</i>					
Revenues:					
Earned Premiums	\$ 546.0	\$ 548.1	\$ 543.0	\$ 536.5	\$ 2,173.6
Net Investment Income	81.2	82.9	58.6	75.3	298.0
Other Income	0.2	0.2	0.4	0.2	1.0
Net Realized Gains (Losses) on Sales of Investments	14.2	17.8	(4.2)	5.9	33.7
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses	(0.4)	(1.3)	(5.0)	(4.7)	(11.4)
Portion of Losses Recognized in Other Comprehensive Income	—	—	—	0.1	0.1
Net Impairment Losses Recognized in Earnings	(0.4)	(1.3)	(5.0)	(4.6)	(11.3)
Total Revenues	641.2	647.7	592.8	613.3	2,495.0
Expenses:					
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	392.3	477.1	399.6	376.7	1,645.7
Insurance Expenses	166.1	170.6	176.8	170.1	683.6
Write-off of Other Intangibles Acquired	—	—	—	13.5	13.5
Interest and Other Expenses	19.7	20.9	21.4	21.9	83.9
Total Expenses	578.1	668.6	597.8	582.2	2,426.7
Income (Loss) from Continuing Operations before Income Taxes	63.1	(20.9)	(5.0)	31.1	68.3
Income Tax Benefit (Expense)	(18.1)	11.5	6.1	(6.1)	(6.6)
Income (Loss) from Continuing Operations	45.0	(9.4)	1.1	25.0	61.7
Discontinued Operations:					
Income from Discontinued Operations before Income Taxes	9.4	9.3	0.6	0.2	19.5
Income Tax Benefit (Expense)	(2.9)	(3.2)	0.3	(0.9)	(6.7)
Income (Loss) from Discontinued Operations	6.5	6.1	0.9	(0.7)	12.8
Net Income (Loss)	\$ 51.5	\$ (3.3)	\$ 2.0	\$ 24.3	\$ 74.5
Income (Loss) from Continuing Operations Per Unrestricted Share:					
Basic	\$ 0.74	\$ (0.16)	\$ 0.01	\$ 0.41	\$ 1.02
Diluted	\$ 0.73	\$ (0.16)	\$ 0.01	\$ 0.41	\$ 1.02
Net Income (Loss) Per Unrestricted Share:					
Basic	\$ 0.85	\$ (0.06)	\$ 0.03	\$ 0.40	\$ 1.23
Diluted	\$ 0.84	\$ (0.06)	\$ 0.03	\$ 0.40	\$ 1.23
Dividends Paid to Shareholders Per Share	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.96

The sum of quarterly per share amounts does not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF KEMPER CORPORATION

We have audited the accompanying consolidated balance sheets of Kemper Corporation and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedules listed in Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control. Our responsibility is to express an opinion on these financial statements and financial statement schedules and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kemper Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth herein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 2 to the consolidated financial statements, the Company changed its accounting for costs associated with acquiring or renewing insurance contracts in 2012.

/s/ Deloitte & Touche LLP
Chicago, Illinois
February 15, 2013

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2012, based on the control criteria established in a report entitled *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2012.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of Kemper's consolidated financial statements, has issued an attestation report on the effectiveness of management's internal control over financial reporting based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DONALD G. SOUTHWELL

Donald G. Southwell

Chairman, President and Chief Executive Officer

/s/ DENNIS R. VIGNEAU

Dennis R. Vigneau

Senior Vice President and Chief Financial Officer

February 15, 2013

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The attestation report of the independent registered public accounting firm, Deloitte & Touche LLP, on the Company's internal control over financial reporting is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm," and is incorporated herein by reference.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to the sections captioned “Election of Directors,” “Kemper Executive Officers,” “Ownership of Kemper Common Stock” and “Corporate Governance” in the Proxy Statement for Kemper’s 2013 Annual Meeting of Shareholders. Kemper plans to file such proxy statement within 120 days after December 31, 2012, the end of Kemper’s fiscal year.

Kemper’s code of ethics applicable to its chief executive officer, chief financial officer and principal accounting officer (“Code of Ethics for Senior Financial Executives”) is posted in the “Governance” section of Kemper’s website, kemper.com. Kemper also intends to disclose any future amendments to, and any waivers from (though none are anticipated), the Code of Ethics for Senior Financial Executives in the “Governance” section of its website.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the sections captioned “Executive Compensation,” “Executive Officer Compensation and Benefits,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Proxy Statement for Kemper’s 2013 Annual Meeting of Shareholders. The Compensation Committee Report to be included in such Proxy Statement shall be deemed to be furnished in this report and shall not be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act as a result of such furnishing in this Item 11.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is set forth in the table below and incorporated herein by reference to the section captioned “Ownership of Kemper Common Stock” in the Proxy Statement for Kemper’s 2013 Annual Meeting of Shareholders.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans or Programs (1)
Equity Compensation Plans Approved by Security Holders	3,192,054	\$ 40.53	9,278,531
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	3,192,054	\$ 40.53	9,278,531

(1) Includes 561,225 shares reserved for future grants based on the achievement of performance goals under the terms of outstanding performance-based restricted stock awards.

Kemper’s Omnibus Plan permits various stock-based awards including, but not limited to, stock options, stock appreciation rights, time-vested restricted stock and performance-based restricted stock.

The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to “full value awards” will reduce the number of shares available for future grant under the Share Authorization by three shares. “Full value awards” are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include restricted stock, restricted stock units, performance shares, performance units, if settled with stock, and other stock-based awards.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to the sections captioned “Related Person Transactions” and “Director Independence” in the Proxy Statement for Kemper’s 2013 Annual Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated by reference to the section captioned “Independent Registered Public Accountant” in the Proxy Statement for Kemper’s 2013 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this Report

1. Financial Statements. The consolidated balance sheets of Kemper and subsidiaries as of December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the years ended December 31, 2012, 2011 and 2010, together with the notes thereto and the report of Deloitte & Touche LLP thereon appearing in Item 8 are included in this 2012 Annual Report.
2. Financial Statement Schedules. The following four financial statement schedules are included on the pages immediately following the signature pages hereof. Schedules not listed here have been omitted because they are not applicable or not material or the required information is included in the Consolidated Financial Statements.

Schedule I Investments Other Than Investments in Related Parties

Schedule II Parent Company Financial Statements

Schedule III Supplementary Insurance Information

Schedule IV Reinsurance Schedule

The Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with regards to the Financial Statement Schedules listed above, is incorporated by reference to the Report of Independent Registered Public Accountant included in Item 8.

3. Exhibits. The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K. Exhibits 10.1 through 10.25 relate to compensatory plans incorporated by reference as exhibits hereto pursuant to Item 15(b) of Form 10-K.
 - 3.1 Restated Certificate of Incorporation (Incorporated herein by reference to Exhibit 3.1 to Kemper's Current Report on Form 8-K filed August 29, 2011).
 - 3.2 Amended and Restated Bylaws (Incorporated herein by reference to Exhibit 3.2 to Kemper's Current Report on Form 8-K filed August 29, 2011).
 - 4.1 Rights Agreement between Kemper and Computershare Trust Company, N.A. as successor Rights Agent, including the Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, the Form of Rights Certificate and the Summary of Rights to Purchase Preferred Stock, dated as of August 4, 2004 and amended May 4, 2006 and October 9, 2006. (Incorporated herein by reference to Exhibit 4.1 to Kemper's Quarterly Report on Form 10-Q filed August 3, 2009).
 - 4.2 Indenture dated as of June 26, 2002, by and between Kemper and The Bank of New York Trust Company, N.A., as successor trustee to BNY Midwest Trust Company, as Trustee (Incorporated herein by reference to Exhibit 4.1 to Kemper's Current Report on Form 8-K filed May 14, 2007).
 - 4.3 Officers' Certificate, including form of Senior Note with respect to Kemper's 6.00% Senior Notes due May 15, 2017 (Incorporated herein by reference to Exhibit 4.3 to Kemper's Quarterly Report on Form 10-Q filed May 7, 2012).
 - 4.4 Officers' Certificate, including the form of Senior Note with respect to Kemper's 6.00% Senior Notes due November 30, 2015 (Incorporated herein by reference to Exhibit 4.2 to Kemper's Current Report on Form 8-K filed November 24, 2010).
 - 10.1 Kemper 1995 Non-Employee Director Stock Option Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.2 to Kemper's Annual Report on Form 10-K filed February 4, 2009).
 - 10.2 Kemper 1997 Stock Option Plan, as amended and restated effective February 1, 2006 (Incorporated herein by reference to Exhibit 10.2 to Kemper's Quarterly Report on Form 10-Q filed May 4, 2011).
 - 10.3 Kemper 2002 Stock Option Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.4 to Kemper's Annual Report on Form 10-K filed February 4, 2009).
 - 10.4 Kemper 2005 Restricted Stock and Restricted Stock Unit Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.5 to Kemper's Annual Report on Form 10-K filed February 4, 2009).
 - 10.5 Kemper 2011 Omnibus Equity Plan, as amended and restated effective February 6, 2013.
 - 10.6 Form of Stock Option Agreement under the Kemper 1995 Non-Employee Director Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.6 to Kemper's Quarterly Report on Form 10-Q filed May 4, 2011).

- 10.7 Form of Stock Option Agreement under the Kemper 1995 Non-Employee Director Stock Option Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.7 to Kemper's Annual Report on Form 10-K filed February 4, 2009).
- 10.8 Form of Stock Option and SAR Agreement under the Kemper 1997 Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.8 to Kemper's Quarterly Report on Form 10-Q filed May 4, 2011).
- 10.9 Form of Stock Option and SAR Agreement under the Kemper 2002 Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.9 to Kemper's Quarterly Report on Form 10-Q filed May 4, 2011).
- 10.10 Form of Stock Option Agreement (including stock appreciation rights) under the Kemper 2002 Stock Option Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.9 to Kemper's Annual Report on Form 10-K filed February 3, 2011).
- 10.11 Form of Time-Vested Restricted Stock Award Agreement under the Kemper 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 2011 (Incorporated herein by reference to Exhibit 10.10 to Kemper's Annual Report on Form 10-K filed February 3, 2011).
- 10.12 Form of Performance-Based Restricted Stock Award Agreement under the Kemper 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.11 to Kemper's Annual Report on Form 10-K filed February 3, 2011).
- 10.13 Form of Stock Option and SAR Agreement for Non-Employee Directors under the Kemper 2011 Omnibus Equity Plan, as of August 25, 2011 (Incorporated herein by reference to Exhibit 10.13 to Kemper's Annual Report on Form 10-K filed February 17, 2012).
- 10.14 Kemper Pension Equalization Plan, as amended and restated effective August 25, 2011 (Incorporated herein by reference to Exhibit 10.5 to Kemper's Quarterly Report on Form 10-Q filed November 2, 2011).
- 10.15 Kemper Defined Contribution Supplemental Retirement Plan, as amended and restated effective August 25, 2011 (Incorporated herein by reference to Exhibit 10.5 to Kemper's Quarterly Report on Form 10-Q filed November 2, 2011).
- 10.16 Kemper Non-Qualified Deferred Compensation Plan, as amended and restated effective August 25, 2011 (Incorporated herein by reference to Exhibit 10.5 to Kemper's Quarterly Report on Form 10-Q filed November 2, 2011), and Amendment No.1, effective January 1, 2013.
- 10.17 Kemper is a party to individual severance agreements (the form of which, as amended and restated effective August 25, 2011, is incorporated by reference to Exhibit 10.17 to Kemper's Quarterly Report on Form 10-Q filed November 2, 2011) with the following officers:

Donald G. Southwell (Chairman, President and Chief Executive Officer)
 John M. Boschelli (Vice President and Chief Investment Officer)
 Lisa M. King (Vice President – Human Resources)
 Edward J. Konar (Vice President)
 Denise I. Lynch (Vice President)
 Christopher L. Moses (Vice President and Treasurer)
 Scott Renwick (Senior Vice President and General Counsel)
 Richard Roeske (Vice President and Chief Accounting Officer)
 Dennis J. Sandelski (Vice President – Tax)
 Frank J. Sodaro (Vice President – Planning and Analysis)
 Dennis R. Vigneau (Senior Vice President and Chief Financial Officer)

Each of the foregoing agreements is identical except that the severance compensation multiple is 3.0 for Mr. Southwell and 2.0 for the other executive officers.

- 10.18 Kemper Severance Plan, as amended and restated effective August 25, 2011 (Incorporated herein by reference to Exhibit 10.5 to Kemper's Quarterly Report on Form 10-Q filed November 2, 2011).
- 10.19 Kemper 2009 Performance Incentive Plan, as amended and restated effective February 4, 2013.
- 10.20 Form of Annual Incentive Award Agreement under the Kemper 2009 Performance Incentive Plan, as of February 4, 2013.
- 10.21 Form of Multi-Year Incentive Award Agreement under the Kemper 2009 Performance Incentive Plan, as of February 4, 2013.
- 10.22 Form of Stock Option and SAR Agreement - Installment Vesting Form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2013.

- 10.23 Form of Stock Option and SAR Agreement - Retention Award Form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2013.
- 10.24 Time-Vested Restricted Stock Award Agreement under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2013.
- 10.25 Form of Performance-Based Restricted Stock Award Agreement under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2013.
- 10..26 Kemper is a party to individual Indemnification and Expense Advancement Agreements with each of its directors, as amended and restated effective February 1, 2012 (Incorporated herein by reference to Exhibit 10.25 to Kemper's Current Report on Form 8-K filed February 6, 2012).
- 10.27 Credit Agreement, dated as of March 7, 2012, by and among Kemper, the lenders party thereto, JP Morgan Chase Bank, N.A., as administrative agent, swing line lender and issuing bank, and Wells Fargo Bank, National Association and Fifth Third Bank, as co-syndication agents (Incorporated by reference to Exhibit 10.1 to Kemper's Current report on Form 8-K filed March 12, 2012).
- 12 Ratios of Earnings to Fixed Charges
- 21 Subsidiaries of Kemper Corporation
- 23 Consent of Deloitte & Touche LLP
- 24 Power of Attorney (included on the signature page hereof)
- 31.1 Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).
- 101.1 XBRL Instance
- 101.2 XBRL Taxonomy Extension Schema Document
- 101.3 XBRL Taxonomy Extension Calculation Linkbase Document
- 101.4 XBRL Taxonomy Extension Label Linkbase Document
- 101.5 XBRL Taxonomy Extension Presentation Linkbase Document
- 101.6 XBRL Taxonomy Extension Definition Linkbase Document

(b) Exhibits. Included in Item 15(a)3 above

(c) Financial Statement Schedules. Included in Item 15(a)2 above

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Kemper Corporation in the capacities indicated on February 15, 2013 .

<u>Signature</u>	<u>Title</u>
<u>/S/ DONALD G. SOUTHWELL</u> Donald G. Southwell	Chairman, President, Chief Executive Officer and Director (principal executive officer)
<u>/S/ DENNIS R. VIGNEAU</u> Dennis R. Vigneau	Senior Vice President and Chief Financial Officer (principal financial officer)
<u>/S/ RICHARD ROESKE</u> Richard Roeske	Vice President and Chief Accounting Officer (principal accounting officer)
<u>/S/ JAMES E. ANNABLE</u> James E. Annable	Director
<u>/S/ DOUGLAS G. GEOGA</u> Douglas G. Geoga	Director
<u>/S/ REUBEN L. HEDLUND</u> Reuben L. Hedlund	Director
<u>/S/ JULIE M. HOWARD</u> Julie M. Howard	Director
<u>/S/ ROBERT J. JOYCE</u> Robert J. Joyce	Director
<u>/S/ WAYNE KAUTH</u> Wayne Kauth	Director
<u>/S/ FAYEZ S. SAROFIM</u> Fayez S. Sarofim	Director
<u>/S/ DAVID P. STORCH</u> David P. Storch	Director
<u>/S/ RICHARD C. VIE</u> Richard C. Vie	Director

KEMPER CORPORATION AND SUBSIDIARIES
 INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES
 DECEMBER 31, 2012
 (Dollars in Millions)

	Amortized Cost	Fair Value	Amount Carried in Balance Sheet
Fixed Maturities:			
Bonds and Notes:			
United States Government and Government Agencies and Authorities	\$ 384.0	\$ 428.9	\$ 428.9
States and Political Subdivisions	1,251.0	1,401.4	1,401.4
Corporate Securities:			
Other Bonds and Notes	2,618.7	2,997.3	2,997.3
Redeemable Preferred Stocks	30.1	32.6	32.6
Total Investments in Fixed Maturities	<u>4,283.8</u>	<u>4,860.2</u>	<u>4,860.2</u>
Equity Securities:			
Preferred Stocks	93.8	100.5	100.5
Common Stocks	126.1	154.2	154.2
Other Equity Interests	242.8	267.2	267.2
Total Investments in Equity Securities	<u>462.7</u>	<u>521.9</u>	<u>521.9</u>
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	253.0	XXX.X	253.0
Loans, Real Estate and Other Investments	497.5	XXX.X	497.5
Short-term Investments	327.5	XXX.X	327.5
Total Investments	<u>\$ 5,824.5</u>		<u>\$ 6,460.1</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

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KEMPER CORPORATION
PARENT COMPANY BALANCE SHEETS
(Dollars in Millions)

	December 31,	
	2012	2011
ASSETS		
Investments in Subsidiaries	\$ 2,744.0	\$ 2,666.6
Fixed Maturities at Fair Value (Cost: 2011 – \$13.1)	—	13.1
Equity Securities at Fair Value (Cost: 2012 – \$4.9; 2011 – \$5.0)	4.5	4.3
Short-term Investments	183.5	77.2
Cash	2.2	122.4
Other Receivables	7.2	5.7
Deferred Income Taxes	75.4	57.6
Other Assets	6.3	5.9
Total Assets	\$ 3,023.1	\$ 2,952.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Senior Notes Payable, 6.00% due 2017 (Fair Value: 2012 – \$393.7; 2011 – \$370.3)	\$ 357.3	\$ 356.8
Senior Notes Payable, 6.00% due 2015 (Fair Value: 2012 – \$276.3; 2011 – \$262.8)	248.6	248.2
Liabilities for Income Taxes	77.6	85.3
Liabilities for Benefit Plans	172.8	140.5
Accrued Expenses and Other Liabilities	5.1	5.4
Total Liabilities	861.4	836.2
Shareholders' Equity:		
Common Stock	5.8	6.0
Additional Paid-in Capital	725.0	743.9
Retained Earnings	1,118.2	1,108.7
Accumulated Other Comprehensive Income	312.7	258.0
Total Shareholders' Equity	2,161.7	2,116.6
Total Liabilities and Shareholders' Equity	\$ 3,023.1	\$ 2,952.8

See Accompanying Report of Independent Registered Public Accounting Firm.

SCHII-1

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Dollars in Millions)

	For The Years Ended December 31,		
	2012	2011	2010
Net Investment Income	\$ 0.2	\$ 0.4	\$ 1.7
Net Realized Gains (Losses) on Sales of Investments	0.3	(0.2)	0.5
Total Revenues	0.5	0.2	2.2
Interest Expense	39.5	39.4	34.1
Other Operating Expenses	13.6	10.3	4.3
Total Operating Expenses	53.1	49.7	38.4
Loss before Income Taxes and Equity in Net Income of Subsidiaries	(52.6)	(49.5)	(36.2)
Income Tax Benefit	18.2	18.6	13.0
Loss before Equity in Net Income of Subsidiaries	(34.4)	(30.9)	(23.2)
Equity in Net Income of Subsidiaries	137.8	105.4	201.1
Net Income	<u>\$ 103.4</u>	<u>\$ 74.5</u>	<u>\$ 177.9</u>

See Accompanying Report of Independent Registered Public Accounting Firm.

SCHII-2

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions)

	For The Years Ended December 31,		
	2012	2011	2010
Net Income	\$ 103.4	\$ 74.5	\$ 177.9
Other Comprehensive Income (Loss):			
Unrealized Holding Gains (Losses) Arising During the Year:			
Securities Held by Subsidiaries	157.9	231.5	195.7
Securities Held by Parent	—	0.6	0.1
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries	(61.2)	(30.2)	(18.8)
Securities Held by Parent	—	(0.7)	—
Unrealized Holding Gains	96.7	201.2	177.0
Unrecognized Postretirement Benefit Costs Arising During the Year	(29.4)	(53.9)	(27.9)
Amortization of Unrecognized Postretirement Benefit Costs	16.2	8.7	1.2
Net Unrecognized Postretirement Benefit Costs	(13.2)	(45.2)	(26.7)
Foreign Currency Translation Adjustments	1.6	0.4	(2.6)
Reclassification Adjustment for Amounts Included in Net Income	—	—	2.1
Foreign Currency Translation Adjustments	1.6	0.4	(0.5)
Equity in Other Comprehensive Income of Subsidiary	—	—	2.9
Other Comprehensive Income before Income Taxes	85.1	156.4	152.7
Income Tax Benefit (Expense):			
Unrealized Holding Gains and Losses Arising During the Year:			
Securities Held by Subsidiaries	(55.9)	(82.3)	(69.2)
Securities Held by Parent	—	(0.2)	—
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries	21.5	10.7	6.6
Securities Held by Parent	—	0.2	—
Unrealized Holding Gains and Losses	(34.4)	(71.6)	(62.6)
Unrecognized Postretirement Benefit Costs Arising During the Year	10.3	19.0	9.8
Amortization of Unrecognized Postretirement Benefit Costs	(5.7)	(3.1)	(0.5)
Net Unrecognized Postretirement Benefit Costs	4.6	15.9	9.3
Foreign Currency Translation Adjustments	(0.6)	(0.1)	1.0
Reclassification Adjustment for Amounts Included in Net Income	—	—	(0.8)
Foreign Currency Translation Adjustments	(0.6)	(0.1)	0.2
Equity in Other Comprehensive Income of Subsidiary	—	—	(1.0)
Income Tax Expense	(30.4)	(55.8)	(54.1)
Other Comprehensive Income	54.7	100.6	98.6
Total Comprehensive Income	\$ 158.1	\$ 175.1	\$ 276.5

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Dollars in Millions)

	For The Years Ended December 31,		
	2012	2011	2010
Operating Activities:			
Net Income	\$ 103.4	\$ 74.5	\$ 177.9
Adjustment Required to Reconcile Net Income to Net Cash Provided by Operations:			
Equity in Net Income of Subsidiaries	(137.8)	(105.4)	(201.1)
Cash Dividends from Subsidiaries	95.0	70.8	147.4
Cash Contribution to Defined Benefit Plan	—	(32.2)	(15.0)
Net Realized (Gains) Losses on Sales of Investments	(0.3)	0.2	(0.5)
Other, Net	8.5	35.5	(10.8)
Net Cash Provided by Operating Activities	68.8	43.4	97.9
Investing Activities:			
Capital Contributed to Subsidiaries	—	—	(110.0)
Capital Distribution from Subsidiary	20.0	250.0	—
Maturity of Note Receivable from Subsidiary	—	—	20.0
Sales and Maturities of Fixed Maturities	13.1	—	—
Purchases of Fixed Maturities	—	—	(13.1)
Purchases of Common Stocks from Subsidiary	—	(50.8)	—
Change in Short-term Investments	(106.3)	(35.4)	10.5
Net Cash Provided (Used) by Investing Activities	(73.2)	163.8	(92.6)
Financing Activities:			
Notes Payable Proceeds:			
Senior Notes Payable Issued	—	—	247.8
Revolving Credit Agreement	—	95.0	140.0
Notes Payable Payments:			
Senior Notes Payable Repaid	—	—	(200.0)
Revolving Credit Agreement	—	(95.0)	(140.0)
Cash Dividends Paid	(56.9)	(58.2)	(54.6)
Common Stock Repurchases	(60.7)	(27.4)	(34.4)
Exercise of Stock Options	1.3	0.2	0.5
Excess Tax Benefits on Share Based Awards	0.5	0.2	0.2
Net Cash Used by Financing Activities	(115.8)	(85.2)	(40.5)
Increase (Decrease) in Cash	(120.2)	122.0	(35.2)
Cash, Beginning of Year	122.4	0.4	35.6
Cash, End of Year	\$ 2.2	\$ 122.4	\$ 0.4

See Accompanying Report of Independent Registered Public Accounting Firm.

KEMPER CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
(Dollars in Millions)

	Year Ended December 31,							December 31,		
	Premiums	Premiums Written	Other Income	Net Investment Income	Insurance Claims and Policy-holders' Benefits	Amortization Of Deferred Policy Acquisition Costs	Other Insurance Expenses	Deferred Policy Acquisition Costs	Insurance Reserves	Unearned Premiums
2012										
Kemper Preferred	\$ 879.4	\$ 891.7	\$ 0.4	\$ 45.0	\$ 709.0	\$ 147.8	\$ 96.0	\$ 72.7	\$ 452.3	\$ 447.6
Kemper Specialty	419.8	415.1	0.3	19.0	350.4	58.7	32.8	17.9	215.9	129.4
Kemper Direct	168.0	147.3	—	13.9	129.5	6.1	51.1	1.5	177.8	44.3
Life and Health (1)	639.9	N/A	0.1	204.3	393.1	44.4	266.4	211.3	3,168.6	29.6
Other	—	N/A	—	13.7	—	—	(31.0)	—	117.6	—
Total	\$ 2,107.1	N/A	\$ 0.8	\$ 295.9	\$ 1,582.0	\$ 257.0	\$ 415.3	\$ 303.4	\$ 4,132.2	\$ 650.9
2011										
Kemper Preferred	\$ 859.8	\$ 868.8	\$ 0.3	\$ 48.8	\$ 709.6	\$ 144.4	\$ 95.4	\$ 70.6	\$ 416.2	\$ 435.9
Kemper Specialty	445.2	438.2	0.5	22.8	352.8	62.6	28.9	18.6	225.9	134.1
Kemper Direct	222.7	209.0	0.1	17.4	197.6	8.8	67.5	2.4	223.9	65.1
Life and Health (1)	645.9	N/A	0.1	200.5	385.7	44.9	263.7	202.4	3,111.0	31.1
Other	—	N/A	—	8.5	—	—	(32.6)	—	154.8	—
Total	\$ 2,173.6	N/A	\$ 1.0	\$ 298.0	\$ 1,645.7	\$ 260.7	\$ 422.9	\$ 294.0	\$ 4,131.8	\$ 666.2
2010										
Kemper Preferred	\$ 888.0	\$ 872.2	\$ 0.4	\$ 55.4	\$ 633.5	\$ 152.6	\$ 90.7			
Kemper Specialty	474.9	457.2	0.6	25.8	383.0	67.7	25.0			
Kemper Direct	282.4	269.3	0.1	20.6	223.9	9.8	77.3			
Life and Health (1)	644.1	N/A	0.2	213.0	406.8	42.1	251.7			
Other	—	N/A	—	10.9	—	—	(31.0)			
Total	\$ 2,289.4	N/A	\$ 1.3	\$ 325.7	\$ 1,647.2	\$ 272.2	\$ 413.7			

(1) The Company's Life and Health Insurance employee-agents also market certain property and casualty insurance products under common management. Accordingly, the Company includes the results of these property and casualty insurance products in its Life and Health Insurance segment.

See Accompanying Report of Independent Registered Public Accounting Firm.

SCHIII-1

KEMPER CORPORATION
REINSURANCE SCHEDULE
FOR THE YEARS ENDED DECEMBER 31, 2012 , 2011 AND 2010
(Dollars in Millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
Year Ended December 31, 2012					
Life Insurance in Force	\$ 21,340.4	\$ 610.4	\$ 242.9	\$ 20,972.9	1.2%
Premiums					
Life Insurance	\$ 392.8	\$ 1.4	\$ 2.0	\$ 393.4	0.5%
Accident and Health Insurance	165.5	0.4	0.1	165.2	0.1%
Property and Liability Insurance	1,547.3	40.7	41.9	1,548.5	2.7%
Total Premiums	\$ 2,105.6	\$ 42.5	\$ 44.0	\$ 2,107.1	2.1%
Year Ended December 31, 2011					
Life Insurance in Force	\$ 21,627.8	\$ 662.0	\$ 256.9	\$ 21,222.7	1.2%
Premiums					
Life Insurance	\$ 394.3	\$ 1.5	\$ 2.3	\$ 395.1	0.6%
Accident and Health Insurance	166.5	0.3	0.1	166.3	0.1%
Property and Liability Insurance	1,609.8	38.9	41.3	1,612.2	2.6%
Total Premiums	\$ 2,170.6	\$ 40.7	\$ 43.7	\$ 2,173.6	2.0%
Year Ended December 31, 2010					
Life Insurance in Force	\$ 21,909.4	\$ 695.3	\$ 272.6	\$ 21,486.7	1.3%
Premiums					
Life Insurance	\$ 396.1	\$ 2.0	\$ 2.7	\$ 396.8	0.7%
Accident and Health Insurance	162.0	0.3	0.1	161.8	0.1%
Property and Liability Insurance	1,729.5	41.6	42.9	1,730.8	2.5%
Total Premiums	\$ 2,287.6	\$ 43.9	\$ 45.7	\$ 2,289.4	2.0%

See Accompanying Report of Independent Registered Public Accounting Firm.

SCHIV-1

KEMPER CORPORATION

2011 Omnibus Equity Plan

Amended and Restated as of February 6, 2013

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Kemper Corporation
2011 Omnibus Equity Plan

Article 1 Establishment, Purpose, and Duration

1.1 Establishment . Kemper Corporation, a Delaware corporation (the “Company”), established the 2011 Omnibus Equity Plan (the “Plan”), effective May 4, 2011 (the “Effective Date”). The Plan permits the grant of Awards to eligible Participants, as defined below.

1.2 Purpose of the Plan . The purpose of the Plan is to provide a means whereby employees and directors of the Company and its Affiliates and key advisors develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. A further purpose of the Plan is to provide a means through which the Company may attract able individuals to become employees and to provide a means whereby those individuals on whom the responsibilities for the successful administration and management of the Company depend can acquire and maintain ownership of the Company’s common stock, thereby strengthening their concern for the welfare of the Company.

1.3 Duration of the Plan . Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no Awards may be granted, but Awards previously granted shall remain outstanding in accordance with the applicable terms and conditions of the Plan and the respective Award Agreements.

Article 2 Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 “Affiliate” means any person or entity controlled directly or indirectly by the Company, whether by equity ownership, contract or otherwise and shall include direct or indirect subsidiaries of the Company and mutual companies the management of which is controlled by the Company and its subsidiaries.

2.2 “Annual Award Limit ” or “Annual Award Limits ” have the meaning set forth in Section 4.3.

2.3 “Award” means, individually or collectively, a grant under the Plan of Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Options, Performance Shares, Performance Units or Other Stock-Based Awards, in each case subject to the terms of the Plan.

2.4 “Award Agreement” means either one of the following, in such form as the Committee shall from time to time approve: (i) an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award, or (ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of an Award. The Committee may provide for the use of non-paper Award Agreement(s) and acceptance and

other actions related thereto that involve the use of electronic, internet, intranet or other non-paper means.

2.5 “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.6 “Board” or “Board of Directors” means the board of directors of the Company.

2.7 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time, or any successor statute.

2.8 “Committee” means the Compensation Committee of the Board or any subcommittee thereof, or any other committee designated by the Board to administer the Plan.

2.9 “Company” has the meaning set forth in Section 1.1.

2.10 “Constructive or Actual Delivery” means either of the following: (a) presentation to the Company of a recent brokerage account statement or other written evidence satisfactory to the Committee evidencing beneficial ownership by the Participant of Shares other than Shares held in 401(k), pension, individual retirement or similar accounts; or (b) physical delivery of certificates evidencing Shares, properly indorsed for transfer to the Company or with an appropriately executed stock power.

2.11 “Covered Employee” means any Employee who is or may become a “Covered Employee,” as defined in Section 162 (m).

2.12 “Director” means a member of the Board of Directors.

2.13 “Disability or Disabled” when used with respect to a particular Participant, means a physical or mental condition that: (i) is of a type that would generally trigger benefits under the Company’s or an applicable Affiliate’s long-term disability plan (as in effect from time to time), whether or not such Participant is actually enrolled in such plan; or (ii) in the absence of any such plan, would cause such Participant to be unable to substantially perform his or her duties as an Employee, as determined in the sole discretion of the Committee. Notwithstanding the foregoing, if an Award of Restricted Stock Units becomes subject to the requirements of Article 15, the term “disabled” shall be defined as required under Section 409A.

2.14 “Effective Date” has the meaning set forth in Section 1.1.

2.15 “Eligible Director” means a Director who is not also an Employee (including any Director who has retired as an Employee).

2.16 “Employee” means any employee of the Company or any of its Affiliates.

2.17 “Employment” and related terms means the provision of services to the Company or its Affiliates as an Employee.

- 2.18 “Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.19 “Exercise Price”** means the price at which the Shares underlying an Option or SAR may be purchased upon exercise of thereof.
- 2.20 “Fair Market Value” or “FMV”** as used to refer to the price of a Share on a particular day, means the closing price for a Share for that day as subsequently reported by the New York Stock Exchange (or such other exchange on which the Shares are primarily traded), or if no prices are reported for that day, the last preceding day on which such prices are reported (or, if for any reason no such price is available, in such other manner as the Committee in its sole discretion may deem appropriate to determine the fair market value of a Share).
- 2.21 “Full Value Award”** means an Award that is not an Option or SAR and that consists of or is settled by the issuance of Shares.
- 2.22 “Insider”** means an individual who is, on the relevant date, a Director, an executive officer of the Company, as determined by the Board for purposes of Section 16 of the Exchange Act, or a more than ten percent (10%) Beneficial Owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act.
- 2.23 “Incentive Stock Option” or “ISO”** means an Option that satisfies the requirements of Code Section 422(b) and any regulations promulgated thereunder from time to time, or any successor provisions thereto.
- 2.24 “Leave of Absence”** means an approved leave of absence from a Participant’s Employment (other than short-term disability) determined in accordance with the applicable policies of the Participant’s employer.
- 2.25 “Mature Shares”** means Shares that: (i) have been owned by a Participant free of any encumbrances, vesting requirements or similar restrictions for at least six (6) months; and (ii) have not been exchanged or surrendered by Constructive or Actual Delivery in full or partial payment of the Exercise Price and/or the related tax withholding obligations arising out of an Option exercise within the previous six months.
- 2.26 “Non-Qualified Option”** means an Option that does not satisfy the requirements for an ISO.
- 2.27 “Option”** means an option to purchase a designated number of Shares granted to a Participant pursuant to Article 8.
- 2.28 “Other Stock-Based Award”** means an equity-based or equity-related Award of a type other than those described in Articles 6 – 9 of the Plan, and which is granted pursuant to Article 10.
- 2.29 “Participant”** means any eligible individual as set forth in Article 5 to whom an Award is granted.

2.30 “Performance-Based Compensation” means compensation under an Award that satisfies the requirements of Section 162(m) and the applicable regulations thereunder for certain performance-based compensation, if any, paid to Covered Employees.

2.31 “Performance Measures” means measures described in Article 14 on which performance goals are based and which are approved by the Company’s shareholders pursuant to the Plan in order to qualify Awards as Performance-Based Compensation.

2.32 “Performance Period” means the period of time during which performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

2.33 “Performance Share” means an Award granted to a Participant pursuant to Article 9, denominated in Shares, the value of which at the time it is payable is determined based on actual results of the corresponding performance criteria.

2.34 “Performance Unit” means an Award granted to a Participant pursuant to Article 9, denominated in units, the value of which at the time it is payable is determined based on actual results of the corresponding performance criteria.

2.35 “Period of Restriction” means the period when Restricted Stock or Restricted Stock Units (or other types of Awards as may be applicable) are subject to a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or on the occurrence of other events as determined by the Committee, in its discretion), as provided in the Plan and/or the applicable Award Agreement.

2.36 “Plan” means the 2011 Omnibus Incentive Plan.

2.37 “Plan Year” means the calendar year.

2.38 “Prior Plans” means the Company’s 1995 Non-Employee Director Stock Option Plan, 1997 Stock Option Plan, 2002 Stock Option Plan and 2005 Restricted Stock and Restricted Stock Unit Plan, as amended through the Effective Date.

2.39 “Representative” means an executor, administrator, guardian, trustee or other representative of a Participant who has legal authority to exercise such Participant’s Options or Stock Appreciation Rights or rights under other types of Awards on behalf of such Participant or such Participant’s estate.

2.40 “Restricted Stock” means an Award granted to a Participant pursuant to Article 6, and includes (but is not limited to) performance-based Restricted Stock and time-vested Restricted Stock.

2.41 “Restricted Stock Unit” means an Award granted to a Participant pursuant to Article 6, except that no Shares are actually awarded to the Participant on the date of grant.

2.42 “Retirement” or “Retires” means, for Employees, for Awards granted prior to February 2013, the termination of Employment of a Participant who is eligible to either make an

election to begin receiving early or regular retirement benefits under the Company's defined benefit pension plan or to begin receiving tax penalty-free early distributions (other than a rollover to another retirement plan) from the Company's defined contribution retirement plan, and for Awards granted beginning in February 2013, the termination of employment by a Participant who has attained age 65 and completed at least five years of service with the Company and/or one or more of its Affiliates.

2.43 "Section 162(m)" means Section 162(m) of the Code, or any successor provision, and the regulations, rulings and other guidance issued thereunder.

2.44 "Section 409A" means Section 409A of the Code, or any successor provision, and the regulations, rulings and other guidance issued thereunder.

2.45 "Share" means a share of common stock of the Company.

2.46 "Stock Appreciation Right" or "SAR" means a right of the type described in Article 7 of the Plan.

2.47 "Substantial Cause" means the (a) commission of a criminal act against, an action in derogation of the interests of, or misconduct which results in a financial loss to, the Company or an Affiliate; (b) misconduct which obligates the Company to prepare an accounting restatement due to material noncompliance with applicable financial reporting requirements; (c) knowing disclosure of confidential information about the Company or an Affiliate in breach of the Company's Essential Standards of Conduct or an applicable contractual or other obligation, or using such information for personal gain, including, without limitation, by trading in Company securities on the basis of material, non-public information; or (d) performance of any other action that the Committee, in its sole discretion, may deem to be sufficiently injurious to the interests or reputation of the Company or an Affiliate to constitute substantial cause for the termination of services by a Participant as an Employee, Director or Third Party Service Provider. Nothing in the Plan shall be construed to imply that a Participant's employment or other relationship with the Company or its Affiliates may only be terminated for Substantial Cause.

2.48 "Third Party Service Provider" means any consultant, agent, advisor, or independent contractor who provides services to the Company or an Affiliate pursuant to a written contract that (a) are not in connection with the offer and sale of the Company's securities in a capital-raising transaction, and (b) do not, directly or indirectly, promote or maintain a market for the Company's securities.

Article 3 Administration

3.1 General . The Committee shall be responsible for administering the Plan, subject to this Article 3 and the other provisions of the Plan. The Committee may retain attorneys, consultants, accountants, or other advisors. The Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such advisors. The fees of any such advisors shall be paid by the Company. All actions taken and all interpretations

and determinations made by the Committee shall be final and binding on the Participants, beneficiaries, the Company, and all other interested individuals.

3.2 Authority of the Committee . The Committee shall have full and, except as otherwise expressly provided in the Plan, exclusive, power and discretion: (a) to interpret the terms and the intent of the Plan and any Award Agreement or other agreement or document ancillary to or in connection with the Plan, and to adopt such rules, regulations, forms, instruments, and guidelines for administering the Plan as the Committee may deem necessary or proper; (b) to select Award recipients; (c) to establish the terms and conditions of all Awards, including the terms and conditions to be set forth in Award Agreements; (d) to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company; and (e) subject to Article 19, to adopt modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the jurisdictions in which the Company and/or its Affiliates operate or may operate.

3.3 Delegation . The Committee may delegate to one or more of its members or to one or more officers of the Company or its Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may retain such legal, financial or other advisors as they deem appropriate to assist them with respect to any responsibility the Committee or such individuals may have under the Plan. To the extent consistent with the Company's bylaws and applicable law, the Board may, by resolution, authorize one or more officers of the Company or committees of the Board (in addition to the Committee) to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; and (b) determine the size of any such Awards and the terms and conditions of such Awards; provided, however, (i) the Board shall not authorize any such officer to grant Awards to himself or herself, nor authorize any such officer or committee to grant Awards to any individual who is considered an Insider; (ii) the resolution providing such authorization must place a limit on the total number of Shares that may be covered by all such Awards; and (iii) such officer(s) or committee(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

Article 4 Shares Subject to the Plan and Maximum Awards

4.1 Number of Shares Available for Awards .

(a) **Share Authorization.** Subject to adjustment as provided in Section 4.4, the maximum number of Shares available for issuance to Participants under the Plan on or after the Effective Date (the "Share Authorization") shall be ten million (10,000,000) Shares. The Shares available for issuance under the Plan may be authorized and unissued Shares or treasury Shares.

(b) **Fungible Conversion Factor.** Notwithstanding any other provision of the Plan, each Share granted to a Participant as part of a Full Value Award shall reduce the Share Authorization by three (3) Shares. Each Share granted to a Participant as part an Award that is not a Full Value Award shall reduce the Share Authorization by one (1) Share.

(c) **Limit on Grants to Eligible Directors.** The maximum aggregate number of Shares that may be granted under the Plan to Eligible Directors shall be limited to one million (1,000,000) .

(d) **Prior Plans .** All awards granted pursuant to the Prior Plans and outstanding on the Effective Date shall remain subject to the terms of the applicable Prior Plans and award agreements issued thereunder, except that any Shares to be issued after the Effective Date pursuant to the terms of performance-based restricted stock awards granted under one of the Prior Plans in connection with above-target performance results shall be issued under this Plan. Beginning on the Effective Date, no additional awards shall be granted under any Prior Plan, except for restorative options automatically granted pursuant to the terms of any option awards outstanding under a Prior Plan.

4.2 Share Counting . Shares covered by an Award shall only be counted against the Share Authorization to the extent they are actually issued, provided that:

(a) **Shares Available for Future Grant .** Any Shares related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise, without the issuance of such Shares (other than surrender of an Option at the time of exercise of a related Stock Appreciation Right), or are settled in cash in lieu of Shares, shall be available again for grant under the Plan, consistent with the fungible conversion factor methodology set forth in Section 4.1(b).

(b) **Shares That Will Reduce Share Authorization .** The Share Authorization will be reduced by the full number of Shares that: (i) are subject to the exercise or vesting of an Award, regardless of whether fewer Shares are actually issued because of Shares tendered to the Company (by either Constructive or Actual Delivery) or withheld by the Company to satisfy tax withholding requirements or to pay the exercise price with respect to such exercise or vesting; or (ii) may be issued in connection with an Award of a SAR, regardless of whether fewer Shares are actually issued upon exercise of such SAR.

4.3 Annual Award Limits . The following limits (“Annual Award Limits”) shall apply to grants of such Awards under the Plan, subject to any adjustments pursuant to Section 4.4 or 19.2, unless and until the Committee determines that an Award to a Covered Employee shall not be designed to qualify as Performance-Based Compensation.

(a) **Restricted Stock or Restricted Stock Units.** The aggregate maximum number of Shares that may be subject to Awards of Restricted Stock or Restricted Stock Units granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000).

(b) **Options and SARs.** The aggregate maximum number of Shares that may be subject to Awards of Options and SARs, including ISOs, granted in any one Plan Year to any one Participant shall be one million five hundred thousand (1,500,000).

(c) **Performance Shares and Performance Units.** The aggregate maximum number of Shares that may be subject to Awards of Performance Shares or Performance Units granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000).

(d) **Other Stock-Based Awards.** The aggregate maximum number of Shares that may be subject to Other Stock-Based Awards granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000).

(e) **Awards to Eligible Directors.** Notwithstanding the foregoing provisions of Sections 4.3 (a) – (d), the maximum number of Shares that may be granted in any one Plan Year to any Eligible Director shall be twenty thousand (20,000).

4.4 Adjustments in Authorized Shares . If the number of outstanding Shares is increased or decreased through a reorganization, recapitalization, reclassification, special cash dividend, stock dividend, stock split, reverse stock split or other similar transaction, an appropriate and proportionate adjustment shall be made in: (a) the number of Shares included in the Share Authorization in Section 4.1 (a) and the Share limitation in Section 4.1 (c), (b) the number of Shares that may be issued under outstanding Awards, and (c) the Award limits specified in Section 4.3. In the event that the Shares are changed into or exchanged for a different kind of shares or other securities of the Company through transactions of the type referenced above, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under the Plan, may substitute or adjust, as applicable, the number and kind of securities that may be issued under the Plan or under particular forms of Awards, the number and kind of securities subject to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards.

The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any Awards under the Plan to reflect such changes or distributions and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of Performance Periods. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan. No amendment, modification, suspension or termination may impact the distribution of any Award that is subject to Section 409A or is intended to qualify as Performance-Based Compensation under Section 162(m), except as permitted by such applicable Section.

Subject to the provisions of Article 19.1, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance or assumption of benefits under the Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization on such terms and conditions as it may deem appropriate.

Article 5 Eligibility

All Employees and Eligible Directors shall be eligible for selection to receive Awards. In addition, any key person selected by the Committee in its sole discretion who provides bona fide services to the Company or an Affiliate as a Third Party Service Provider shall be eligible for selection to receive Awards.

Article 6 Restricted Stock and Restricted Stock Units

6.1 Restricted Stock or Restricted Stock Unit Award Agreement . Each Award of Restricted Stock and/or Restricted Stock Units shall be evidenced by an Award Agreement that

specifies the material terms of the Award, including, without limitation, the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, vesting terms (which can include, without limitation, time-vested or performance-based terms) and such other provisions as the Committee shall determine in its discretion.

6.2 Other Restrictions . The Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, time-based restrictions, and/or restrictions under applicable laws, rules and regulations or under the requirements of any stock exchange or market upon which such Shares are listed or traded, holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, or time-based restrictions on vesting following the attainment of the performance goals.

Except as otherwise provided in this Article 6, and subject in all cases to the requirements of applicable laws, rules and regulations, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations), and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion shall determine.

6.3 Certificate Retention or Legend . To the extent that a certificate is issued to evidence Shares of Restricted Stock, the Committee may determine in its sole discretion that such certificate shall: (a) be retained by the Company until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse; and/or (b) bear a legend such as the following or as otherwise determined by the Committee in its discretion:

The sale or transfer of Shares represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Kemper Corporation 2011 Omnibus Incentive Plan, and in the associated Award Agreement. A copy of such Plan and Award Agreement may be obtained from Kemper Corporation.

6.4 Voting Rights . Issued and outstanding Shares of Restricted Stock shall at all times possess the same voting rights as all other issued and outstanding Shares. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

6.5 Dividends and Dividend Equivalents . Except as the Committee determines otherwise with respect to a particular Award and as set forth in the applicable Award Agreement, issued and outstanding Shares of Restricted Stock shall be entitled to dividends if, as and when declared by the Board with respect to the Company's Shares on the same basis and on the same payment dates as all other issued and outstanding Shares. The Committee may, in its discretion, grant dividend equivalents with respect to any Restricted Stock Units. The terms and conditions of such dividend equivalents, including the rate per Unit, timing of payment and other requirements,

shall be established by the Committee in its discretion, subject to the requirements of Article 16 of the Plan.

6.6 Section 83(b) Election . The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned on the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to Section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to file promptly a copy of such election with the Company.

Article 7 Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights . The Committee may grant an Award of Stock Appreciation Rights in connection with an Option Award (“Tandem SAR”) or independently of any Option Award (“Freestanding SAR”).

7.2 SAR Award Agreement. Each SAR Award shall be evidenced by an Award Agreement that specifies the material terms of the Award, including, without limitation, exercise terms consistent with Section 8.2 below and the following provisions, and such other provisions as the Committee shall determine in its discretion:

(a) A SAR shall be exercised in accordance with the provisions of this Article 7 and Section 8.3.

(b) A Tandem SAR shall be exercisable to the extent, and only to the extent, the associated Option is exercisable and shall be exercisable only for such period as the Committee may determine. Upon exercise of a Tandem SAR, the Participant shall be required to surrender to the Company unexercised the Option to which it relates, or any portion thereof (subject to Section 8.3(c));

(c) A Freestanding SAR may be exercised in accordance with the terms of the applicable Award Agreement;

(d) Upon exercise of a SAR, the Participant shall receive that number of Shares (rounded down to the nearest whole number) having an aggregate value equal to the excess of the Fair Market Value of one Share over the Exercise Price per Share specified in the applicable Award Agreement, multiplied by the number of Shares subject to the SAR, or portion thereof, which is exercised. However, the Committee may elect to settle, or the Award Agreement may permit the Participant to elect to receive (subject to approval by the Committee), any part or all of the Company’s obligation arising out of the exercise of the SAR by the payment of cash equal to the aggregate Fair Market Value of that part or all of the Shares it would otherwise be obligated to deliver.

Article 8 Stock Options

8.1 Grant of Stock Options. The Committee may grant Option Awards and determine whether an Option will be an ISO or a Non-Qualified Option, whether to couple a SAR with an

Option, the number of Shares to be subject to each Option, the Exercise Price, the number of installments, if any, in which each Option may vest, the expiration date of each Option and all other terms and conditions of each Option. ISO Awards may be granted only to Participants who are Employees.

8.2 Stock Option and SAR Award Agreements. Each Option Award and SAR Award granted pursuant to the Plan shall be evidenced by an Award Agreement that specifies the material terms of the Award, including, without limitation, terms consistent with the following provisions, and such other provisions as the Committee shall determine in its discretion:

(a) **Duration.** Each Option and SAR and all rights associated therewith, shall expire on such date as the Committee may determine, but in no event later than the ten-year anniversary of the grant date, subject to a limited extension if so provided in the Award Agreement in the event that the expiration date of an Award held by a Participant falls within a trading “blackout” period imposed by the Company and applicable to the Participant, or earlier termination as provided in the Plan.

(b) **Exercise Price .** The Exercise Price for each Share that is the subject of an Option or SAR shall be determined by the Committee and shall not be less than the Fair Market Value of a Share on the date of grant, subject to adjustment pursuant to Section 19.2.

(c) **Vesting.** Each Option and SAR granted under the Plan shall vest and be exercisable in such installments, if any, during the period prior to its expiration date as the Committee shall determine, and, unless otherwise specified in an Award Agreement, no Option or SAR shall be exercisable for at least six months after grant except in the case of the death or Disability of the Participant.

(d) **No Repricing.** Except as otherwise permitted as an adjustment pursuant to Section 19.2 or as approved by the Company’s shareholders, the exercise price of an Option or SAR outstanding under the Plan may not be reduced, whether through amendment, exchange, cancellation and re-grant, repurchase or other method.

8.3 Exercise of Options and SARs.

(a) **Notice by Participant.** Each Participant (or such Participant’s Representative) who desires to exercise an Option or SAR shall give advance written notice of such exercise to the Company in such form as may be prescribed from time to time by the Committee or the management of the Company.

(b) **Payment for Exercises of Options.** Before shares will be issued in connection with an exercise, the Exercise Price of an Option shall be paid in full by: (i) check payable to the order of the Company; (ii) Constructive or Actual Delivery of Shares, subject to any terms and conditions that may be imposed the Committee in its discretion, including the requirement that such Shares be Mature Shares; (iii) electronic transfer of funds to an account of the Company;

or (iv) any combination of the foregoing. Shares used by Constructive or Actual Delivery to satisfy the Exercise Price of an Option shall be valued at their Fair Market Value on the date of exercise.

(c) **Partial Exercises.** No Option or SAR may be exercised for a fraction of a share and no partial exercise of any Option or SAR Right may be made for less than 50 shares unless the total number of Shares remaining under the Award Agreement is less than 50 at the time of exercise.

(d) **Exercise by Participant's Spouse.** Unless otherwise provided in an Award Agreement, an Option or SAR shall be exercisable during the Participant's lifetime only by the Participant (or, in the case of the incapacity of the Participant, by the Participant's Representative) regardless of any community property interest therein of the spouse of the Participant, or such spouse's successors in interest. If the spouse of the Participant shall have acquired a community property interest in such Option or SAR, the Participant, or the Participant's Representative, may exercise the Option or SAR on behalf of the spouse of the Participant or such spouse's successors in interest.

(e) **Special Provisions for Incentive Stock Options.** In addition to the limitation applicable to ISOs in Section 4.3 (b), to the extent that the aggregate Fair Market Value (determined as of the grant date) of Shares underlying an ISO granted to a Participant under this Plan (and any other option plans of the Company) that become exercisable for the first time by the Participant during any Plan Year exceeds \$100,000 (or, if different, the maximum limitation in effect at the time of grant under Code Section 422, or any successor provision), the portion of such ISO in excess of \$100,000 (or, if different, such maximum limitation) will be treated as Non-Qualified Options. The portion of any ISO not exercised within 90 days after termination of Employment will be treated as a Non-Qualified Option.

Article 9 Performance Shares and Performance Units

9.1 Grant of Performance Shares and Performance Units and Award Agreement. Each Award of Performance Shares or Performance Units shall be evidenced by an Award Agreement that specifies the material terms of the Award, including, without limitation, any performance criteria, vesting provisions and expiration date, and such other provisions as the Committee shall determine in its discretion.

9.2 Value of Performance Shares and Performance Units. Each Performance Share shall have an initial value based on one Share on the date of grant. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The Committee shall set performance criteria in its discretion that, depending on the actual performance results, will determine the number and/or value of the Performance Shares and Performance Units that will be paid out to the Participant.

9.3 Earning of Performance Shares and Performance Units. After the applicable Performance Period has ended, the holder of Performance Shares or Performance Units shall be entitled to receive a payout on the value and number of Performance Shares or Performance Units

earned by the Participant over the Performance Period, if such payout is due as determined based on the actual results of the corresponding performance criteria.

9.4. Form and Timing of Payment of Performance Shares and Performance Units. Payment of earned Performance Shares and Performance Units shall be made as determined by the Committee as set forth in the applicable Award Agreements. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Shares and Performance Units in the form of Shares or in cash (or a combination thereof) equal to their value, if any, at the end of the applicable Performance Period or as soon as practicable thereafter. Shares may be granted subject to any restrictions deemed appropriate by the Committee, as set forth in the applicable Award Agreements.

9.5. No Dividends Payable. Awards of Performance Shares or Performance Units shall not be entitled to dividends with respect to the Company's Shares, but, in the discretion of the Committee, may be entitled to dividend equivalents earned and payable to the extent, and at the time, of any payout of such Award.

Article 10 Other Stock-Based Awards

The Committee may grant Other Stock-Based Awards (which may include unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee determines appropriate, and may include, without limitation, Awards that upon grant are fully vested and non-forfeitable. Such Other Stock-Based Awards may entail the issue or transfer of actual Shares or payment in cash or otherwise of amounts based on the value of Shares. Each Other Stock-Based Award shall be evidenced by an Award Agreement that specifies the material terms and conditions of the Award, including, without limitation, any restrictions or vesting provisions and whether such Award is entitled to dividends or dividend equivalents, and such other provisions as the Committee shall determine in its discretion.

Article 11 Awards to Eligible Directors

11.1 Initial Award Grants. An Award shall be granted to each Eligible Director who was not previously an Employee on the date that he or she first becomes a Director ("Initial Award Grant"), in an amount and subject to such terms as shall be determined from time to time by the Board of Directors in its sole discretion, after considering any recommendation by the Committee.

11.2 Annual Award Grants. An Award shall be granted to each Eligible Director automatically on the date of each Annual Meeting of the Company's Shareholders following such meeting ("Annual Award Grant"), in an amount and subject to such terms as shall be determined from time to time by the Board of Directors in its sole discretion, after considering any recommendation by the Committee, subject to the limitations of Section 4.3(e). For the avoidance of doubt, each Eligible Director who was not previously an Employee and who first becomes a Director on the date of an Annual Meeting of the Company's Shareholders shall be entitled to receive both an Initial Award Grant and an Annual Award Grant on such Annual Meeting date.

11.3 Other Forms of Awards to Eligible Directors. In addition to Initial and Annual Award Grants, Eligible Directors may be entitled to receive other forms of Awards under the Plan, in such forms and amounts, and subject to such terms, as shall be determined from time to time by the Board of Directors in its sole discretion, after considering any recommendation by the Committee. In no event shall an Incentive Stock Option be granted to an Eligible Director.

Article 12 Forfeiture and Termination of Employment or Service as a Director or Consultant.

12.1 Terms Provided in Award Agreements. Except as determined otherwise by the Committee in connection with particular Awards and set forth in the applicable Award Agreements, the provisions of Sections 12.2, 12.3, and 12.4 shall apply to outstanding Awards held by a Participant at the time of termination of the Participant's Employment (or termination of the Participant's employer's affiliation with the Company, as described in Section 12.4 below), or the termination or a Participant's service as a Director or Third Party Service Provider, respectively.

12.2 Termination of Services as an Employee.

(a) **Options and SARs.** The vesting, forfeiture and other terms of payout for Awards of Options and SARs that apply in the event that a Participant ceases to be an Employee of the Company or any of its Affiliates shall be determined as set forth in the applicable Award Agreement for Awards granted beginning in February 2013, and as follows for Awards granted prior to February 2013:

(i) **Death or Disability .** If a Participant dies or becomes Disabled while employed by the Company or any of its Affiliates, then all Awards granted to such Participant that were outstanding but not vested on such date shall immediately vest and remain outstanding and exercisable until the earlier of their original expiration date or one year from the date of death or the date the Participant first became Disabled, and all Awards that are not exercised within such period shall be forfeited to the Company.

(ii) **Retirement.**

(A) If a Participant Retires but continues to provide services to the Company or any of its Affiliates as a director or as a Third Party Service Provider, then all Awards held by such Participant shall continue in full force and effect in accordance with their terms or until the Participant ceases to provide such services. If such services cease as a result of death or Disability, then Section 12.2(a)(i) above shall apply. If such services cease for any other reason, then Section 12.2(a)(ii)(B) below shall apply as if the Participant were Retiring on the date of such cessation of services.

(B) If a Participant Retires but does not continue to provide services as provided in subsection (ii)(A) above, then such Participant may exercise all vested Awards until the earlier of one year from the date of Retirement or the original expiration date of such Awards

and all vested Awards that are not exercised within such period shall be forfeited to the Company, and all Awards that were not vested on the date of Retirement shall be forfeited to the Company.

(iii) Sale or Divestiture of Employer. If the Company sells or divests its controlling interest in any Affiliate which employs a Participant, or if its control of such Affiliate otherwise ceases, then all unvested Awards held by such Participant on the date of such sale, divestiture, cessation of control or termination shall be forfeited to the Company, and the Participants shall have until the earlier of 90 days from such date (or one year in the case of a Participant who is eligible for Retirement on such date), or the original expiration date of such Awards, in which to exercise Awards that were vested on such date, and all vested Awards that are not exercised within such period shall be forfeited to the Company.

(iv) Other Termination of Employment . If a Participant ceases to be an Employee of the Company or any of its Affiliates under circumstances other than those set forth in the foregoing subsections (i) – (iii), then:

(A) If the termination of Employment was not for Substantial Cause, then all Awards held by such Participant that were not vested on the date of termination shall immediately be forfeited to the Company, and the Participant shall have until the earlier of 90 days from the date of termination or the original expiration date of such Awards in which to exercise Awards that were vested on such date, and all such Awards that are not exercised within such period shall be forfeited to the Company.

(B) If the termination of Employment was for Substantial Cause, then all of the Participant's outstanding Awards then held by such Participant shall be forfeited to the Company (including vested Options and SARs) on the date of such termination, notwithstanding any otherwise applicable vesting or performance conditions related to any such Awards.

(b) Time-Vested Restricted Stock. The vesting, forfeiture and other terms of payout for Awards of Time-Vested Restricted Stock that apply in the event that a Participant ceases to be an Employee of the Company or any of its Affiliates shall be determined as set forth in the applicable Award Agreement for Awards granted beginning in February 2013, and as follows for Awards granted prior to February 2013:

(i) Death or Disability . If a Participant dies or becomes Disabled while employed by the Company or any of its Affiliates, then all restrictions on such Participant's outstanding Awards shall lapse and such Awards shall vest on the date of such death or Disability.

(ii) Retirement.

(A) If a Participant Retires but continues to provide services to the Company or any of its Affiliates as a director or as a Third Party Service Provider, then all Awards held by such Participant shall continue in full force and effect in accordance with their terms or until the Participant ceases to provide such services. If such services cease as a result of death or Disability, then subsection (i) above shall apply. If such services cease for any other reason, all of

Participant's Awards that are then unvested shall be forfeited to the Company on the date of such cessation of services.

(B) If a Participant Retires but does not continue to provide services as provided in subsection (ii)(A) above, then all unvested Awards then held by such Participant shall be forfeited to the Company on the date of Retirement.

(iii) Sale or Divestiture of Employer. If the Company sells or divests its controlling interest in any Affiliate which employs a Participant, or if its control of such Affiliate otherwise ceases, then all unvested Awards then held by such Participant shall be forfeited to the Company on the date of such sale, divestiture, cessation of control or termination.

(iv) Other Termination of Employment . If a Participant ceases to be an Employee of the Company or any of its Affiliates under circumstances other than those set forth in the foregoing subsections (i) – (iii), all of the unvested Awards such Participant then holds shall be forfeited to the Company on the date of such cessation of Employment.

(c) Performance-Based Restricted Stock, Performance Shares, Performance Units or Other Stock-Based Awards. If a Participant ceases to be an Employee of the Company or any of its Affiliates under any circumstance, the vesting, forfeiture and other terms of payout of any outstanding Award of a type other than those covered by Sections 12.2(a) or (b) above shall be determined as set forth in the applicable Award Agreement.

12.3 Termination of Services as a Director.

(a) Options and SARs. The vesting, forfeiture and other terms of payout for Awards of Options and SARs that apply in the event that a Director's services cease shall be determined as set forth in the applicable Award Agreement for Awards granted beginning in February 2013, and as follows for Awards granted prior to February 2013: All rights of a Director under an outstanding Award, to the extent it has not been exercised, shall terminate 90 days after the date of the termination of his or her services as a Director for any reason other than: (i) the death of the Director; (ii) cessation of services as a Director because the individual, although nominated by the Board of Directors, is not elected by the shareholders to the Board of Directors; or (iii) cessation of services as a Director because of total and permanent disability as defined in Section 22(e)(3) of the Code (collectively, "Termination Events"). If a Director's services as such cease because of a Termination Event, his or her unvested Options and SARs shall vest immediately. All vested Options and SARs shall expire one year after the date of a Termination Event.

(b) Other Types of Awards. If a Director's services as such cease under any circumstance, the vesting, forfeiture and other terms of payout of any outstanding Award other than Options and SARs shall be determined as set forth in the applicable Award Agreement.

12.4. Termination of Services as Third Party Service Provider. Except as provided otherwise in Sections 12.2 or 12.3, if applicable, the vesting, forfeiture and other terms of payout of any outstanding Award to a Participant whose agreement to provide services as a Third Party

Service Provider ceases under any circumstance shall be determined as set forth in the applicable Award Agreement.

12.5 Forfeiture Provisions and Clawbacks. The Committee may, as required by applicable laws, rules and regulations or otherwise in its discretion, approve forfeiture and/or “clawback” provisions in connection with particular Awards or Participants that specify that the Participant’s rights, payments, and benefits with respect to an Award may be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, despite and notwithstanding any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Employment for Substantial Cause, misconduct resulting in an accounting restatement due to material noncompliance with financial reporting requirements, violation of material Company or Affiliate policies, breach of non-competition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is determined by the Committee to be detrimental to the business or reputation of the Company and/or its Affiliates.

12.6 Leaves of Absence . The extent to which a Leave of Absence taken by an Employee Participant will affect an outstanding Award held by such Participant shall be determined in accordance with the terms of the Award Agreement and any applicable policies of the Participant’s employer.

Article 13 Transferability of Awards

13.1 Transferability . Unless otherwise provided in an Award Agreement, Awards shall not be transferable either voluntarily or by operation of law other than by will or the laws of descent and distribution; no Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind; and any purported transfer in violation hereof shall be null and void.

13.2 Domestic Relations Orders . Without limiting the generality of Section 13.1, no domestic relations order purporting to authorize a transfer of an Award or any interest in an Award or to grant the power to exercise an Option or SAR to any person other than a Participant (or his or her Representative) shall be recognized as valid or enforceable.

Article 14 Performance Measures

14.1 Performance Measures . Unless and until the Committee proposes for shareholder vote and the shareholders approve a change in the general Performance Measures set forth in this Article 14, the performance goals or metrics upon which the payment or vesting of an Award of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units (and any other Awards subject to performance results) to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures:

- (a) Measures of profitability, including, but not limited to, net income, operating earnings, and earnings before or after any one or more of the following: taxes, interest, depreciation, amortization and other non-cash charges;

- (b) Measures of revenue, including, but not limited to, earned premiums, written premiums, investment income, investment gains, and any other revenue measures reported by the Company in its financial statements;
- (c) Measures of return, including, but not limited to, return on assets, capital, invested capital, equity, earned premiums, written premiums, revenues, and returns and yields with respect to investment portfolio performance;
- (d) Cash flow including, but not limited to, operating cash flow, free cash flow, and cash flow return on equity;
- (e) Measures related to insurance policy retention, operating efficiencies, and productivity;
- (f) The Company's share price, including, but not limited to, share appreciation measures and measures of total shareholder return;
- (g) Measures based on cost or expense targets;
- (h) Market share;
- (i) Customer satisfaction;
- (j) Bad debt experience;
- (k) Economic value added or EVA[®] [net operating profit after tax] less [cost of equity capital];
- (l) Insurance underwriting income, combined ratios, loss ratios or expense ratios; and
- (m) Recovery of capital or capital efficiency.

In the sole discretion of the Committee, any of the foregoing Performance Measure(s) may: (i) be determined on a consolidated basis or with regard to any business unit or Affiliate or any combination thereof, (ii) be computed in accordance with accounting principles generally accepted in the United States, insurance statutory accounting principles or international accounting principles, or otherwise without regard to any such principles, (iii) be calculated on an absolute, relative or per-share basis, and (iv) in the case of a relative Performance Measure, be compared to (A) internal benchmarks, plans, projections or prior-years' results, or (B) the performance of a group of comparator companies or any published or specially created index (including any equity market index), in each case as selected by the Committee. The Committee shall also have the authority to provide for accelerated vesting of any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this Article 14.

14.2 Evaluation of Performance . In evaluating performance in connection with an Award, the Committee may include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization and restructuring programs; (e) extraordinary nonrecurring items as described in FASB Accounting Standards Codification™ 225-20 – *Extraordinary and Unusual Items* (or a successor pronouncement) and/or in the Company’s periodic reports filed with the Securities and Exchange Commission for periods within the applicable year; (f) acquisitions, divestitures, or business unit run-offs or closures; and any other circumstances deemed relevant by the Committee. To the extent such inclusions or exclusions affect Awards to Covered Employees that are intended to qualify as Performance-Based Compensation, they shall be prescribed in a form that meets the requirements of Section 162(m) for deductibility.

14.3 Adjustment of Performance-Based Compensation . Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward so as to enrich the Award. The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

14.4 Committee Discretion . In the event that applicable tax, securities laws and regulations and/or stock exchange rules change so as to permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of Section 162(m) and base vesting on Performance Measures other than those set forth in Section 14.1.

Article 15 Arbitration

The Committee may, as a condition to granting an Award, require that a Participant agree in writing to submit all disputes or claims arising out of or relating to any such Award to binding arbitration in accordance with such terms as the Committee shall prescribe.

Article 16 Compliance with Section 409A

16.1 409A Compliance .

(a) Any Award that is granted under the Plan shall be designed and administered so that the Award is either exempt from the application of, or compliant with, the requirements of Section 409A.

(b) To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A, the Award Agreement shall include such terms and conditions as the Committee determines, in its discretion, are necessary or advisable to avoid the imposition on the Participant of an additional tax under Section 409A. Notwithstanding any other provision of the Plan or any Award Agreement (unless the Award Agreement provides otherwise with specific

reference to this Section): (i) an Award shall not be granted, deferred, accelerated, extended, paid out, settled, substituted, adjusted or modified under the Plan in a manner that would result in the imposition of an additional tax under Section 409A on a Participant; and (ii) if an Award Agreement provides for the deferral of compensation within the meaning of Section 409A, no distribution or payment of any amount shall be made before a date that is six (6) months following the date of such participant's separation from service (as defined in Section 409A) or, if earlier, the date of the participant's death.

(c) Although the Company intends to administer the Plan so that Awards will be exempt from, or will comply with, the requirements of Section 409A, the Company does not warrant that any Award under the Plan will qualify for favorable tax treatment under Section 409A or any other provision of federal, state, local, or non-United States law. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest or penalties the Participant may owe as a result of the grant, holding, vesting, exercise or payment of any Award under the Plan.

16.2 Deferrals . Subject to the requirements of Section 16.1 of the Plan, the Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the lapse or waiver of restrictions with respect to any Award of a type that may be subject to the deferral provisions of Section 409A. If any such deferral election is required or permitted, the Committee shall, prior to requiring or permitting such deferral election, establish written rules and procedures for such payment deferrals that are intended to comply with the requirements of Section 409A including, without limitation, the time when a deferral election can or must be made, the period of the deferral, and the events that would result in payment of the deferred amount.

Article 17 Rights of Participants

17.1 Employment; Services . Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company and/or any of its Affiliates to terminate the Employment of, or provisions of services by, any Participant at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her Employment or services for any specified period of time. Neither an Award nor any benefits arising under the Plan shall constitute an employment contract with the Company and/or its Affiliates and, accordingly, subject to Article 19, the Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Board without giving rise to any liability on the part of the Company and/or its Affiliates.

17.2 Participation . No individual shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

17.3 Form of Stock; Rights as a Shareholder .

(a) Subject to the provisions of applicable laws, rules and regulations and stock exchange requirements, Shares granted pursuant to Awards hereunder shall be issued in book

entry or similar non-certificated form, or, at the request of a Participant following the completion of any applicable Period of Restriction, in the form of a stock certificate or by “DWAC” or similar electronic transfer to a brokerage or other account of the Participant.

(b) No Participant shall have any of the rights or privileges of a shareholder with respect to Shares covered by any Award until Shares shall have been issued and delivered: (a) to the Participant in the form of certificates (or held by the Company pursuant to Section 6.4); (b) to a brokerage or other account for the benefit of the Participant either in certificate form or via “DWAC” or similar electronic means; or (c) to a book entry or direct registration account in the name of the Participant, including a book entry account at the Company’s transfer agent.

Article 18 Change in Control

18.1 Definition of Change in Control. A “Change in Control” shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or any of its Affiliates) representing 25% or more of the combined voting power of the Company’s then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (c) below; or

(b) the following individuals cease for any reason to constitute a majority of the number of Directors then serving: individuals who, on the Effective Date, constitute the Board of Directors and any new Director (other than a Director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any Affiliate with any other corporation, other than (i) a merger or consolidation which results in the Directors immediately prior to such merger or consolidation continuing to constitute at least a majority of the Board of Directors of the surviving entity or any parent thereof, or (ii) a merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or any of its Affiliates) representing 25% or more of the combined voting power of the Company’s then outstanding securities; or

(d) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets, other than a sale or disposition by the Company of all or substantially all of the Company’s assets immediately following which the individuals who comprise the Board of Directors immediately prior thereto constitute at least a

majority of the board of directors of the entity to which such assets are sold or disposed or any parent thereof.

18.2 Other Definitions. As used in this definition of Change in Control:

(a) **“Beneficial Owner”** shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and

(b) **“Person”** shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified in Sections 13(d)(3) and 14(d)(2) thereof, except that such term shall not include (1) the Company or any entity, more than 50% of the voting securities of which are Beneficially Owned by the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (5) any individual, entity or group whose ownership of securities of the Company is reported on Schedule 13G pursuant to Rule 13d-1 promulgated under the Exchange Act (but only for so long as such ownership is so reported) or (6) Singleton Group LLC or any successor in interest to such entity.

(c) **“Good Reason”** shall mean any action taken by the Participant’s employer which results in a material negative change to the Participant in the Employment relationship, such as the duties to be performed, the conditions under which such duties are to be performed or the compensation to be received for performing such services. A termination by the Participant shall not constitute termination for Good Reason unless the Participant shall first have delivered to the employer written notice setting forth with specificity the occurrence deemed to give rise to a right to terminate for Good Reason (which notice must be given no later than 90 days after the occurrence of such event), and there shall have passed a reasonable time (not less than 30 days) within which the employer may take action to correct, rescind or otherwise substantially reverse the occurrence supporting termination for Good Reason as identified by the Participant.

18.3 Occurrence of a Change in Control. Upon the Occurrence of a Change in Control:

(a) In the event of a Change in Control as defined in Section 18.1 (a) or (b), except as prohibited by applicable laws, rules, regulations or stock exchange requirements, or as determined otherwise by the Committee in connection with particular Awards and set forth in the applicable Award Agreements, if the Employment of a Participant is terminated by the Company or an Affiliate without Substantial Cause or by the Participant for Good Reason within the twenty-four (24) month period following such Change in Control:

(i) any and all Options and SARs granted under the Plan shall vest and be immediately exercisable and shall remain exercisable for the remainder of their term;

(ii) any Period of Restriction and other restrictions imposed on time-vested Restricted Stock or Restricted Stock Units or Other Stock-Based Awards not subject to specified performance criteria shall lapse and such Awards shall immediately vest and be paid out or distributed without further restriction; and

(iii) the payout opportunities attainable under all outstanding performance-based Restricted Stock, Performance Shares or Performance Units or Other Stock-Based Awards subject to specified performance criteria, including Awards intended to qualify for deductibility under Section 162(m) of the Code, shall be deemed to have been fully earned based on the greater of (A) targeted performance, or (B) actual performance being attained for a truncated Performance Period that ends on the date of the Change in Control.

(b) In the event of a Change in Control as defined in Section 18.1 (c) or (d), the Plan shall terminate; provided, however, that notwithstanding the foregoing, the Board shall provide in writing in connection with such transaction for any one or more of the following alternatives (separately or in combinations): (i) all restrictions on outstanding Awards shall immediately lapse; (ii) for the assumption by the successor corporation of the Awards theretofore granted or the substitution by such corporation for such Awards theretofore granted of new Awards covering the stock of the successor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; (iii) for the continuance of the Plan by such successor corporation in which event the Plan and the Awards therefore granted shall continue in the manner and under the terms so provided; or (iv) for the payment in cash or stock in lieu of and in complete satisfaction of such Awards.

(c) Notwithstanding the foregoing provisions of Sections 18.3 (a) and (b) or any other Section of the Plan, the Committee may, in its sole discretion, determine different provisions for vesting and payout that shall apply in the event of a Change in Control in connection with particular Awards, provided that such provisions are consistent with Article 16 and applicable laws, rules, regulations and stock exchange requirements and are set forth in the applicable Award Agreements.

Article 19 Amendment, Modification, Suspension, and Termination

19.1 Amendment, Modification, Suspension, and Termination . Subject to Sections 16.1 and 19.3, the Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan in whole or in part; provided, however, that, no material amendment of the Plan shall be made without shareholder approval if shareholder approval is required by law, regulation, or stock exchange rule. Furthermore, no amendment, modification, suspension or termination may impact the distribution of any Award that is subject to Section 409A or is intended to qualify as Performance-Based Compensation under Section 162(m), except as permitted by such applicable Section.

19.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events . The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.4 hereof) affecting the Company (or any of its Affiliates) or the financial statements of the Company (or any of its Affiliates) or of changes in applicable laws, rules, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the

Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan. No amendment, modification, suspension or termination may impact the distribution of any Award that is subject to Section 409A or is intended to qualify as Performance-Based Compensation under Section 162(m), except as permitted by such applicable Section.

19.3 Awards Previously Granted . Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

Article 20 Withholding

20.1 Tax Withholding . The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the amount of any taxes that the Company may be required to withhold with respect to any taxable event arising from such Participant's Awards.

20.2 Share Withholding . For Participants who are Employees, unless a different form of remittance is agreed to in writing by the Company pursuant to Section 20.1, upon the lapse of restrictions on a Participant's Restricted Stock and Restricted Stock Units, or any other taxable event arising as a result of an Award granted hereunder, the Company shall withhold Shares having a Fair Market Value equal to the amount of the tax withholding requirements with respect to any such taxable event based on minimum statutory withholding rates for federal and state purposes, including payroll taxes.

20.3 Option or SAR Withholding. Upon the exercise of a Non-Qualified Option or a SAR, the Company shall have the right to: (i) require such Participant (or such Participant's Representative) to pay the Company the amount of any taxes which the Company may be required to withhold with respect to such exercise, or (ii) deduct from all amounts paid in cash with respect to the exercise of a SAR the amount of any taxes which the Company may be required to withhold with respect to such cash amounts. Subject to the limitation set forth in the next sentence, a Participant or such Participant's Representative may elect to satisfy all or any portion of the tax withholding obligations arising from the exercise of an Option or SAR either by: (i) any of the methods described in Section 8.3(b); or (ii) directing the Company to withhold Shares that would otherwise be issued pursuant to such exercise. No Participant or Participant's Representative shall have the right to utilize Constructive or Actual Delivery of Shares or have Shares withheld, in either case, in excess of the minimum number required to satisfy applicable tax withholding requirements based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes. Shares used in either of the foregoing ways to satisfy tax withholding obligations will be valued at their Fair Market Value on the date of exercise.

Article 21 Successors

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 22 General Provisions

22.1 Gender and Number . Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

22.2 Severability . In the event that any provision of the Plan shall for any reason be held illegal, invalid or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law, rule or regulation deemed applicable by the Committee, such provision shall be construed or deemed amended to the minimum extent necessary to conform to such applicable law, rule or regulation or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

22.3 Requirements of Law . The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

22.4 Delivery of Title . The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

(a) Obtaining any approvals from governmental agencies or national securities exchanges that the Company determines are necessary or advisable; and

(b) Completion of any registration or other qualification of the Shares under any applicable securities, "Blue Sky" or other laws that the Company determines to be necessary or advisable.

22.5 Inability to Obtain Authority . The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

22.6 Investment Representations . The Committee may require any individual receiving Shares pursuant to an Award under the Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

22.7 Unfunded Plan . Participants shall have no right, title, or interest whatsoever in or to any investments that the Company, and/or its Affiliates may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other individual. To the extent that any person acquires a right to receive payments from the Company, its Affiliates under the Plan,

such right shall be no greater than the right of an unsecured general creditor of the Company or an Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general assets of the Company or an Affiliate, as the case may be and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan.

22.8 No Fractional Shares . No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

22.9 Non-Exclusivity of the Plan . The adoption of the Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

22.10 No Constraint on Corporate Action . Nothing in the Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or an Affiliate to take any action which such entity deems to be necessary or appropriate.

22.11 Non-Uniform Treatment. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among Participants or individuals who are eligible to receive Awards (whether or not such individuals are similarly situated). Without limiting the generality of the foregoing, the Committee will be entitled, among other things, to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements, as to Participants under the Plan and the terms and conditions applicable to Awards made under the Plan.

22.12 Governing Law . The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Delaware and Illinois, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

**AMENDMENT NO. 1 TO THE
KEMPER CORPORATION NON-QUALIFIED DEFERRED COMPENSATION PLAN**

WHEREAS , Kemper Corporation, a Delaware corporation (the “Company”), amended and restated the Kemper Corporation Non-Qualified Deferred Compensation Plan, effective August 25, 2011 (the “Deferred Compensation Plan”); and

WHEREAS , the Administrative Committee of the Kemper Corporation 401(k) Savings Plan (the “Committee”) has the authority to amend the Deferred Compensation Plan, except for amendments which would have a material adverse financial impact on the Company and its affiliates; and

WHEREAS , the Committee now desires to amend the Deferred Compensation Plan to increase the amount of eligible compensation that may be deferred under the Deferred Compensation Plan by a participant, effective January 1, 2013.

NOW , THEREFORE , the Committee, on behalf of the Company, does hereby adopt the following amendments to the Deferred Compensation Plan, effective with respect to Deferral Elections that are effective on or after January 1, 2013:

1. Section 1.5 of the Deferred Compensation Plan is amended to add “(in printed or electronic form)” after the phrase “written document.”

2. Section 1.12 of the Deferred Compensation Plan is amended to read as follows:

“‘ Deferral Election ’ means the following: (a) for Employee Participants, an election to defer a part of such Participant’s Regular Base Salary, such Participant’s Bonus Compensation, or such Participant’s Multi-Year Incentive Compensation, all pursuant to Section 3.1, and (b) for Outside Director Participants, an election to defer Director Fees pursuant to Section 3.1. A Participant’s Deferral Election shall also include an election by the Participant specifying the calendar year in which payments shall commence and the method of payment with respect to the payout of all future benefits attributable to deferrals for the Plan Year.”

3. Section 1.20 of the Deferred Compensation Plan is amended to add “(in printed or electronic form)” after the phrase “written document.”

4. Section 3.1 of the Deferred Compensation Plan is amended to read as follows:

“3.1 Deferral Amounts .

(a) Participants may elect to defer Eligible Compensation subject to the limits described below. A separate election for Regular Base Salary, Bonus Compensation, Multi-Year Incentive Compensation and Director Fees must be made. Outside Director Participants may elect to defer up to 100%

of their Director Fees. Subject to Section 3.1(b), Employee Participants may elect to defer up to (i) 60% of their Regular Base Salary, (ii) 85% of their Bonus Compensation, and (iii) for Multi-Year Incentive Compensation for which the first year of the performance period begins on or after January 1, 2013, 85% of their Multi-Year Incentive Compensation.

(b) The amount that an Employee Participant may defer cannot be in excess of his or her Regular Base Salary, Bonus Compensation and Multi-Year Compensation, respectively, reduced by their "Applicable Taxes." "Applicable Taxes" means the taxes on the Regular Base Salary, Bonus Compensation and Multi-Year Compensation, respectively, which a Participant elects to defer under the Plan and which are described in the following Regulations:

(i) Treas. Reg. § 1.409A-3(j)(4)(vi), which allows an Employer to accelerate payment of Eligible Compensation deferred under the Plan to pay FICA taxes on such Eligible Compensation and income tax withholding related to such FICA taxes; and

(ii) Treas. Reg. § 1.409A-3(j)(4)(xi), which allows an Employer to accelerate payment of Eligible Compensation deferred under the Plan to pay state, local or foreign taxes on such Eligible Compensation and income tax withholding related to such taxes."

IN WITNESS WHEREOF, a duly appointed member of the Committee has executed this Amendment No. 1 to the Deferred Compensation Plan on this 21st day of December, 2012.

KEMPER CORPORATION

By: /S/ LISA KING
Lisa King
Its: Vice President

KEMPER CORPORATION
2009 Performance Incentive Plan

Amended and Restated as of February 4, 2013

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Kemper Corporation
2009 Performance Incentive Plan

Amended and Restated
Effective February 4, 2013

Article 1 **Establishment, Purpose, and Duration**

1.1 Establishment . Kemper Corporation, a Delaware corporation (hereinafter referred to as the “Company”), hereby establishes the 2009 Performance Incentive Plan (the “Plan”). The Plan is effective as of February 3, 2009 (“Effective Date”), and was most recently amended and restated effective February 4, 2013. This Plan permits the grant by the Company and its Affiliates of Annual Incentive Awards and Multi-Year Incentive Awards, as defined hereafter. In accordance with Section 162(m), provisions of this Plan applicable to Awards to Covered Employees shall be subject to approval by the Company’s shareholders, at a meeting duly held in accordance with the Company’s Amended and Restated Bylaws and applicable law. Any Awards granted to Covered Employees in advance of the requisite shareholders’ vote shall be made contingent upon such approval by the Company’s shareholders. In no event shall any amounts be paid with respect to Awards granted to Covered Employees unless and until the requisite shareholder approval has been obtained.

1.2 Purpose of this Plan . The purpose of this Plan is to motivate and reward eligible executive-level Employees through annual and multi-year cash incentive awards tied to the achievement of performance goals established hereunder, and to attract and retain superior Employees through these incentives. This Plan is designed to enable the Company (or an Employer) to grant Awards, or portions thereof, to Covered Employees that qualify as Performance-Based Compensation under Section 162(m) in order to preserve the Company’s federal income tax deduction for incentive compensation paid to such Employees. In addition, this Plan is designed to enable the Company (or an Employer) to grant Awards, or portions thereof, to Covered Employees that do not qualify as Performance-Based Compensation under Section 162(m).

Article 2 **Definitions**

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 “Affiliate” means any person or entity controlled directly or indirectly by the Company, whether by equity ownership, contract or otherwise and shall include direct or indirect subsidiaries of the Company and mutual companies the management of which is controlled by the Company and its subsidiaries.

2.2 “ Annual Award Limit ” or **“ Annual Award Limits ”** have the meaning set forth in Section 4.3.

2.3 “Annual Incentive Award” means an arrangement under which a Participant is given the opportunity to earn a cash bonus based on the achievement of performance goals measured over a Performance Period of one year or less.

2.4 “Award” means, individually or collectively, a grant under this Plan of an Annual Incentive Award or a Multi-Year Incentive Award, in each case subject to the terms of this Plan.

2.5 “Award Instrument” means either: (a) a written agreement between a Participant and the Company or his or her Employer setting forth the terms and conditions applicable to an Award, or (b) a written or electronic statement issued by the Company or an Employer to a Participant describing the terms and conditions of such Award.

2.6 “Board” or “Board of Directors” means the Board of Directors of the Company.

2.7 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time, or any successor statute.

2.8 “Committee” means the Compensation Committee of the Board or any subcommittee thereof, or any other committee designated by the Board to administer this Plan.

2.9 “Company” means Kemper Corporation, a Delaware corporation, and any successor thereto as provided in Article 15 herein.

2.10 “Corporate Performance Measures” is defined in Section 5.3.

2.11 “Covered Employee” means any Employee who is or may become a “Covered Employee,” as defined in Section 162 (m).

2.12 “Disability or Disabled” when used with respect to a particular Participant, means a physical or mental condition that: (a) is of a type that would generally trigger benefits under the Company’s long-term disability plan (as in effect from time to time), whether or not such Participant is actually enrolled in such plan; or (b) in the absence of any such plan, would cause such Participant to be unable to substantially perform his or her duties as an Employee, as determined in the sole discretion of the Committee. Notwithstanding the foregoing, if an Award becomes subject to Section 409A, “Disability” and “Disabled” shall be defined as required thereunder.

2.13 “Effective Date” has the meaning set forth in Section 1.1.

2.14 “Employee” means any employee of the Company or any Affiliate of the Company.

2.15 “Employer” means, with respect to a given Employee, whichever of the Company or its Affiliates is the employer of such Employee.

2.16 “Individual Performance Measures” is defined in Section 5.2.

2.17 “Multi-Year Incentive Award” means an arrangement under which a Participant is given the opportunity to earn a cash award based on the achievement of one or more performance goals measured over a Performance Period of more than one year.

2.18 “Participant” means any Employee to whom an Award is granted.

2.19 “Performance-Based Compensation” means compensation under an Award that satisfies the requirements of Section 162(m).

2.20 “Performance Measures” means measures described in Article 5 on which performance goals for Awards are based and, for measures applicable to Awards, or applicable portions thereof, to Covered Employees that are intended to qualify as Performance-Based Compensation, the measures which are approved by the Company’s shareholders pursuant to this Plan in order to qualify Awards as Performance-Based Compensation.

2.21 “Performance Period” means the period of time with respect to which the achievement of performance goals is measured to determine the amount of the payout, if any, of an Award.

2.22 “Plan” is defined in Section 1.1 above.

2.23 “Plan Year” means a calendar year.

2.24 “Retirement” or “Retires” means, for Awards granted prior to February 2013, the voluntary termination of employment by a Participant who has attained age 55, is eligible for early retirement under a retirement plan sponsored by the Company, and makes an election to begin receiving retirement benefits under such retirement plan, and for Awards granted beginning in February 2013, the termination of employment by a Participant who has attained age 65 and completed at least five years of service with the Company and/or one or more of its Affiliates.

2.25 “Section 162(m)” means Section 162(m) of the Code, or any successor provision, and the regulations, rulings and other guidance issued thereunder by the Internal Revenue Service.

2.26 “Section 409A” means Section 409A of the Code, or any successor provision, and the regulations, rulings and other guidance issued thereunder by the Internal Revenue Service.

2.27 “Subject Employees” means the executive officers of the Company and the officers of the Company’s Affiliates who are generally referred to by the Company as the operating company presidents and group executives, and includes the Covered Employees.

Article 3 Eligibility and Participation

3.1 Eligibility . All executive-level Employees, as determined in the discretion of the Committee (or in the discretion of the Company's Chief Executive Officer or other executive officer pursuant to a delegation of authority made pursuant to the terms of this Plan), shall be eligible to participate in this Plan.

3.2 Actual Participation . For Awards to Subject Employees, the Committee shall have the sole power and authority, in its discretion, to select Award recipients and determine the terms of Awards on its own initiative or to approve, modify or reject Award recommendations from the management of the Company or its Affiliates, and no such Awards shall be granted without the prior, express approval of the Committee. For Awards to other Employees, the Committee may delegate to the Company's Chief Executive Officer (and such other executive officers of the Company as determined appropriate by the Committee in its discretion), the power and authority to select such additional Award recipients and to approve and determine the terms of such Awards.

Article 4 Grant, Earning and Payment of Awards

4.1 Grant of Awards . At any time and from time to time, Annual Awards and/or Multi-Year Awards may be granted to Participants under the terms and provisions of this Plan.

4.2 Award Instruments . Each Award to a Participant shall be evidenced by an Award Instrument that specifies the applicable Performance Period, Performance Measures, performance goals, threshold, maximum and target payouts and such other provisions as have been approved for such Participant in accordance with this Plan, including, without limitation, such provisions as maybe determined necessary or advisable to comply with Article 9.

4.3 Awards to Covered Employees.

(a) **Annual Award Limit.** The maximum amount paid to a Covered Employee in any one Plan Year under an Annual Incentive Award or a Multi-Year Incentive Award may not exceed \$2,000,000 ("Annual Award Limit").

(b) **Performance Goals.** Within ninety (90) days of the beginning of each Performance Period (or, if earlier, before twenty-five percent (25%) of the period of service to which the Performance Measures relate has elapsed), the Committee shall establish or approve the performance goals for the Performance Period for Awards, or the applicable portions thereof, to Covered Employees that are intended to qualify as Performance-Based Compensation. Any such performance goals established by the Committee shall be stated in terms of an objective formula or standard and shall be based on one of, or a combination of, the Performance Measures set forth in Section 5.3. For Awards, or portions thereof, to Covered Employees that are not intended to qualify as Performance-Based Compensation, the Committee shall establish or approve the performance goals at any time during the Performance Period as it shall determine appropriate in its discretion.

(c) **Data and Calculations.** After each Performance Period, the Company shall compile data and perform calculations as may be necessary to assess results and achievements of performance goals that were previously established for such Performance Period.

(d) **Satisfaction of Performance Goals.** After each Performance Period, the Company shall submit a written report to the Committee providing such data and calculations necessary to enable the Committee to assess the results and achievement of performance goals for such Performance Period that were previously established for Awards granted to Covered Employees. The Committee shall review such report and make a determination for each Covered Employee as to the degree of achievement of each performance goal for Awards, or the applicable portions thereof, that are intended to qualify as Performance-Based Compensation based upon the actual results for such Performance Period. Prior to the payout of any Award to a Covered Employee, the Committee shall certify in accordance with Section 162(m) the extent to which the performance goal(s) for the applicable Performance Period have been satisfied.

(e) **Payouts.** The Committee, in its sole discretion, may reduce the amount of the payout that otherwise would be due to a Covered Employee upon application of the performance goals for the Performance Period applicable to an Award to the extent necessary to prevent a payout in excess of the Annual Award Limit for such Award. Under no circumstances may the Committee increase the amount of any Award to a Covered Employee, or portion thereof, that is intended to qualify as Performance-Based Compensation, that otherwise would be payable upon application of the performance goals thereunder for the applicable Performance Period.

4.4 Awards to Other Participants. With respect to Participants other than Covered Employees, data shall be provided by the Company and a determination shall be made by the Committee or, pursuant to a delegation of authority made in accordance with the terms of this Plan, by the Company's Chief Executive Officer or other executive officer, as to the degree of achievement of each performance goal based upon the actual results for the Performance Period.

4.5 Timing of Payments. Awards shall be paid, in cash, as soon as practicable after the end of a Performance Period in accordance with the terms of the Award Instrument (but in no event later than March 15 of the calendar year immediately following the end of the Performance Period).

Article 5 Performance Measures

5.1 Performance Measures . Payouts of all Awards shall be conditioned upon the attainment of performance goals that are established for the relevant Performance Periods based upon specified Performance Measures. Performance goals for Awards to Participants may be based on Individual Performance Measures, Corporate Performance Measures, or a combination of the two.

5.2 Individual Performance Measures . Performance goals may be established for Awards to a Participant based on individual performance measures which may be quantitative or qualitative in nature (“Individual Performance Measures”). In the case of an Award based upon a combination of Individual Performance Measures and Corporate Performance Measures, specific limits may be imposed on the portion of the payout that is based upon Individual Performance Measures. Such limits may be expressed in terms of the total dollar amount or the percentage of the Award’s payout that may be attributable to the attainment of Individual Performance Measures.

5.3 Corporate Performance Measures . Unless and until the Committee proposes for shareholder vote and the shareholders of the Company approve a change in the Performance Measures set forth in this Section 5.3, the corporate performance goals upon which the payment of an Award may be conditioned shall be limited to the following Performance Measures (“Corporate Performance Measures”):

- (a) Net earnings or net income (before or after taxes);
- (b) Operating earnings per share;
- (c) Net sales or revenue growth;
- (d) Operating income and/or average increase in dollars of operating income of the Company or any of its Subsidiaries or operating units;
- (e) Return measures (including, but not limited to, return on assets, capital, invested capital, investment portfolio performance returns or yields, equity, sales, or revenue);
- (f) Cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on equity);
- (g) Earnings before or after taxes, interest, depreciation, and/or amortization;
- (h) Gross or operating margins;
- (i) Productivity ratios;
- (j) Share price (including, but not limited to, growth measures and total shareholder return);
- (k) Expense targets;
- (l) Margins;
- (m) Operating efficiency;
- (n) Market share;

- (o) Customer satisfaction;
- (p) Working capital targets;
- (q) Bad debt experience;
- (r) Reduction in costs;
- (s) Economic value added or EVA[®] (net operating profit after tax minus the sum of capital multiplied by the cost of capital); and
- (t) Insurance company underwriting income, combined ratios, loss ratios or expense ratios.

Any Corporate Performance Measure(s) may be defined in accordance with generally acceptable accounting principles or otherwise, and may be used to measure the performance of the Company and its Affiliates on a consolidated basis, or any Affiliate or business unit or segment of the Company individually, or any combination thereof, as the Committee may deem appropriate. Any Corporate Performance Measure may also be compared against similar measures for a group of comparator or peer companies, or against a published or special index that the Committee, in its sole discretion, deems appropriate, or the Committee may select Performance Measure (j) above as compared to various stock market indices.

5.4 Unusual and Nonrecurring Events . An Award Instrument may provide that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization or restructuring; (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 (or a successor pronouncement) and/or in the Company's periodic reports filed with the Securities and Exchange Commission for periods within the applicable Performance Period; and (f) acquisitions or divestitures. In addition, an Award Instrument may provide the Committee with authority to make, in its discretion, adjustments to the established performance goals applicable to such Award to reflect changes to the job responsibilities of the Participant or the structure of the Company or its Affiliates that relate directly to such established performance goals for all or a portion of the applicable Performance Period. To the extent such inclusions or exclusions affect Awards, or portions thereof, to Covered Employees that are intended to qualify as Performance-Based Compensation, they shall be approved by the Committee and prescribed in a form that meets the requirements of Section 162(m).

5.5 Committee Discretion . In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Measures for Awards to Covered Employees without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

Article 6 Termination of Employment; Leave of Absence

6.1 Death or Disability . Upon termination of the employment of a Participant due to death or Disability, for each outstanding Award previously granted to the Participant, the Performance Period shall be deemed to have been completed and a payout of the Award shall be due to the Participant (or, in the case of death, to the Participant's designated beneficiary, if any, or to his or her estate) at the level defined in the Award Instrument as the "target" level as if the applicable performance goal(s) had been achieved at such target level, but reduced on a pro-rata basis by multiplying the amount that would have been payable under the Award at such target level for the original Performance Period by a fraction, the numerator of which is the number of full months in the Performance Period during which the Participant was an active Employee and the denominator of which is the total number of months in the original Performance Period. A partial month worked shall be counted as a full month if the Participant was an active Employee for fifteen (15) days or more in that month. The Award shall be paid, in cash, as soon as practicable after the termination of employment (but in no event later than March 15 of the calendar year immediately following the end of such completed Performance Period).

6.2 Retirement . In the event that a Participant's employment terminates due to Retirement, for each outstanding Award previously granted to the Participant, a payout of the Award shall be due, to the extent earned, based upon the actual results relative to the applicable performance goal(s) for such Award for the original Performance Period, but reduced on a pro-rata basis by multiplying the amounts that would have been payable under the Award for the original Performance Period by a fraction, the numerator of which is the number of full months in the Performance Period during which the Participant was an active Employee and the denominator of which is the total number of months in the original Performance Period. A partial month worked shall be counted as a full month if the Participant was an active Employee for fifteen (15) days or more in that month. The Award shall be paid, in cash, as soon as practicable after the completion of the original Performance Period when Award payouts are made to active Employees (but in no event later than March 15 of the calendar year immediately following the end of the Performance Period).

6.3 Divestiture of Employer . In the event that a Participant's employment terminates upon and as result of the sale or divestiture by the Company or any of its Affiliates of its controlling interest in any Employer ("Divestiture"), for each outstanding Award previously granted to such Participant, the term of the applicable Performance Period shall be deemed revised so that the Performance Period ends on the effective date of the Divestiture, and a payout of the Award shall be due, to the extent earned, based on the actual results relative to the applicable performance goal(s) for such Award for the revised Performance Period. The Award shall be paid, in cash, as soon as practicable after the termination of employment (but in no event later than March 15 of the calendar year immediately following the end of such completed Performance Period).

6.4 Other Termination Provisions .

(a) **Other Events**. In the event a Participant's employment terminates for any reason other than death, Disability, Retirement, Divestiture, or an Event as defined in Article

11, including but not limited to, termination with or without cause by his or her Employer, or voluntary termination by the Participant, any outstanding Award shall be canceled and the Participant shall receive no payment for such Award under this Plan, unless, subject to Section 16.1, the Performance Period associated with any such Award had been completed at the time of the Participant's termination of employment, in which case the payout, if any, pursuant to such Award shall be computed and paid in accordance with the relevant performance goals as if the Participant's employment had not terminated.

(b) Other Provisions. The Committee may, in its discretion, approve termination provisions in connection with particular Awards or Participants that differ from the terms of this Article 6 to the extent such provisions: (i) are consistent with Section 162(m), if and as applicable; and (ii) do not adversely affect any Award previously granted under this Plan in any material way without the written consent of the Participant holding such Award.

6.5 Leave of Absence . In the event that the Participant is on an approved leave of absence (other than a short-term disability leave) at the end of the Performance Period, or takes such a leave of absence at any time during the Performance Period, a payout of the Award shall be due, to the extent earned, based upon the actual results relative to the applicable performance goal(s) for such Award for the Performance Period, but reduced on a pro-rata basis by multiplying the amount that would have been payable under the Award for the Performance Period by a fraction, the numerator of which is the number of full months in the Performance Period during which the Participant was an active Employee not on such leave of absence and the denominator of which is the total number of months in the Performance Period. A partial month worked shall be counted as a full month if the Participant was an active Employee for fifteen (15) days or more in that month. The Award shall be paid, in cash, as soon as practicable after the completion of the original Performance Period when Award payouts are made to active Employees (but in no event later than March 15 of the calendar year immediately following the end of the Performance Period).

Article 7 Transferability of Awards

7.1 Transferability . Awards shall not be transferable other than by will or the laws of descent and distribution. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

7.2 Domestic Relations Orders . Without limiting the generality of Section 7.1, no domestic relations order purporting to authorize a transfer of an Award or any interest in an Award shall be recognized as valid.

Article 8 Arbitration

As a condition to receiving an Award grant, a Participant may be required to agree in writing to submit all disputes or claims arising out of or relating to any such Award to binding arbitration in accordance with such terms as prescribed when the Award is approved.

Article 9 Compliance with Section 409A

Each Award that is granted under this Plan shall be designed and administered so that the Award is either exempt from the application of, or compliant with, the requirements of Section 409A. To the extent that the Committee determines that any Award granted under this Plan is subject to Section 409A, the Award Instrument shall include such terms and conditions as the Committee determines, in its discretion, are necessary or advisable to avoid the imposition on the Participant of an additional tax under Section 409A. Notwithstanding any other provision of this Plan or any Award Instrument (unless the Award Instrument provides otherwise with specific reference to this Section): (i) an Award shall not be granted, deferred, accelerated, extended, paid out, settled, substituted, adjusted or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A upon a Participant; and (ii) if an Award Instrument provides for the deferral of compensation within the meaning of Section 409A, no distribution or payment of any amount shall be made before a date that is six (6) months following the date of such participant's separation from service (as defined in Section 409A) or, if earlier, the date of the Participant's death. Although the Company intends to administer this Plan so that Awards will be exempt from, or will comply with, the requirements of Section 409A, the Company does not warrant that any Award under this Plan will qualify for favorable tax treatment under Section 409A or any other provision of federal, state, local, or non-United States law. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisors shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest or penalties the Participant may owe as a result of the grant, holding, vesting or payment of any Award under this Plan.

Article 10 Rights of Participants

10.1 Employment . Nothing in this Plan or an Award Instrument shall interfere with or limit in any way the right of an Employer to terminate any Participant's employment at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her employment for any specified period of time. Neither an Award, an Award Instrument, nor any benefit arising under this Plan shall constitute an employment contract with the Company or any of its Affiliates and, accordingly, subject to Articles 12 and 13, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates or their respective directors, officers, employees or advisors.

10.2 Participation . No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Article 11 Change in Control

(a) **For Awards granted prior to February 2013.** Upon the dissolution or liquidation of the Company, or upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of substantially all the property or more than eighty percent (80%) of the then outstanding Shares of the Company to another corporation (any of the foregoing, an "Event"), the applicable

Performance Period for each Award then outstanding under this Plan shall be deemed revised so that such Performance Period ends on the effective date of the Event, and a payout of each such Award shall be due to the respective Participant in the amount which is the greater of the payout that would be due: (a) based upon the actual results for such revised Performance Period relative to the applicable performance goal(s) for such Award; or (b) at the level defined in the respective Award Instrument as the “target” level for such Award for such revised Performance Period. The Award shall be paid, in cash, as soon as practicable after the Event (but in no event later than March 15 of the calendar year immediately following the end of the revised Performance Period).

(b) For Awards granted beginning in February 2013. Upon a Change in Control, except as prohibited by applicable laws, rules, regulations or stock exchange requirements, or as determined otherwise by the Committee in connection with particular Awards and set forth in the applicable Award Agreements, if the employment of a Participant is terminated by the Company or an Affiliate without Substantial Cause or by the Participant for Good Reason within the twenty-four (24) month period following such Change in Control, the applicable Performance Period for each Award then outstanding under this Plan shall be deemed revised so that such Performance Period ends on the effective date of the termination of employment, and a payout of each such Award shall be due to the respective Participant in the amount which is the greater of the payout that would be due: (a) based upon the actual results for such revised Performance Period relative to the applicable performance goal(s) for such Award; or (b) at the level defined in the respective Award Instrument as the “target” level for such Award for such revised Performance Period. The Award shall be paid, in cash, as soon as practicable after the termination of employment (but in no event later than March 15 of the calendar year immediately following the end of the revised Performance Period).

For purposes of this Article 11(b):

“Change in Control” means that the event set forth in any one of the following paragraphs (a) – (d) shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or any of its Affiliates) representing 25% or more of the combined voting power of the Company’s then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (c) below; or

(b) the following individuals cease for any reason to constitute a majority of the number of Directors then serving: individuals who, on the Effective Date, constitute the Board of Directors and any new Director (other than a Director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any Affiliate with any other corporation, other than (i) a merger or consolidation which results in the Directors immediately prior to such merger or consolidation continuing to constitute at least a majority of the Board of Directors of the surviving entity or any parent thereof, or (ii) a merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or any of its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(d) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets immediately following which the individuals who comprise the Board of Directors immediately prior thereto constitute at least a majority of the board of directors of the entity to which such assets are sold or disposed or any parent thereof.

“Beneficial Owner” shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”);

“Person” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified in Sections 13(d)(3) and 14(d)(2) thereof, except that such term shall not include (1) the Company or any entity, more than 50% of the voting securities of which are Beneficially Owned by the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (5) any individual, entity or group whose ownership of securities of the Company is reported on Schedule 13G pursuant to Rule 13d-1 promulgated under the Exchange Act (but only for so long as such ownership is so reported) or (6) Singleton Group LLC or any successor in interest to such entity.

“Good Reason” shall mean any action taken by the Participant's Employer which results in a material negative change to the Participant in the employment relationship, such as the duties to be performed, the conditions under which such duties are to be performed or the compensation to be received for performing such services. A termination by the Participant shall not constitute termination for Good Reason unless the Participant shall first have delivered to the Employer written notice setting forth with specificity the occurrence deemed to give rise to a right to terminate for Good Reason (which notice must be given no later than 90 days after the occurrence of such event), and there shall have passed a reasonable time (not less than 30 days) within which the employer may take action to correct, rescind or otherwise substantially reverse the occurrence supporting termination for Good Reason as identified by the Participant.

“Substantial Cause” means the (a) commission of a criminal act against, an action in derogation of the interests of, or misconduct which results in a financial loss to, the Company or

an Affiliate; (b) misconduct which obligates the Company to prepare an accounting restatement due to material noncompliance with applicable financial reporting requirements; (c) knowing disclosure of confidential information about the Company or an Affiliate in breach of the Company's Essential Standards of Conduct or an applicable contractual or other obligation, or using such information for personal gain, including, without limitation, by trading in Company securities on the basis of material, non-public information; or (d) performance of any other action that the Committee, in its sole discretion, may deem to be sufficiently injurious to the interests or reputation of the Company or an Affiliate to constitute substantial cause for the termination of a Participant's employment. Nothing in the Plan shall be construed to imply that a Participant's employment or other relationship with the Company or its Affiliates may only be terminated for Substantial Cause.

Article 12 Administration

12.1 General. The Committee shall be responsible for oversight of the administration of this Plan, subject to this Article 12 and the other provisions of this Plan. The Committee may retain attorneys, consultants, accountants, or other advisors, and the Committee, the Company and its Affiliates, and their respective officers and directors shall be entitled to rely upon the advice, opinions, or valuations of any such advisors. The fees of any such advisors shall be paid by the Company. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, beneficiaries, the Company, its Affiliates and all other interested individuals.

12.2 Authority of the Committee .

(a) Power and Discretion. The Committee shall have full and, except as otherwise expressly provided in this Plan, exclusive, power and discretion: (i) to interpret the terms and the intent of this Plan and any Award Instrument or other agreement or document ancillary to or in connection with this Plan, and to adopt such rules, regulations, forms, instruments, and guidelines for administering this Plan as the Committee may deem necessary or proper; (ii) subject to Article 13, to adopt modifications and amendments to this Plan or any Award Instrument, including without limitation, any that are necessary to comply with the laws of the jurisdictions in which the Company and its Affiliates operate or may operate.

(b) Delegation. Notwithstanding the other provisions of this Plan, including Section 12.2(a), the Committee may in its discretion delegate such administrative duties or powers as it may deem advisable to one or more of its members and, except in connection with Awards to Subject Employees that are intended to qualify as Performance-Based Compensation, to one or more officers of the Company or its Affiliates.

12.3 Performance-Based Compensation. With regard to Awards, or portions thereof, to Covered Employees that are intended to qualify as Performance-Based Compensation, this Plan shall be administered in a manner consistent with the terms and conditions of Section 162(m), as applicable.

Article 13 Amendment, Modification, Suspension, and Termination

13.1 Amendment, Modification, Suspension, and Termination . Subject to Article 9 and Section 13.2, the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate this Plan in whole or in part; provided, however, that, no material amendment of this Plan shall be made without shareholder approval if shareholder approval is required by law. Furthermore, no amendment, modification, suspension or termination may impact the distribution of any Award that is subject to Section 409A or is intended to qualify as Performance-Based Compensation under Section 162(m), except as permitted by such applicable Section.

13.2 Awards Previously Granted . Notwithstanding any other provision of this Plan to the contrary, no termination, amendment, suspension, or modification of this Plan or an Award Instrument shall adversely affect in any material way any Award previously granted under this Plan, without the written consent of the Participant holding such Award.

Article 14 Tax Withholding

An Employer shall have the power and the right to deduct or withhold, or require a Participant to remit to the Employer, the amount of any taxes which the Employer may be required to withhold with respect to any taxable event arising from such Participant's Awards.

Article 15 Successors

All obligations of the Company or any Affiliate under this Plan with respect to Awards granted hereunder shall be binding on any successor to the Company or such Affiliate, whether the existence of such successor is the result of a direct or indirect purchase, sale, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company or such Affiliate.

Article 16 General Provisions

16.1 Forfeiture Events . An Award Instrument may specify that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause, violation of material Company and/or Affiliate policies, breach of non-competition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates.

16.2 Severability . In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

16.3 Unfunded Plan . Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between any Participant and his or her Employer or the Company or any of its Affiliates. Participants shall have no right, title, or interest whatsoever in or to any assets of their Employers or of the Company or any of its Affiliates with respect to the obligations arising out of any Awards. To the extent that any person acquires a right to receive payments pursuant to an Award, such right shall be no greater than the right of a general unsecured creditor of the Participant's Employer. No special or separate fund shall be established and no segregation of assets shall be made to assure payment of amounts payable under this Plan.

16.4 Non-exclusivity of this Plan . The adoption of this Plan shall not be construed as creating any limitations on the power of the Company or any of its Affiliates to adopt such other compensation arrangements as it may deem desirable for any Employee.

16.5 Governing Law . This Plan and each Award Instrument shall be governed by the laws of the State of Illinois, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Instrument (or other written agreement related to arbitration pursuant to Article 8), each Participant is deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Illinois and the state in which such Participant's regular office is located, to resolve any and all issues that may arise out of or relate to this Plan or any related Award Instrument.

16.6 Beneficiaries. Each Participant may designate a beneficiary or beneficiaries to receive, in the event of such Participant's death, any payments remaining to be made to the Participant under the Plan. Each Participant shall have the right to revoke any such designation and to redesignate a beneficiary or beneficiaries by written notice to the Employer to such effect. If a Participant dies without naming a beneficiary or if all of the beneficiaries named by a Participant predecease the Participant, then any amounts remaining to be paid under this Plan shall be paid to the Participant's estate.

Kemper Corporation 2009 Performance Incentive Plan

ANNUAL INCENTIVE AWARD AGREEMENT

This ANNUAL INCENTIVE AWARD AGREEMENT (“Agreement”) is made as of this _____ day of _____, 2____ (“Grant Date”) between [EMPLOYER NAME] (the “Company”), and «name» (the “Participant”).

SIGNATURES

As of the date set forth above, the parties have executed this Agreement, including Exhibit A:

COMPANY PARTICIPANT

By: _____
«name» «name»

RECITALS

A. The Compensation Committee of the Board of Directors of Kemper Corporation (the “Committee”) has adopted the 2009 Performance Incentive Plan, including any and all amendments to date (the “Plan”).

B. The Plan provides for the granting of annual and multi-year incentive awards to selected employees of Kemper Corporation or any of its affiliates.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant**. The Company grants to the Participant an annual incentive award on the terms and conditions hereinafter set forth (the “Award”), subject to the provisions set forth on Exhibit A.

2. **Vesting and Forfeiture**.

(a) **Performance Period** . The Performance Period (the “Performance Period”) for this Award shall be the period set forth in the attached Exhibit. Subject to the forfeiture and early vesting provisions referenced in Section 2(b) below, the Award will vest on the last day of the Performance Period only to the extent set forth and in accordance with the terms of Exhibit A with regard to the performance condition(s) referenced therein.

(b) **Forfeiture or Early Vesting upon Retirement, Death, Disability or Other Events**. During the Performance Period, the Award may be subject to forfeiture or early vesting upon the termination of the Participant’s employment due to retirement, death, disability or other events in accordance with the provisions of Articles 6 or 11 of the Plan, which are incorporated in and made a part of this Agreement.

3. **Withholding of Taxes** . The Company shall withhold from any payouts under the Award the amounts the Company is required to withhold to satisfy any applicable tax withholding requirements based on minimum statutory withholding rates for federal and state tax purposes, including any payroll taxes.

4. **No Assignment or Other Transfer** . Neither this Agreement, the Award or any rights and privileges granted hereby may be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred to the spouse or former spouse of the Participant pursuant to any divorce proceedings, settlement or judgment. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Agreement, the Award or any other rights or privileges granted hereby contrary to the provisions hereof shall be null and void and of no force or effect.

5. **Participation by Participant in Other Company Plans** . Nothing herein contained shall affect the right of the Participant to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

6. **Not an Employment or Service Contract** . Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ the Participant, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge the Participant or to modify, extend or

otherwise affect in any manner whatsoever, the terms of any employment agreement which may exist between the Participant and the Company or any of its subsidiaries or affiliates.

7. **Agreement Subject to Award Plan**. The Award hereby granted is subject to, and the Company and the Participant agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Participant's rights under this Agreement without the prior written consent of the Participant. To the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

8. **Arbitration**. All disputes related to this Agreement or any Award granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association (“AAA”) pursuant to the AAA Employment Arbitration Rules and Mediation Procedures (“AAA Rules”). A copy of the AAA Rules is available to the Participant upon written request to the Director of Human Resources, Kemper Corporation, at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: www.adr.org.

To initiate arbitration, either party must file a Demand for Arbitration (“Demand”) in the manner described in the AAA Rules. After a demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction, including, but not limited to, attorneys’ fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

9. **Execution**. This Agreement has been executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the state of Illinois without application of its conflicts of laws principles.

10. **Miscellaneous**. This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Award granted hereby and may not be amended except in a writing signed by both the Company and the Participant.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

11. **Clawbacks.** Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Section 2 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the Company under this provision shall be made pursuant to the Committee’s determination, which shall be final, binding and conclusive.

[CORPORATE VERSION]**Exhibit A****To Annual Incentive Award Agreement
Kemper Corporate – ___% Management Group**

Overview: This Exhibit A sets forth the terms that will determine the amount of the cash payout, if any, that the Participant may be entitled to receive pursuant to the Award based on the outcome of the applicable performance measures over the Performance Period.

Performance Period: January 1, ____ through December 31, ____.

Table 1 Weighted Target Bonus Percentage		
Type of Award	Weighted Target Bonus Percentage based on Individual Performance Measures	Weighted Target Percentage based on Corporate Performance Measures
Annual PIP Award	___%	___%

Weighted Target Bonus Percentage: The Target Bonus Percentage is expressed as a percentage of the Participant’s Base Salary, as defined below, and is weighted based on Corporate Performance Measures and Individual Performance Measures (if applicable) as shown in Table 1.

Base Salary: Base Salary is the Participant’s annual base salary in effect as of April 1 of the Performance Period.

Individual Performance Measures: Individual Performance Measures may be quantitative or qualitative in nature. If applicable, as shown in Table 1, Individual Performance Measures will be established by the CEO or the Participant’s Operating Company President or supervisor and evaluated in his or her sole discretion in determining the payout for the portion of the Award based upon Individual Performance Measures. In no event can the total payout under all portions of this Award exceed []% of the Participant’s Base Salary.

Corporate Performance Measures: The Corporate Performance Measures applicable to this Award are Consolidated Operating Profit Margin and Earned Premium Revenue Growth, as defined herein. The applicable performance measures are shown in the attached Performance Matrix, which shows Consolidated Operating Profit Margin on the X axis and Earned Premium Revenue Growth on the Y axis.

Consolidated Operating Profit Margin: Consolidated Operating Profit Margin is defined as Consolidated Net Operating Income (Loss) divided by Earned Premium Revenues. This measure will incorporate any adjustments made to applicable operating segment results for variances from estimated catastrophe losses and loss adjustment expenses in accordance with the “CAT Loss Collar” approved by the Compensation Committee.

Consolidated Net Operating Income (Loss): Consolidated Net Operating Income (Loss) is computed by excluding from net income (loss) from continuing operations the after-tax impact of 1) net realized gains (losses) on sales of investments, 2) net impairment losses recognized in earnings

related to investments and 3) other significant nonrecurring 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.

Earned Premium Revenue Growth: Earned Premium Revenue Growth is defined as the percentage increase in Earned Premium Revenues in ____ from such revenues in ____.

Earned Premium Revenues: Earned Premium Revenues is defined as earned premiums as reported in the Financial Analysis Summaries or its reporting equivalent for all insurance company operating segments.

Target Multiplier: At the end of the Performance Period, the Participant will be assigned a Target Multiplier, which is derived from the attached Performance Matrix based on the outcome of the Corporate Performance Measures. For performance between points on the Performance Matrix, the Target Multiplier will be interpolated on a straight-line basis.

Threshold and Maximum Target Multiplier Levels under Corporate Performance Measures: Threshold and maximum Target Multiplier levels for Corporate Performance Measures under the Award are incorporated into the attached Performance Matrix. The threshold Target Multiplier level is set at 25%, below which no payout will be made, and the maximum Target Multiplier level is set at 200%.

Corporate Award Percentage: The Target Multiplier will be applied against the Participant's Weighted Target Bonus Percentage for Corporate Performance Measures to arrive at the Corporate Award Percentage.

Individual Award Percentage: If applicable, an Individual Multiplier will be determined from an evaluation of the Participant's performance and will be applied against the Participant's Weighted Target Bonus Percentage for Individual Performance Measures to arrive at the Individual Award Percentage.

Award Calculation: The determination of the amount of the payout, if any, under the Award will be calculated by adding the Participant's Corporate Award Percentage and Individual Award Percentage (if any), and multiplying the sum by the Participant's Base Salary.

Corporate Award Percentage = Target Multiplier * Weighted Target Bonus Percentage for Corporate Measures

Individual Award Percentage = Individual Multiplier * Weighted Target Bonus Percentage for Individual Measures

Total Award Payable = (Corporate Award Percentage + Individual Award Percentage) * Base Salary

Illustrative Example: Below is an illustrative example of a calculation for a potential payout under the Award for a sample Participant with a Base Salary of \$100,000 and a Target Bonus Percentage of 10% based on Corporate Performance Measures and of 10% based on Individual Performance Measures.

Table 2
Illustrative Example

Example of Weighted Target Bonus Percentage based on Corporate Performance Measures	Example of Target Multiplier interpolated from Performance Matrix	Example of Corporate Award Percentage (AxB)	Example of Individual Award Percentage	Example of Total Award Percentage (C+D)	Sample Base Salary	Example of Estimated final Cash Award payable under the Plan (ExF)
A	B	C	D	E	F	G
10.0%	94.4%	9.4%	10%	19.4%	\$100,000	\$19,440

Interpretations and Decisions Related to Award Calculations and Determinations :

- (i) **Interpretations.** The Company shall have the reasonable discretion to interpret or construe ambiguous, unclear or implied terms applicable to this Award Agreement, and to make any findings of fact necessary to make a calculations or determination hereunder; and
- (ii) **Disagreements.** A decision made in good faith by the Company shall govern and be binding in the event of any dispute regarding a method of calculation of performance or a determination of vesting or forfeiture in connection with this Award.

Adjustments : The Compensation Committee of the Kemper Corporation Board of Directors may, in its discretion:

- (i) in evaluating performance in connection with this Award, include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization or restructuring; (e) extraordinary nonrecurring items as described in FASB Accounting Standards Codification™ 225-20 – Extraordinary and Unusual Items (or a successor pronouncement) and/or in the Company’s periodic reports filed with the Securities and Exchange Commission for periods within the applicable Performance Period; and (f) acquisitions or divestitures; and
- (ii) make adjustments to the established performance goals applicable to this Award to reflect changes to the job responsibilities of the Participant or the structure of the Company or its Affiliates that relate directly to such established performance goals for all or a portion of the applicable Performance Period; provided, however, that no such adjustment shall be made to an Award to an employee whose compensation is subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, if such adjustment would cause the compensation payable under the Award to fail to qualify as performance-based compensation under Section 162 (m).

Kemper Corporation 2009 Performance Incentive Plan

MULTI-YEAR INCENTIVE AWARD AGREEMENT

This MULTI-YEAR INCENTIVE AWARD AGREEMENT (“Agreement”) is made as of this _____ day of _____, 2___ (“Grant Date”) between [EMPLOYER NAME] (the “Company”), and «name» (the “Participant”).

SIGNATURES

As of the date set forth above, the parties have executed this Agreement, including Exhibit A:

COMPANY PARTICIPANT

By: _____
«name» «name»

RECITALS

A. The Compensation Committee of the Board of Directors of Kemper Corporation (the “Committee”) has adopted the 2009 Performance Incentive Plan, including any and all amendments to date (the “Plan”).

B. The Plan provides for the granting of annual and multi-year incentive awards to selected employees of Kemper Corporation or any of its affiliates.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant**. The Company grants to the Participant a multi-year incentive award on the terms and conditions hereinafter set forth (the “Award”), subject to the provisions set forth on Exhibit A.

2. **Vesting and Forfeiture**.

(a) **Performance Period** . The Performance Period (the “Performance Period”) for this Award shall be the period set forth on Exhibit A. Subject to the forfeiture and early vesting provisions referenced in Section 2(b) below, the Award will vest on the last day of the Performance Period only to the extent set forth and in accordance with the terms of Exhibit A with regard to the performance condition(s) referenced therein.

(b) **Forfeiture or Early Vesting upon Retirement, Death, Disability or Other Events.** During the Performance Period, the Award may be subject to forfeiture or early vesting upon the termination of the Participant's employment due to retirement, death, disability or other events in accordance with the provisions of Articles 6 or 11 of the Plan, which are incorporated in and made a part of this Agreement.

3. **Withholding of Taxes**. The Company shall withhold from any payouts under the Award the amounts the Company is required to withhold to satisfy any applicable tax withholding requirements based on minimum statutory withholding rates for federal and state tax purposes, including any payroll taxes.

4. **No Assignment or Other Transfer**. Neither this Agreement, the Award or any rights and privileges granted hereby may be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred to the spouse or former spouse of the Participant pursuant to any divorce proceedings, settlement or judgment. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Agreement, the Award or any other rights or privileges granted hereby contrary to the provisions hereof shall be null and void and of no force or effect.

5. **Participation by Participant in Other Company Plans**. Nothing herein contained shall affect the right of the Participant to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

6. **Not an Employment or Service Contract**. Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ the Participant, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge the Participant or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement which may exist between the Participant and the Company or any of its subsidiaries or affiliates.

7. **Agreement Subject to Award Plan**. The Award hereby granted is subject to, and the Company and the Participant agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Participant's rights under this Agreement without the prior written consent of the

Participant. To the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

8. **Arbitration**. All disputes related to this Agreement or any Award granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association (“AAA”) pursuant to the AAA Employment Arbitration Rules and Mediation Procedures (“AAA Rules”). A copy of the AAA Rules is available to the Participant upon written request to the Director of Human Resources, Kemper Corporation, at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: www.adr.org.

To initiate arbitration, either party must file a Demand for Arbitration (“Demand”) in the manner described in the AAA Rules. After a demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction, including, but not limited to, attorneys’ fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

9. **Execution**. This Agreement has been executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Illinois without application of its conflicts of laws principles.

10. **Miscellaneous**. This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Award granted hereby and may not be amended except in a writing signed by both the Company and the Participant.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

11. **Clawbacks**. Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Section 2 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the Company under this provision shall be made pursuant to the Committee’s determination, which shall be final, binding and conclusive.

[CORPORATE VERSION]

Exhibit A

**To Multi-Year Incentive Award Agreement
Kemper Corporate – ___% Management Group**

Overview: This Exhibit A sets forth the terms that will determine the amount of the cash payout, if any, that the Participant may be entitled to receive pursuant to the Award based on the outcome of the applicable performance measures over the Performance Period.

Performance Period: January 1, ____ through December 31, ____

Target Bonus Percentage	Weighting based on Corporate Performance Measures
___%	100%

Target Bonus Percentage: The applicable Target Bonus Percentage for the Award is set forth in Table 1 above. The Target Bonus Percentage is expressed as a percentage of the Participant’s Base Salary, as defined herein.

Base Salary: Base Salary shall be calculated by computing a simple average of the Participant’s annual base salary in effect as of April 1 during each year of the Performance Period.

Performance Measures: The performance measures applicable to this Award are consolidated Revenue Growth and Return on Equity, as defined herein. The applicable performance measures are shown in the attached Performance Matrix, which shows Return on Equity on the X axis and Revenue Growth on the Y axis.

Revenue Growth: Revenue Growth is defined as the three-year compound annual growth rate, calculated as $[(A/B)^{(1/3)}-1]$, where A = Total Revenues excluding Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings (“Net Realized Investment Gains or Losses”) as reported in the ____ Kemper Annual Report on Form 10-K (“Annual Report”) and B = Total Revenues excluding Net Realized Investment Gains or Losses as reported in the ____ Annual Report.

Return on Equity: Return on Equity is defined as the return on average shareholders’ equity, which shall be computed by dividing the sum of GAAP Net Income as reported in the Annual Reports for each of the three years in the Performance Period by the sum of the Average Shareholders’ Equity for each of the three years. Average Shareholders’ Equity is defined as the simple average of Total Shareholders’ Equity as reported in the Annual Reports for the beginning and end of year for each year in the Performance Period. This will incorporate any adjustments made to applicable operating segment results for variances from estimated catastrophe losses and loss adjustment expenses in accordance with the “CAT Loss Collar” approved by the Compensation Committee.

Target Multiplier: At the end of the Performance Period, the Participant will be assigned a Target Multiplier, which is derived from the attached Performance Matrix based on the outcome of the

performance measures. For performance between points on the Performance Matrix, the Target Multiplier will be interpolated on a straight-line basis.

Threshold and Maximum Target Multiplier Levels: Threshold and maximum Target Multiplier levels for the Award are incorporated into the attached Performance Matrix. The threshold Target Multiplier level is set at 25%, below which no payout will be made, and the maximum Target Multiplier level is set at 200%.

Award Percentage: The Target Multiplier will be applied against the Participant's Target Bonus Percentage to determine the Award Percentage for the Participant.

Award Calculation: The determination of the amount of the payout, if any, under the Award will be calculated by multiplying the Participant's Award Percentage by the Participant's Base Salary. The calculation formulas are illustrated below.

Target Multiplier * Participant's applicable Target Bonus Percentage = Award Percentage

Award Percentage * Base Salary = Final Cash Award payable under the Plan

Illustrative Example: Below is an illustrative example of a calculation for a potential payout under the Award for a sample participant with a Base Salary of \$100,000 and a Target Bonus Percentage of 50%..

Table 2 Illustrative Example				
Example of Individual Target Bonus Percentage from Table 1	Example of Target Multiplier interpolated from Performance Matrix	Example of Total Award Percentage (AxB)	Example of Base Salary	Example of Estimated final Cash Award payable under the Plan (CxD)
A	B	C	D	E
50.0%	120%	60%	\$100,000	\$60,000

Interpretations and Decisions Related to Award Calculations and Determinations :

- (i) **Interpretations.** The Company shall have the reasonable discretion to interpret or construe ambiguous, unclear or implied terms applicable to this Award Agreement, and to make any findings of fact necessary to make a calculations or determination hereunder; and
- (ii) **Disagreements.** A decision made in good faith by the Company shall govern and be binding in the event of any dispute regarding a method of calculation of performance or a determination of vesting or forfeiture in connection with this Award.

Adjustments : The Compensation Committee of the Kemper Corporation Board of Directors may, in its discretion:

- (i) in evaluating performance in connection with this Award, include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting

principles, or other laws or provisions affecting reported results; (d) any reorganization or restructuring; (e) extraordinary nonrecurring items as described in FASB Accounting Standards CodificationTM 225-20 – *Extraordinary and Unusual Items* (or a successor pronouncement) and/or in the Company's periodic reports filed with the Securities and Exchange Commission for periods within the applicable Performance Period; and (f) acquisitions or divestitures; and

- (ii) make adjustments to the established performance goals applicable to this Award to reflect changes to the job responsibilities of the Participant or the structure of the Company or its Affiliates that relate directly to such established performance goals for all or a portion of the applicable Performance Period; provided, however, that no such adjustment shall be made to an Award to an employee whose compensation is subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, if such adjustment would cause the compensation payable under the Award to fail to qualify as performance-based compensation under Section 162 (m).

Kemper Corporation 2011 Omnibus Equity Plan

NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT

INSTALLMENT VESTING

This NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT (“Agreement”) is made as of this _____ day of _____, 2____ (“Grant Date”) between KEMPER CORPORATION, a Delaware corporation (the “Company”), and «name» (the “Option Holder”), for an award consisting of the right and option (the “Option”) to purchase on the terms and conditions hereinafter set forth, all or any part (subject to the limitations of Section 3) of an aggregate of «shares» («number») shares of the Common Stock of the Company (“Common Stock”) at the purchase price of \$_____ per share.

KEMPER CORPORATION OPTION HOLDER

By: _____
«name» «name»

By his or her signature below, the spouse of the Option Holder agrees to be bound by all of the terms and conditions of the foregoing Non-Qualified Stock Option and SAR Agreement.

Print Name

RECITALS

A. The Board of Directors of the Company has adopted the Kemper Corporation 2011 Omnibus Equity Plan, including any and all amendments to date (the “Plan”).

B. Pursuant to the Plan, the Plan shall be administered by a committee appointed by and comprised of members of the Company’s Board of Directors (“Committee”).

C. The Plan provides for the granting to eligible employee, directors and selected other service providers of the Company or any subsidiary or affiliate of the Company, as the Committee may from time to time determine, of options to purchase shares of Common Stock of the Company and tandem stock appreciation rights (“SAR(s)”).

D. Pursuant to the Plan, the Committee has determined that it is to the advantage and best interest of the Company and its shareholders to grant a non-qualified stock option (and tandem SAR) to the Option Holder, and has approved the execution of this Non-Qualified Stock Option and SAR Agreement between the Company and the Option Holder.

E. Neither the option nor the SAR granted hereby is intended to qualify as an “incentive stock option” under Section 422A of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant.**

(a) The Company grants the Option to the Option Holder, which will Option be exercisable from time to time in accordance with the provisions of this Agreement during a period expiring on the tenth anniversary of the Grant Date or such later date as may result from the application of Section 6 (such anniversary or later date is referred to as the “Expiration Date”). The Option is also subject to early termination pursuant to Section 3(f) and Section 5.

(b) The Option is coupled with a SAR that is exercisable to the extent, and only to the extent, that the Option is exercisable under the vesting provisions of Section 2. The term of the SAR shall expire on the Expiration Date and shall be subject to early termination pursuant to Section 3(f) and Section 5. The SAR shall entitle the Option

Holder to surrender the Option (or any portion thereof, subject to Section 3(a)) to the Company unexercised and receive in exchange for the surrender of the Option (or the surrendered portion thereof) that number of shares of the Company's common stock having an aggregate value equal to: (A) the excess of the fair market value of one share of such stock (as determined in accordance with Section 4) over the purchase price per share specified on page one above (or, if applicable, such price as adjusted pursuant to Section 9 hereof), multiplied by (B) the number of such shares subject to the Option (or portion thereof) which is so surrendered.

2. **Vesting**. The Option Holder may not purchase any shares by exercise of this Option or the SAR until the date on which they are exercisable (the "Vesting Date(s)"). The shares subject to this Option and the SAR shall become exercisable {INSERT ONE OF THE FOLLOWING VESTING ALTERNATIVES:

[in four (4), equal annual installments, the first of which shall vest on the six-month anniversary of the Grant Date (the "Initial Vesting Date"), and the remainder of which shall vest on the first, second and third anniversaries of the Initial Vesting Date, respectively.]

OR

[_____SPECIFY ALTERNATIVE APPROVED FOR THIS GRANT.}]

Subject to early termination under Section 5 or the terms of the Plan and no later than the Expiration Date, the Option Holder may purchase all or any part (subject to the limitations of Section 3) of the shares subject to this Option which are currently exercisable, or such lesser number of shares as may be available through the exercise of the SAR. The total number of shares subject to the Option and the number of shares subject to the Option which are currently exercisable by the Option Holder each shall be reduced by the number of shares previously acquired by the Option Holder pursuant to this Agreement.

3. **Manner of Exercise**.

(a) Each exercise of this Option shall be by means of a written notice of exercise delivered to the Company by the Option Holder or his or her Representative (as such term is defined in the Plan). Such notice shall identify the Options being exercised. When applicable, the notice shall also specify the number of shares of Common Stock that the Option Holder plans to deliver in payment of all or part of the exercise price. Before shares will be issued, the full purchase price of the shares subject to the Options being exercised shall be paid to the Company using the following methods, individually

or in combination: (i) by check payable to the order of the Company in an amount equal to the purchase price, (ii) by Constructive or Actual Delivery (as defined in the Plan) of shares of Common Stock with a fair market value as of the close of business on the date of exercise equal to or greater than the purchase price, (iii) by electronic transfer of funds to an account of the Company, or (iv) by other means acceptable to the Committee. This Option may not be exercised for a fraction of a share and no partial exercise of this Option may be for less than fifty (50) shares unless the total number of shares covered by this Option is less than 50 on the date of exercise or unless this Option is scheduled to expire within six months of the date of exercise.

(b) Each exercise of the SAR shall be by means of a written notice of exercise delivered to the Company, specifying whether the Option Holder is surrendering all or a portion of the Option and, if only a portion of the Option is being surrendered, how many shares are included in such portion (to the extent determinable by the Option Holder). Upon satisfaction of the Option Holder's obligation to pay the Company the amount of all taxes that the Company is required to withhold in connection with such exercise as specified in Section 3(e) below, the Company shall issue to the Option Holder a number of shares of the Company's common stock computed in accordance with Section 1(b) and the Option and the SAR (or the surrendered portions thereof) shall be deemed extinguished. The SAR may only be settled in shares of the Company's common stock and not by payment of cash to the Option Holder. Any fractional share that would otherwise result from an exercise of the SAR shall be rounded down to the nearest whole share.

(c) The date of exercise shall be: (i) in the case of a broker-assisted cashless exercise, the earlier of (A) the trade date of the related sale of stock or (B) the date that the Company receives the purchase price; (ii) in the case of a SAR, or an Option exercise in which the Option Holder elects to pay some or all of the exercise price and/or any related withholding taxes by Constructive or Actual Delivery of shares of Common Stock (or, in the case of such taxes, by directing the Company to withhold shares that would otherwise be issued upon exercise of such Option), the date that the Company receives written notice of such exercise; or (iii) in all other cases, the date that the Company receives the purchase price.

(d) This Option and SAR may be exercised only by the Option Holder or his or her Representative, and not otherwise, regardless of any community property interest therein of the spouse of the Option Holder, or such spouse's successors in interest. If the spouse of the Option Holder shall have acquired a community property interest in this Option and the SAR, the Option Holder, or the Option Holder's Representative, may exercise the Option and the SAR on behalf of the spouse of the Option Holder or such spouse's successors in interest.

(e) Upon the exercise of this Option or the SAR, the Company shall require the Option Holder or the Option Holder's Representative to pay the Company the amount of any taxes which the Company may be required to withhold with respect to such exercise. Subject to the limitations set forth in the next three sentences, the Option Holder or his/her Representative may elect to satisfy all or any portion of such tax withholding obligations either by: (i) any of the methods described in Sections 3(a)(i) through 3(a)(iv) above, or (ii) directing the Company to withhold shares that would otherwise have been issued pursuant to the exercise of this Option or SAR. Neither the Option Holder nor his/her Representative shall have the right to utilize Constructive or Actual Delivery of shares of Common Stock or to have shares withheld, in either case, in excess of the minimum number required to satisfy applicable tax withholding requirements based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes. Shares used in either of the foregoing ways to satisfy tax withholding obligations will be valued at their fair market value on the date of exercise. In the case of an exercise of the SAR, the Company retains the right to require the Option Holder to pay any and all withholding taxes arising out of such exercise solely in cash.

(f) In the event the Option (or any portion thereof) is exercised, then the SAR (or the corresponding portion) shall terminate. In the event that the SAR (or any portion thereof) is exercised, then the Option (or the corresponding portion) shall likewise terminate.

4. **Fair Market Value of Common Stock**. The fair market value of a share of Common Stock shall be determined for purposes of this Agreement by reference to the closing price of a share of Common Stock, as reported by the New York Stock Exchange (or such other exchange on which the Shares of Common Stock are primarily traded) for the Grant Date or date of exercise, as applicable, or if such date is not a business day, for the business day immediately preceding such date (or, if for any reason no such price is available, in such other manner as the Committee may deem appropriate to reflect the then fair market value thereof).

5. **Termination of Service**. The Option may be subject to forfeiture or early vesting in connection with the termination of the Option Holder's employment or other service in accordance with the following provisions (capitalized terms not defined herein shall have the meanings as defined in the Plan):

(a) **Death or Disability**. If the Option Holder dies or becomes Disabled while employed by the Company or any of its Affiliates, then any portion of this Option and SAR granted hereunder that was outstanding but not vested on such date shall immediately vest and remain outstanding and exercisable until the earlier of the original

expiration date hereunder or one year from the date of death or the date the Option Holder first became Disabled, and any portion not exercised within such period shall be forfeited to the Company; provided, however, that if this Option and SAR is also subject to subsection (b) below on the date of an event described in this subsection (a), then subsection (b) shall apply in lieu of this subsection (a) to the extent the terms of such subsections are inconsistent.

(b) **Retirement.** If the Option Holder becomes eligible for Retirement under the Plan on or prior to the date of his or her termination of Employment, then any portion of this Option and SAR that is outstanding on the date of such eligibility shall become non-forfeitable until the Expiration Date, subject to any vesting provisions under Section 2 above; provided, however, that if the Option Holder becomes an employee of a competitor of the Company or any of its Affiliates or otherwise engages in any activity that is competitive with the Company of any of its Affiliates, then any portion of this Option and SAR that was not vested on the date that such employment or engagement began shall be forfeited to the Company.

(c) **Sale or Divestiture of Employer.** If the Company sells or divests its controlling interest in an Affiliate that employs Option Holder, or if its control of such Affiliate otherwise ceases, then any portion of this Option and SAR held by the Option Holder on the date of such sale, divestiture or cessation of control shall be forfeited to the Company, and the Option Holder shall have until the earlier of 90 days from such date or the Expiration Date, in which to exercise any portion that was vested on such date, and any portion that is not exercised within such period shall be forfeited to the Company; provided, however, that if this Option and SAR is also subject to subsection (b) above on the date of an event described in this subsection (c), then subsection (b) shall apply in lieu of this subsection (c) to the extent the terms of such subsections are inconsistent.

(d) **Other Termination of Employment .** If the Option Holder ceases to be an Employee of the Company or any of its Affiliates under circumstances other than those set forth in the foregoing subsections (a) – (c), then:

(i) If the termination of Employment was not for Substantial Cause, then any portion of this Option and SAR held by the Option Holder that was not vested on the date of termination shall immediately be forfeited to the Company, and the Option Holder shall have until the earlier of 90 days from the date of termination or the Expiration Date in which to exercise any portion that was vested on such date, and any portion not exercised within such period shall be forfeited to the Company.

(ii) If the termination of Employment was for Substantial Cause, then any portion of this Option and SAR that remains outstanding on the date of termination

(whether vested or unvested) shall be forfeited to the Company, notwithstanding any otherwise applicable term of this Agreement that provided for vesting or non-forfeitability on or prior to the date of such termination, including (but not limited to) subsection (b) above.

6. **Extension of Expiration in Certain Cases**. From time to time, the Company may declare “blackout” periods during which the Option Holder may be prohibited from engaging in certain transactions in Company securities. In the event that the scheduled Expiration Date of this Option and SAR shall fall within a blackout period that has been declared by the Company and that applies to the Option Holder, then the Expiration Date shall automatically, and without further notice to Option Holder, be extended until such time as fifteen (15) consecutive business days have elapsed after the scheduled Expiration Date without interruption by any blackout period that applied to the Option Holder.

7. **Shares to be Issued in Compliance with Federal Securities Laws and Exchange Rules**. No shares issuable upon the exercise of this Option or SAR shall be issued and delivered unless and until there shall have been full compliance with all applicable requirements of the Securities Act of 1933, as amended (whether by registration or satisfaction of exemption conditions), all applicable listing requirements of the New York Stock Exchange or such other exchange(s) or markets on which shares of the same class are then listed and any other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery. The Company shall use its best efforts and take all necessary or appropriate actions to assure that such full compliance on the part of the Company is made.

8. **No Assignment**. This Option and SAR and all rights and privileges granted hereby (including the right of exercise) shall not be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred to the spouse or former spouse of the Option Holder pursuant to any divorce proceedings, settlement or judgment. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or SAR or any other rights or privileges granted hereby contrary to the provisions hereof, this Option and SAR and all other rights and privileges contained herein shall immediately become null and void and of no further force or effect.

9. **Certain Adjustments; Change in Control**.

(a) The provisions of Sections 4.4 and 19.2 of the Plan relating to certain adjustments in the case of stock splits, reorganizations, equity restructurings and similar matters described therein are hereby incorporated in and made a part of this Agreement. Any such adjustments shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional shares of stock shall be issued under the Plan on any such adjustment.

(b) This award may be subject to termination or early vesting in connection with a Change in Control in accordance with the provisions of Section 18.3 of the Plan.

10. **Participation by Option Holder in Other Company Plans**. Nothing herein contained shall affect the right of the Option Holder to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

11. **No Rights as a Stockholder Until Issuance of Shares**. Neither the Option Holder nor his/her Representative shall be entitled to any of the rights or privileges of a stockholder of the Company in respect of any shares issuable upon any exercise of this Option or SAR unless and until such shares shall have been issued and delivered to: (i) Option Holder in the form of certificates, (ii) a brokerage or other account for the benefit of Option Holder either in certificate form or via "DWAC" or similar electronic means, or (iii) a book entry or direct registration account in the name of Option Holder.

12. **Not an Employment or Service Contract**. Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ Option Holder or contract for Option Holder's services, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge Option Holder or cease contracting for Option Holder's services or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement or contract for services which may exist between the Option Holder and the Company or any of its subsidiaries or affiliates.

13. **Agreement Subject to the Plan**. This Option and SAR hereby granted are subject to, and the Company and the Option Holder agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Option Holder's rights under this Agreement without the prior written consent of the Option Holder. To the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

14. **Arbitration**. All disputes related to this Agreement or any Options granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association (“AAA”) pursuant to the AAA Employment Arbitration Rules and Mediation Procedures (“AAA Rules”). A copy of the AAA Rules is available to the Option Holder upon written request to the Company’s Director of Human Resources at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: www.adr.org.

To initiate arbitration, either party must file a Demand for Arbitration (“Demand”) in the manner described in the AAA Rules. After a Demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction, including, but not limited to, attorneys’ fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

15. **Execution**. This Option and SAR have been granted, executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without application of its conflicts of laws principles.

16. **Miscellaneous**. This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Option and SAR granted hereby and may not be amended except in a writing signed by both the Company and the Option Holder or his/her Representative.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

17. **Clawbacks**. Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Sections 2 and 5 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the

Company under this provision shall be made pursuant to the Committee's determination, which shall be final, binding and conclusive.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

18. **Stock Holding Period**. The Option Holder agrees to hold all shares of Common Stock acquired upon the exercise of Options granted hereunder for a minimum of twelve months following the date of such exercise. This holding period shall not apply to shares sold or tendered by the Option Holder and/or withheld by the Company to pay the Option exercise price and/or to settle tax liabilities related to the Option exercise, and as otherwise may be provided under the Company's Stock Ownership Policy.

Kemper Corporation 2011 Omnibus Equity Plan

NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT

RETENTION AWARD

This NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT (“Agreement”) is made as of this _____ day of _____, 2____ (“Grant Date”) between KEMPER CORPORATION, a Delaware corporation (the “Company”), and «name» (the “Option Holder”), for an award consisting of the right and option (the “Option”) to purchase on the terms and conditions hereinafter set forth, all or any part (subject to the limitations of Section 3) of an aggregate of «shares» («number») shares of the Common Stock of the Company (“Common Stock”) at the purchase price of \$_____ per share.

KEMPER CORPORATION OPTION HOLDER

By: _____
«name» «name»

By his or her signature below, the spouse of the Option Holder agrees to be bound by all of the terms and conditions of the foregoing Non-Qualified Stock Option and SAR Agreement.

Print Name

RECITALS

A. The Board of Directors of the Company has adopted the Kemper Corporation 2011 Omnibus Equity Plan, including any and all amendments to date (the “Plan”).

B. Pursuant to the Plan, the Plan shall be administered by a committee appointed by and comprised of members of the Company's Board of Directors ("Committee").

C. The Plan provides for the granting to eligible employee, directors and selected other service providers of the Company or any subsidiary or affiliate of the Company, as the Committee may from time to time determine, of options to purchase shares of Common Stock of the Company and tandem stock appreciation rights ("SAR(s)").

D. Pursuant to the Plan, the Committee has determined that it is to the advantage and best interest of the Company and its shareholders to grant a non-qualified stock option (and tandem SAR) to the Option Holder, and has approved the execution of this Non-Qualified Stock Option and SAR Agreement between the Company and the Option Holder.

E. Neither the option nor the SAR granted hereby is intended to qualify as an "incentive stock option" under Section 422A of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant.**

(a) The Company grants the Option to the Option Holder, which will Option be exercisable from time to time in accordance with the provisions of this Agreement during a period expiring on the tenth anniversary of the Grant Date or such later date as may result from the application of Section 6 (such anniversary or later date is referred to as the "Expiration Date"). The Option is also subject to early termination pursuant to Section 3(f) and Section 5.

(b) The Option is coupled with a SAR that is exercisable to the extent, and only to the extent, that the Option is exercisable under the vesting provisions of Section 2. The term of the SAR shall expire on the Expiration Date and shall be subject to early termination pursuant to Section 3(f) and Section 5. The SAR shall entitle the Option Holder to surrender the Option (or any portion thereof, subject to Section 3(a)) to the Company unexercised and receive in exchange for the surrender of the Option (or the surrendered portion thereof) that number of shares of the Company's common stock having an aggregate value equal to: (A) the excess of the fair market value of one share of such stock (as determined in accordance with Section 4) over the purchase price per share specified on page one above (or, if applicable, such price as adjusted pursuant to Section 9 hereof), multiplied by (B) the number of such shares subject to the Option (or portion thereof) which is so surrendered.

2. **Vesting**. The Option Holder may not purchase any shares by exercise of this Option or the SAR until the date on which they are exercisable (the “Vesting Date(s)”). The shares subject to this Option and the SAR shall become exercisable {INSERT ONE OF THE FOLLOWING VESTING ALTERNATIVES:

[on the fourth anniversary of the Grant Date.], OR

[on the _____ anniversary of the Grant Date.]}

Subject to early termination under Section 5 or the terms of the Plan and no later than the Expiration Date, the Option Holder may purchase all or any part (subject to the limitations of Section 3) of the shares subject to this Option which are currently exercisable, or such lesser number of shares as may be available through the exercise of the SAR. The total number of shares subject to the Option and the number of shares subject to the Option which are currently exercisable by the Option Holder each shall be reduced by the number of shares previously acquired by the Option Holder pursuant to this Agreement.

3. **Manner of Exercise**.

(a) Each exercise of this Option shall be by means of a written notice of exercise delivered to the Company by the Option Holder or his or her Representative (as such term is defined in the Plan). Such notice shall identify the Options being exercised. When applicable, the notice shall also specify the number of shares of Common Stock that the Option Holder plans to deliver in payment of all or part of the exercise price. Before shares will be issued, the full purchase price of the shares subject to the Options being exercised shall be paid to the Company using the following methods, individually or in combination: (i) by check payable to the order of the Company in an amount equal to the purchase price, (ii) by Constructive or Actual Delivery (as defined in the Plan) of shares of Common Stock with a fair market value as of the close of business on the date of exercise equal to or greater than the purchase price, (iii) by electronic transfer of funds to an account of the Company, or (iv) by other means acceptable to the Committee. This Option may not be exercised for a fraction of a share and no partial exercise of this Option may be for less than fifty (50) shares unless the total number of shares covered by this Option is less than 50 on the date of exercise or unless this Option is scheduled to expire within six months of the date of exercise.

(b) Each exercise of the SAR shall be by means of a written notice of exercise delivered to the Company, specifying whether the Option Holder is surrendering all or a portion of the Option and, if only a portion of the Option is being surrendered, how many shares are included in such portion (to the extent determinable by the Option Holder). Upon satisfaction of the Option Holder’s obligation to pay the Company the amount of all taxes that the Company is required to withhold in connection with such exercise as specified in Section 3(e) below, the Company shall issue to the Option Holder

a number of shares of the Company's common stock computed in accordance with Section 1(b) and the Option and the SAR (or the surrendered portions thereof) shall be deemed extinguished. The SAR may only be settled in shares of the Company's common stock and not by payment of cash to the Option Holder. Any fractional share that would otherwise result from an exercise of the SAR shall be rounded down to the nearest whole share.

(c) The date of exercise shall be: (i) in the case of a broker-assisted cashless exercise, the earlier of (A) the trade date of the related sale of stock or (B) the date that the Company receives the purchase price; (ii) in the case of a SAR, or an Option exercise in which the Option Holder elects to pay some or all of the exercise price and/or any related withholding taxes by Constructive or Actual Delivery of shares of Common Stock (or, in the case of such taxes, by directing the Company to withhold shares that would otherwise be issued upon exercise of such Option), the date that the Company receives written notice of such exercise; or (iii) in all other cases, the date that the Company receives the purchase price.

(d) This Option and SAR may be exercised only by the Option Holder or his or her Representative, and not otherwise, regardless of any community property interest therein of the spouse of the Option Holder, or such spouse's successors in interest. If the spouse of the Option Holder shall have acquired a community property interest in this Option and the SAR, the Option Holder, or the Option Holder's Representative, may exercise the Option and the SAR on behalf of the spouse of the Option Holder or such spouse's successors in interest.

(e) Upon the exercise of this Option or the SAR, the Company shall require the Option Holder or the Option Holder's Representative to pay the Company the amount of any taxes which the Company may be required to withhold with respect to such exercise. Subject to the limitations set forth in the next three sentences, the Option Holder or his/her Representative may elect to satisfy all or any portion of such tax withholding obligations either by: (i) any of the methods described in Sections 3(a)(i) through 3(a)(iv) above, or (ii) directing the Company to withhold shares that would otherwise have been issued pursuant to the exercise of this Option or SAR. Neither the Option Holder nor his/her Representative shall have the right to utilize Constructive or Actual Delivery of shares of Common Stock or to have shares withheld, in either case, in excess of the minimum number required to satisfy applicable tax withholding requirements based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes. Shares used in either of the foregoing ways to satisfy tax withholding obligations will be valued at their fair market value on the date of exercise. In the case of an exercise of the SAR, the Company retains the right to require the Option Holder to pay any and all withholding taxes arising out of such exercise solely in cash.

(f) In the event the Option (or any portion thereof) is exercised, then the SAR (or the corresponding portion) shall terminate. In the event that the SAR (or any portion thereof) is exercised, then the Option (or the corresponding portion) shall likewise terminate.

4. **Fair Market Value of Common Stock**. The fair market value of a share of Common Stock shall be determined for purposes of this Agreement by reference to the closing price of a share of Common Stock, as reported by the New York Stock Exchange (or such other exchange on which the Shares of Common Stock are primarily traded) for the Grant Date or date of exercise, as applicable, or if such date is not a business day, for the business day immediately preceding such date (or, if for any reason no such price is available, in such other manner as the Committee may deem appropriate to reflect the then fair market value thereof).

5. **Termination of Service**. The Option may be subject to forfeiture or early vesting in connection with the termination of the Option Holder's employment or other service in accordance with the following provisions (capitalized terms not defined herein shall have the meanings as defined in the Plan):

(a) **Death or Disability**. If the Option Holder dies or becomes Disabled while employed by the Company or any of its Affiliates, then any portion of this Option and SAR granted hereunder that was outstanding but not vested on such date shall immediately vest and remain outstanding and exercisable until the earlier of the original expiration date hereunder or one year from the date of death or the date the Option Holder first became Disabled, and any portion not exercised within such period shall be forfeited to the Company; provided, however, that if this Option and SAR is also subject to subsection (b) below on the date of an event described in this subsection (a), then subsection (b) shall apply in lieu of this subsection (a) to the extent the terms of such subsections are inconsistent.

(b) **Retirement**.

(i) If the Option Holder Retires but continues to provide services to the Company or any of its Affiliates as a director or as a Third Party Service Provider, then all Awards held by such Option Holder shall continue in full force and effect in accordance with their terms or until he or she ceases to provide such services. If such services cease as a result of death or Disability, then subsection (a) above shall apply. If such services cease for any other reason, then subsection (b)(ii) below shall apply as if the Option Holder were Retiring on the date of such cessation of services.

(ii) If the Option Holder Retires but does not continue to provide services as provided in subsection (b) (i) above, then such Option Holder may exercise all vested Awards until the earlier of one year from the date of Retirement or the original expiration date of such Awards and all vested Awards that are not exercised within such

period shall be forfeited to the Company, and all Awards that were not vested on the date of Retirement shall be forfeited to the Company.

(c) **Sale or Divestiture of Employer.** If the Company sells or divests its controlling interest in an Affiliate that employs Option Holder, or if its control of such Affiliate otherwise ceases, then any unvested portion of this Option and SAR held by the Option Holder on the date of such sale, divestiture or cessation of control shall be forfeited to the Company, and the Option Holder shall have until the earlier of 90 days from such date or the Expiration Date, in which to exercise any portion that was vested on such date, and any portion that is not exercised within such period shall be forfeited to the Company; provided, however, that if this Option and SAR is also subject to subsection (b) above on the date of an event described in this subsection (c), then subsection (b) shall apply in lieu of this subsection (c) to the extent the terms of such subsections are inconsistent.

(d) **Other Termination of Employment .** If the Option Holder ceases to be an Employee of the Company or any of its Affiliates under circumstances other than those set forth in the foregoing subsections (a) – (c), then:

(i) If the termination of Employment was not for Substantial Cause, then any portion of this Option and SAR held by the Option Holder that was not vested on the date of termination shall immediately be forfeited to the Company, and the Option Holder shall have until the earlier of 90 days from the date of termination or the Expiration Date in which to exercise any portion that was vested on such date, and any portion not exercised within such period shall be forfeited to the Company.

(ii) If the termination of Employment was for Substantial Cause, then any portion of this Option and SAR that remains outstanding on the date of termination (whether vested or unvested) shall be forfeited to the Company, notwithstanding any otherwise applicable term of this Agreement that provided for vesting or non-forfeitability on or prior to the date of such termination, including (but not limited to) subsection (b) above.

6. **Extension of Expiration in Certain Cases** . From time to time, the Company may declare “blackout” periods during which the Option Holder may be prohibited from engaging in certain transactions in Company securities. In the event that the scheduled Expiration Date of this Option and SAR shall fall within a blackout period that has been declared by the Company and that applies to the Option Holder, then the Expiration Date shall automatically, and without further notice to Option Holder, be extended until such time as fifteen (15) consecutive business days have elapsed after the scheduled Expiration Date without interruption by any blackout period that applied to the Option Holder.

7. **Shares to be Issued in Compliance with Federal Securities Laws and Exchange Rules** . No shares issuable upon the exercise of this Option or SAR shall be issued and delivered unless and until there shall have been full compliance with all applicable requirements of the Securities Act of 1933, as amended (whether by registration or satisfaction of exemption conditions), all applicable listing requirements of the New York Stock Exchange or such other exchange(s) or markets on which shares of the same class are then listed and any other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery. The Company shall use its best efforts and take all necessary or appropriate actions to assure that such full compliance on the part of the Company is made.

8. **No Assignment** . This Option and SAR and all rights and privileges granted hereby (including the right of exercise) shall not be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred to the spouse or former spouse of the Option Holder pursuant to any divorce proceedings, settlement or judgment. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or SAR or any other rights or privileges granted hereby contrary to the provisions hereof, this Option and SAR and all other rights and privileges contained herein shall immediately become null and void and of no further force or effect.

9. **Certain Adjustments; Change in Control** .

(a) The provisions of Sections 4.4 and 19.2 of the Plan relating to certain adjustments in the case of stock splits, reorganizations, equity restructurings and similar matters described therein are hereby incorporated in and made a part of this Agreement. Any such adjustments shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional shares of stock shall be issued under the Plan on any such adjustment.

(b) This award may be subject to termination or early vesting in connection with a Change in Control in accordance with the provisions of Section 18.3 of the Plan.

10. **Participation by Option Holder in Other Company Plans** . Nothing herein contained shall affect the right of the Option Holder to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

11. **No Rights as a Stockholder Until Issuance of Shares** . Neither the Option Holder nor his/her Representative shall be entitled to any of the rights or privileges of a stockholder of the Company in respect of any shares issuable upon any exercise of this Option or SAR unless and until such shares shall have been issued and delivered to: (i) Option Holder in the form of certificates, (ii) a brokerage or other account for the benefit of Option Holder either in certificate form or via “DWAC” or similar electronic means, or (iii) a book entry or direct registration account in the name of Option Holder.

12. **Not an Employment or Service Contract** . Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ Option Holder or contract for Option Holder’s services, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge Option Holder or cease contracting for Option Holder’s services or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement or contract for services which may exist between the Option Holder and the Company or any of its subsidiaries or affiliates.

13. **Agreement Subject to the Plan** . This Option and SAR hereby granted are subject to, and the Company and the Option Holder agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Option Holder's rights under this Agreement without the prior written consent of the Option Holder. To the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

14. **Arbitration** . All disputes related to this Agreement or any Options granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association (“AAA”) pursuant to the AAA Employment Arbitration Rules and Mediation Procedures (“AAA Rules”). A copy of the AAA Rules is available to the Option Holder upon written request to the Company’s Director of Human Resources at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: **www.adr.org** .

To initiate arbitration, either party must file a Demand for Arbitration (“Demand”) in the manner described in the AAA Rules. After a Demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction, including, but not limited to, attorneys’ fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

15. **Execution** . This Option and SAR have been granted, executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without application of its conflicts of laws principles.

16. **Miscellaneous** . This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Option and SAR granted hereby and may not be amended except in a writing signed by both the Company and the Option Holder or his/her Representative.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

17. **Clawbacks** . Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Sections 2 and 5 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the Company under this provision shall be made pursuant to the Committee’s determination, which shall be final, binding and conclusive.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

18. **Stock Holding Period** . The Option Holder agrees to hold all shares of Common Stock acquired upon the exercise of Options granted hereunder for a minimum of twelve months following the date of such exercise. This holding period shall not apply to shares sold or tendered by the Option Holder and/or withheld by the Company to pay the Option exercise price and/or to settle tax liabilities related to the Option exercise, and as otherwise may be provided under the Company’s Stock Ownership Policy.

Kemper Corporation 2011 Omnibus Equity Plan

TIME-VESTED RESTRICTED STOCK AWARD AGREEMENT

This TIME-VESTED RESTRICTED STOCK AWARD AGREEMENT (“Agreement”) is made as of this _____ day of _____, ____ (“Grant Date”) between KEMPER CORPORATION, a Delaware corporation (the “Company”), and «name» (the “Restricted Stockholder”) for an award of restricted stock consisting of an aggregate of «shares» («shares») shares of restricted stock.

SIGNATURES

As of the date set forth above, the parties have executed this Agreement:

KEMPER CORPORATION RESTRICTED STOCKHOLDER

By: _____
 «name» «name»

RECITALS

- A. The Board of Directors and Shareholders of the Company have adopted the Kemper Corporation 2011 Omnibus Equity Plan (the “Plan”).
- B. The Plan is administered by the Compensation Committee of the Company’s Board of Directors (the “Committee”).
- C. The Plan provides for the granting to selected employees and other persons furnishing services to the Company or any subsidiary or affiliate of the Company, as the Committee may from time to time determine, of restricted stock which shall be shares of the Company’s Common Stock (the “Shares”).
- D. Pursuant to the Plan, the Committee has determined that it is to the advantage and best interest of the Company and its shareholders to grant an award of restricted stock to the Restricted Stockholder covering «shares» («number») Shares of restricted stock as an inducement to remain in the service of the Company and as an incentive for increased effort during such service, and has approved the execution of this Agreement between the Company and the Restricted Stockholder.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant**. The Company grants to the Restricted Stockholder an award of restricted stock on the terms and conditions hereinafter set forth, consisting of the aggregate number of Shares of restricted stock set forth above on page one (the "Restricted Stock").

2. **Vesting and Forfeiture**.

(a) **Restricted Period**. The Restricted Stock shall be restricted during a period (the "Restricted Period") beginning on the Grant Date and expiring on the date(s) that the Shares vest (the "Vesting Date(s)"). Subject to the forfeiture and early vesting provisions referenced in Section 2(b) below, {INSERT ONE OF THE FOLLOWING THREE VESTING ALTERNATIVES:

[the Vesting Dates are, for the first of four equal installments of the Restricted Stock Shares, the six-month anniversary of the Grant Date (the "Initial Vesting Date"), and for each of the remaining three installments of such Shares, respectively, the first, second and third anniversaries of the Initial Vesting Date.], OR

[the Vesting Date is the fourth anniversary of the Grant Date.], OR

[the Vesting Date(s) is/are _____SPECIFY ALTERNATIVE APPROVED FOR THIS GRANT.]}

(b) **Termination of Service**. During the Restricted Period, the Restricted Stock may be subject to forfeiture or early vesting in connection with the termination of the Restricted Stockholder's service in accordance with the following provisions (capitalized terms not defined herein shall have the meanings as defined in the Plan):

(i) **Death or Disability**. If the Restricted Stockholder dies or becomes Disabled while employed by the Company or any of its Affiliates, then all restrictions on any portion of the Restricted Stock that remains unvested on the date of such death or Disability shall lapse and vest on such date.

(ii) **Retirement**.

(A) If the Restricted Stockholder Retires but continues to provide services to the Company or any of its Affiliates as a director or as a Third Party Service Provider, then any portion of the Restricted Stock that is unvested on the date of Retirement shall remain unvested in accordance with this Agreement or until the Restricted Stockholder ceases to provide such services. If such services cease as a result of death or Disability, then

subsection (i) above shall apply. If such services cease for any other reason, all of the shares of Restricted Stock that are then unvested shall be forfeited to the Company on the date of such cessation of services.

(B) If the Restricted Stockholder Retires but does not continue to provide services as provided in subsection (ii)(A) above, then any portion of the Restricted Stock that is unvested on the date of Retirement shall be forfeited to the Company on the date of Retirement.

(iii) Sale or Divestiture of Employer. If the Company sells or divests its controlling interest in an Affiliate that employs the Restricted Stockholder, or if its control of such Affiliate otherwise ceases, then any portion of the Restricted Stock that is unvested on the date of Retirement shall be forfeited to the Company on the date of such sale, divestiture or cessation of control.

(iv) Other Termination of Employment . If the Restricted Stockholder ceases to be an Employee of the Company or any of its Affiliates under circumstances other than those set forth in the foregoing subsections (i) – (iii), then any portion of the Restricted Stockholder that is unvested on the date of such cessation of Employment shall be forfeited to the Company.

3. **Delivery of Restricted Stock; Stockholder Rights** . The Shares of Restricted Stock will be issued and delivered to a book entry account maintained by the Company’s transfer agent. Thereafter, subject to the forfeiture provisions referenced in Section 2(b) above, the Restricted Stockholder shall be entitled to the rights and privileges of a stockholder of the Company in respect to such Shares of Restricted Stock, including the right to vote and receive dividends (subject to applicable tax withholding obligations) during the Restricted Period on the same basis as all other issued and outstanding Shares.

4. **Fair Market Value of Common Stock** . The fair market value (“Fair Market Value”) of a Share of Common Stock shall be determined for purposes of this Agreement by reference to the closing price of a share of Common Stock as reported by the New York Stock Exchange (or such other exchange on which the Shares of Common Stock are primarily traded) for the Grant Date or Vesting Date, as applicable, or if no prices are reported for that day, the last preceding day on which such prices are reported (or, if for any reason no such price is available, in such other manner as the Committee in its sole discretion may deem appropriate to reflect the fair market value thereof).

5. **Withholding of Taxes** .

(a) The Restricted Stockholder acknowledges that the vesting of Restricted Stock Shares will generally be a taxable event. The Company will instruct the transfer agent to deduct from the Restricted Stockholder’s book entry account whole Shares

having a Fair Market Value equal to the amount determined by the Company to satisfy any applicable minimum statutory withholding or other tax obligations that may arise upon such vesting, and the Restricted Stockholder shall remit to the Company in cash any and all applicable withholding taxes resulting from fractional shares. The Company shall withhold from any dividends paid during the Restricted Period only the amounts the Company is required to withhold to satisfy any applicable tax withholding requirements with respect to such dividends based on minimum statutory withholding rates for federal and state tax purposes, including any payroll taxes.

(b) The provisions of paragraph 5(a) will not apply if a Restricted Stockholder chooses to make an Internal Revenue Code Section 83(b) election. Upon such an election, the Restricted Stockholder shall remit to the company in cash any and all taxes which the Company may be required to withhold with respect to such election.

6. **No Assignment or Other Transfer**. During the Restricted Period, neither this Agreement, the Restricted Stock or any rights and privileges granted hereby may be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred during the Restricted Period to the spouse or former spouse of the Restricted Stockholder pursuant to any divorce proceedings, settlement or judgment. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Agreement, the Restricted Stock or any other rights or privileges granted hereby contrary to the provisions hereof shall be null and void and of no force or effect.

7. **Certain Adjustments; Change in Control**.

(a) The provisions of Articles 4.4 and 19.2 of the Plan relating to certain adjustments in the case of stock splits, reorganizations, equity restructurings and similar matters described therein are hereby incorporated in and made a part of this Agreement. Any such adjustments shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares of stock shall be issued under the Plan on any such adjustment.

(b) This award may be subject to termination or early vesting in connection with a Change in Control in accordance with the provisions of Section 18.3 of the Plan.

8. **Participation by Restricted Stockholder in Other Company Plans**. Nothing herein contained shall affect the right of the Restricted Stockholder to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

9. **Not an Employment or Service Contract** . Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ or contract for the services of the Restricted Stockholder, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge the Restricted Stockholder or cease contracting for the Restricted Stockholder's services or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement or contract for services which may exist between the Restricted Stockholder and the Company or any of its subsidiaries or affiliates.

10. **Agreement Subject to the Plan** . The Restricted Stock hereby granted is subject to, and the Company and the Restricted Stockholder agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Restricted Stockholder's rights under this Agreement without the prior written consent of the Restricted Stockholder. To the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

11. **Arbitration** . All disputes related to this Agreement or any Restricted Stock granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association ("AAA") pursuant to the AAA Employment Arbitration Rules and Mediation Procedures ("AAA Rules"). A copy of the AAA Rules is available to the Restricted Stockholder upon written request to the Company's Director of Human Resources at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: www.adr.org .

To initiate arbitration, either party must file a Demand for Arbitration ("Demand") in the manner described in the AAA Rules. After a Demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction, including, but not limited to, attorneys' fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

12. **Execution** . This Agreement has been executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without application of its conflicts of laws principles.

13. **Miscellaneous** . This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Restricted Stock granted hereby and may not

be amended except in a writing signed by both Kemper Corporation and the Restricted Stockholder.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

14. **Clawbacks**. Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Section 2 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the Company under this provision shall be made pursuant to the Committee’s determination, which shall be final, binding and conclusive.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

15. **Stock Holding Period**. The Restricted Stockholder agrees to hold the Restricted Stock Shares acquired hereunder for a minimum of twelve months following their Vesting Date. This holding period shall not apply to Shares of Restricted Stock withheld by the Company to settle tax liabilities related to the Restricted Stock vesting, and as otherwise may be provided under the Company’s Stock Ownership Policy.

Kemper Corporation 2011 Omnibus Equity Plan

PERFORMANCE-BASED RESTRICTED STOCK AWARD AGREEMENT

This PERFORMANCE-BASED RESTRICTED STOCK AWARD AGREEMENT (“Agreement”) is made as of this _____ day of _____, 2____ (“Grant Date”) between Kemper Corporation, a Delaware corporation (the “Company”), and «name» (the “Restricted Stockholder”) for an award of restricted stock consisting of an aggregate of «shares» («number») shares of restricted stock.

SIGNATURES

As of the date set forth above, the parties have executed this Agreement, including Exhibit A:

KEMPER CORPORATION

RESTRICTED STOCKHOLDER

By: _____
«name» «name»

RECITALS

A. The Board of Directors of the Company has adopted the 2011 Omnibus Equity Plan, including any and all amendments to date (the “Plan”). Capitalized terms that are not defined herein shall be defined in accordance with the Plan.

B. The Plan is administered by the Compensation Committee of the Company’s Board of Directors (the “Committee”).

C. The Plan provides for the granting of awards to selected employees, directors and Third Party Service Providers, as the Committee may from time to time determine, including shares of the Company’s Common Stock (the “Shares”), which may be issued as restricted stock.

D. Pursuant to the Plan, the Committee has determined that it is to the advantage and best interest of the Company and its stockholders to grant an award of restricted stock to the Restricted Stockholder as an inducement to remain in the service of the Company and as an incentive for increased effort during such service, and has approved the execution of this Agreement between the Company and the Restricted Stockholder.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant**. The Company grants to the Restricted Stockholder an award of restricted stock on the terms and conditions hereinafter set forth, consisting of the aggregate number of Shares of restricted stock set forth above on page one (the “Restricted Stock”).
2. **Vesting and Forfeiture**.
 - (a) **Restricted Period**. The Restricted Stock shall be restricted during a period (the “Restricted Period”) beginning on the Grant Date and expiring on the date that the Shares vest (the “Vesting Date”) or are forfeited in accordance with the terms of this Agreement. The Shares will vest on the Vesting Date only to the extent provided in and in accordance with the provisions of Exhibit A.
 - (b) **Forfeiture or Early Vesting upon Retirement, Death, Disability and Other Events**. During the Restricted Period, the Restricted Stock may be subject to forfeiture or early vesting in accordance with the vesting provisions set forth in Part E of Exhibit A.
3. **Delivery of Restricted Stock; Stockholder Rights**. The Shares of Restricted Stock will be issued and delivered to a book entry account maintained by the Company’s transfer agent. Thereafter, subject to the forfeiture provisions referenced in Section 2(b) above, the Restricted Stockholder shall be entitled to the rights and privileges of a stockholder of the Company in respect to such Shares of Restricted Stock, including the right to vote and receive dividends (subject to applicable tax withholding obligations) during the Restricted Period on the same basis as all other issued and outstanding Shares.
4. **Fair Market Value of Common Stock**. The fair market value (“Fair Market Value”) of a Share of Common Stock shall be determined for purposes of this Agreement by reference to the closing price of a share of Common Stock as reported by the New York Stock Exchange (or such other exchange on which the Shares of Common Stock are primarily traded) for the Grant Date or Vesting Date, as applicable, or if no prices are reported for that day, the last preceding day on which such prices are reported (or, if for any reason no such price is available, in such other manner as the Committee in its sole discretion may deem appropriate to reflect the fair market value thereof).
5. **Withholding of Taxes**. The Restricted Stockholder acknowledges that the vesting of Restricted Stock Shares will generally be a taxable event. The Company will instruct the transfer agent to deduct from the Restricted Stockholder’s book entry account whole Shares having a Fair Market Value equal to the amount determined by the Company to satisfy any applicable minimum statutory withholding or other tax obligations that may arise upon such vesting, and the Restricted Stockholder shall remit to the Company in cash any and all applicable withholding taxes resulting from fractional shares. The Company shall withhold from any

dividends paid during the Restricted Period only the amounts the Company is required to withhold to satisfy any applicable tax withholding requirements with respect to such dividends based on minimum statutory withholding rates for federal and state tax purposes, including any payroll taxes.

6. **No Assignment or Other Transfer**. During the Restricted Period, neither this Agreement, the Restricted Stock or any rights and privileges granted hereby may be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution. Without limiting the generality of the preceding sentence, no rights or privileges granted hereby may be assigned or otherwise transferred during the Restricted Period to the spouse or former spouse of the Restricted Stockholder pursuant to any divorce proceedings, settlement or judgment. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Agreement, the Restricted Stock or any other rights or privileges granted hereby contrary to the provisions hereof shall be null and void and of no force or effect.

7. **Certain Adjustments**. The provisions of Articles 4.4 and 19.2 of the Plan relating to certain adjustments in the case of stock splits, reorganizations, equity restructurings and similar matters described therein are hereby incorporated in and made a part of this Agreement. Any such adjustments shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares of stock shall be issued under the Plan on any such adjustment.

8. **Participation by Restricted Stockholder in Other Company Plans**. Nothing herein contained shall affect the right of the Restricted Stockholder to participate in and receive benefits under and in accordance with the then current provisions of any retirement plan or employee welfare benefit plan or program of the Company or of any subsidiary or affiliate of the Company, subject in each case, to the terms and conditions of any such plan or program.

9. **Not an Employment or Service Contract**. Nothing herein contained shall be construed as an agreement by the Company or any of its subsidiaries or affiliates, expressed or implied, to employ or contract for the services of the Restricted Stockholder, to restrict the right of the Company or any of its subsidiaries or affiliates to discharge the Restricted Stockholder or cease contracting for the Restricted Stockholder's services or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement or contract for services which may exist between the Restricted Stockholder and the Company or any of its subsidiaries or affiliates.

10. **Agreement Subject to the Plan**. The Restricted Stock hereby granted is subject to, and the Company and the Restricted Stockholder agree to be bound by, all of the terms and conditions of the Plan, as the same may be amended from time to time hereafter in accordance with the terms thereof, but no such amendment shall adversely affect the Restricted Stockholder's rights under this Agreement without the prior written consent of the Restricted Stockholder. To

the extent that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

11. **Arbitration**. All disputes related to this Agreement or any Restricted Stock granted hereunder, shall be submitted to binding arbitration with the American Arbitration Association (“AAA”) pursuant to the AAA Employment Arbitration Rules and Mediation Procedures (“AAA Rules”). A copy of the AAA Rules is available to the Restricted Stockholder upon written request to the Company’s Director of Human Resources at One East Wacker Drive, Chicago, Illinois 60601 (or such other address as the Company may specify from time to time), or may be obtained online at: **www.adr.org**.

To initiate arbitration, either party must file a Demand for Arbitration (“Demand”) in the manner described in the AAA Rules. After a demand has been filed and served, either party may request that the dispute initially be mediated pursuant to the AAA Rules. If mediation does not fully resolve the dispute, then the matter will be subject to arbitration before a single arbitrator who shall have the power to award any types of legal or equitable relief available in a court of competent jurisdiction [excluding punitive damages], including, but not limited to, attorneys’ fees and costs, to the extent such relief is available under applicable law, and all defenses that would be applicable in a court of competent jurisdiction shall be available. All administrative costs of arbitration (including reimbursement of filing fees) and the fees of the arbitrator will be paid by the Company.

12. **Execution**. This Agreement has been executed and delivered as of the day and year first above written at Chicago, Illinois, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the state of Delaware without application of its conflicts of laws principles.

13. **Miscellaneous**. This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Restricted Stock granted hereby and may not be amended except in a writing signed by both the Company and the Restricted Stockholder.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

14. **Clawbacks**. Notwithstanding the terms regarding vesting and forfeitability or any other provision set forth in this Agreement, including (but not limited to) Section 2 above, the rights, payments, and benefits with respect to this Award are subject to reduction, cancellation, forfeiture, or recoupment by the Company if and to the extent required by applicable law, regulation of the Securities and Exchange Commission, or rule or listing requirement of the New York Stock Exchange (collectively “Applicable Requirements”) in connection with an accounting restatement or under such other circumstances as specified in the Applicable Requirements. Any action taken by the Company under this provision shall be made pursuant to the Committee’s determination, which shall be final, binding and conclusive.

<ADD THE NEXT SECTION FOR ALL GRANTS TO ALL EXECUTIVE OFFICERS OF THE COMPANY>

15. **Stock Holding Period**. The Restricted Stockholder agrees to hold the shares of Restricted Stock acquired hereunder for a minimum of twelve months following their Vesting Date. This holding period shall not apply to shares of Restricted Stock withheld by the Company to settle tax liabilities related to the vesting of such shares, and as otherwise may be provided under the Company’s Stock Ownership Policy.

EXHIBIT A**Vesting Schedule for the Award Agreement****A. Definition of Terms :**

“Additional Shares” means any Shares to be issued to the Restricted Stockholder on the Vesting Date in the event that the Company’s Relative TSR Percentile Rank exceeds the Target Performance Level.

“Award Agreement” means the Performance-Based Restricted Stock Award Agreement to which this Exhibit is a part, pursuant to which an award of performance-based Restricted Stock has been granted.

“Grant Date” is defined in the Award Agreement.

“Peer Group” means the peer group approved by Committee which shall be the companies that comprised the S&P Supercomposite Insurance Index at the beginning of the Performance Period (other than the Company), adjusted as of the end of the Performance Period to remove any such companies which are no longer included in the S&P Supercomposite Insurance Index as of the last day of the Performance Period.

“Performance Period” means the three-year period ending on the December 31 immediately preceding the Vesting Date.

“Company’s Relative TSR Percentile Rank” means the Company’s TSR Percentile Rank relative to the companies in the Peer Group as determined by the Committee for the Performance Period.

“Target Shares” means the number of Shares of performance-based Restricted Stock granted on the Grant Date pursuant to the Award Agreement.

“Target Performance Level” means the Company’s Relative TSR Percentile Rank at the 50th percentile.

“TSR” means Total Shareholder Return as determined by the Committee for the Performance Period.

“TSR Percentile Rank” means the percentile performance of the Company and each of the companies in the Peer Group based on the TSR for such company as determined by the Committee for the Performance Period.

“Vesting Date” means the three-year anniversary of the Grant Date.

B. Determination of Vesting Date Events :

As soon as practicable following the end of the Performance Period, the Committee will determine the Company's Relative TSR Percentile Rank in accordance with the methodology described in the next section below. The Company's Relative TSR Percentile Rank will determine the number of Target Shares that will vest or be forfeited on the Vesting Date, and the number of Additional Shares, if any, that will be issued to the Restricted Stockholder on the Vesting Date, as described below under "Vesting Determination."

C. TSR Percentile Rank Calculation Methodology :

The Company's Relative TSR Percentile Rank will be calculated in a two-step process. First, the TSR will be calculated for the Company and each company in the Peer Group. Then, the TSR Percentile Rank for the Company and each of the companies in the Peer Group will be determined. The TSR and the TSR Percentile Rank will be determined by the Committee in accordance with the formula and methods approved by the Committee, as described below.

Formula for Calculating TSR

For purposes of this Exhibit A to the Award Agreement, TSR for the Company and each of the companies comprising the Peer Group will be calculated as follows:

$$\frac{\text{Ending Stock Price} - \text{Beginning Stock Price} + \text{Dividends Reinvested on all Ex-Dividend Dates}}{\text{Beginning Stock Price}}$$

Share Price Averaging Period

The beginning and ending stock prices in the above formula for TSR will be calculated using a trailing average approach (i.e., average of the closing stock prices for 20 consecutive trading days prior to the beginning and end of the Performance Period).

Reinvestment of Dividends and Other Adjustments

The above TSR formula assumes that dividends are paid and reinvested into additional shares of common stock on their ex-dividend dates. TSR will be adjusted for stock dividends, stock splits, spin-offs and other corporate changes having a similar effect.

Calculation of TSR Percentile Rank

The percentile performance for determining the TSR Percentile Rank will be measured using the Microsoft Excel function PERCENTRANK.

D. Vesting Determination :

Once the Company's Relative TSR Percentile Rank is determined by the Committee, the Company will confirm the number of Target Shares that will vest or be forfeited on the Vesting Date, and the number of Additional Shares, if any, that will be issued to the Restricted Stockholder on the Vesting Date consistent with the following provisions:

- If the Company's Relative TSR Percentile Rank is at the Target Performance Level, 100% of the Target Shares will vest on the Vesting Date. If the Company's Relative TSR Percentile Rank is above the Target Performance Level, Additional Shares will also be issued to the Restricted Stockholder on the Vesting Date. If the Company's Relative TSR Percentile Rank is less than the Target Performance Level, some or all of the Target Shares will be forfeited.
- The number of the Target Shares that will vest on the Vesting Date, and the number of any Additional Shares that will be issued to the Restricted Stockholder on the Vesting Date, will be determined in accordance with the table set forth below. Any Target Shares that do not vest in accordance with the table will be forfeited on the Vesting Date.

If the Company's Relative TSR Percentile Rank for the Performance Period falls between the percentile levels specified in the first column of the table, the number of Shares that will vest or be granted or forfeited on the Vesting Date shall equal the number corresponding to the percentage interpolated on a straight-line basis from the percentages specified in the second column of the table.

Company's Relative TSR Percentile Rank	Total Shares to Vest (and/or to be Granted) on Vesting Date as Percentage of Target Shares
90 th or Higher	200%
75 th	150%
50 th	100%
25 th	50%
Below 25 th	0%

E. Determination of Vesting in Case of Certain Terminations and Other Events :

Notwithstanding any contrary provisions of the Plan:

(1) **Retirement** . If the Restricted Stockholder Retires before the Vesting Date but continues to render services to the Company or one of its affiliates as a director, or as a Third Party Service Provider, all Shares of Restricted Stock held by the Restricted

Stockholder will remain outstanding while such services continue. At the time such post-Retirement services end (other than as a result of death or disability, in which case section (2) below will apply), or upon Retirement if the Restricted Stockholder does not continue to render such services as a director, or as a Third Party Service Provider, then the Restricted Stock will vest, to the extent earned for the Performance Period, in an amount equal to the number of Target Shares that would vest in accordance with the provisions of Parts A – D above, if any, multiplied by a fraction, the numerator of which is the number of full months in the Performance Period during which the Restricted Stockholder was active employee, director, or Third Party Service Provider, and the denominator of which is the total number of months in the Performance Period. A partial month worked shall be counted as a full month if the Restricted Stockholder was actively working for fifteen (15) days or more in that month. All Shares of Restricted Stock that do not vest in accordance with this provision shall be forfeited.

(2) Termination on Death or Disability . Upon the termination of the Restricted Stockholder's employment or service agreement before the Vesting Date due to death or Disability: (a) the Performance Period shall be deemed to have been completed, and the Vesting Date shall be deemed to have occurred, on the effective date of such employment termination; (b) a number of Shares of Restricted Stock shall vest in an amount equal to the number of Target Shares multiplied by a fraction, the numerator of which is the number of full months in the Performance Period during which the Restricted Stockholder was an active employee and the denominator of which is the total number of months in the original Performance Period (a partial month worked shall be counted as a full month if the Restricted Stockholder was an active employee for fifteen (15) days or more in that month); (c) no Additional Shares shall be issued to the Restricted Stockholder; and (d) all Shares of Restricted Stock that do not vest in accordance with this provision shall be forfeited.

(3) Termination on Divestiture . In the event that the Restricted Stockholder's employment is terminated before the Vesting Date upon and as result of the sale or divestiture by the Company of its controlling interest in an affiliate that employs the Restricted Stockholder, or its control of the affiliate otherwise ceases, then the provisions on Vesting Date, Performance Period and vesting determination set forth in Parts A – D above shall be deemed revised as follows:

- The Performance Period shall be deemed revised to end on the effective date of such employment termination;
- The Company's Relative TSR Percentile Rank will be determined for such truncated Performance Period by the Committee in accordance with the methodology set forth above, the Vesting Date shall be deemed revised to the date of such determination;
- The Target Shares will vest or be forfeited in accordance with the table set forth below, but no Additional Shares will be issued to the Restricted Stockholder; and
- If the Company's Relative TSR Percentile Rank for the truncated Performance Period falls between the percentile levels specified in the first column of the table set forth below, the

number of Target Shares that will vest on the Vesting Date shall equal the number corresponding to the percentage interpolated on a straight-line basis from the percentages specified in the second column of the table.

Company's Relative TSR Percentile Rank	Total Shares to Vest on Vesting Date as Percentage of Target Shares
50 th or Higher	100%
25 th	50%
Below 25 th	0%

(4) Other Termination of Employment . If the Restricted Stockholder ceases to be an Employee of the Company or any of its Affiliates before the Vesting Date under circumstances other than those set forth in the foregoing subsections (1) – (3) of this Section E, all unvested Shares of Restricted Stock held by the Restricted Stockholder shall be forfeited to the Company on the date of such cessation of Employment, and No Additional Shares shall be issued to the Restricted Stockholder.

(5) Leave of Absence . In the event that the Restricted Stockholder is on an approved Leave of Absence (other than a short-term disability leave) at the end of the Performance Period, or takes such a leave of absence at any time during the Performance Period, then the Restricted Stock will vest, forfeit or be granted, as applicable, to the extent earned for the Performance Period, in an amount equal to the number of Target Shares that would vest and the number of Additional Shares that would be issued in accordance with the provisions of Parts A – D above, if any, multiplied by a fraction, the numerator of which is the number of full months in the Performance Period during which the Restricted Stockholder was an active employee not on such leave of absence and the denominator of which is the total number of months in the Performance Period.

(6) Change of Control. This Award may be subject to termination or early vesting in connection with a Change in Control in accordance with the provisions of Section 18.3 of the Plan.

F. Interpretations Related to Calculations and Determinations Related to Performance :

(1) Interpretations. The Company shall have the reasonable discretion to interpret or construe ambiguous, unclear or implied terms applicable to this Award Agreement, and to make any findings of fact necessary to make a calculations or determination hereunder.

(2) Disagreements. A decision made in good faith by the Company shall govern and be binding in the event of any dispute regarding a method of calculation of performance or a determination of vesting or forfeiture in connection with this Award.

(3) Method of Calculating Final Number of Vested or Forfeited Target Shares.

The following methods shall apply in determining the number of Target Shares that will vest or be forfeited on the Vesting Date pursuant to Section D above. As a general rule, the determination for performance that falls between Percentile Rank points in the table in Section D above would be interpolated on a straight-line basis, as stated in Section D.

Specifically, the formula to be used to calculate the final number of Target Shares that will vest or be forfeited is as follows:

- For TSR performance between the 25th & 50th Percentile Ranks, the number of Target Shares that will vest as a % of the total number of Target Shares equals: $50\% + [(Actual\ Percentile\ Rank - 25)/50]\%$
- For TSR performance between the 50th & 75th Percentile Ranks, the number of Target Shares that will vest as a % of the total number of Target Shares equals: $100\% + [(Actual\ Percentile\ Rank - 50)/50]\%$
- For TSR performance between the 75th & 90th Percentile Ranks, the number of Target Shares that will vest as a % of the total number of Target Shares equals: $150\% + [(Actual\ Percentile\ Rank - 75)/30]\%$

Note that since the interval between the 75th & 90th Percentile Rank is shorter (15 percentiles) compared to the other quadrants (25 percentiles), the vesting result for this particular quadrant would be higher compared to the other quadrants.

(4) Rounding Conventions.

- Regarding rounding of TSRs, percentages for each company in the Peer Group shall be computed to two decimal points, i.e., XX.XX%)
- Regarding TSR Percentile Rank, the percentile rankings for each company in the Peer Group shall be rounded to the nearest percentage (e.g., 85% rather than 85.416666%) before calculating the linearly interpolated payout, and the final payout percentage shall be rounded to the nearest percentage (e.g., 183% rather than 183.333333%).
- Target Shares that will vest and any Additional Shares that will result from the application of the methods and formula set forth in the foregoing subsection F(3) and Section D above shall only be paid out in whole Shares. Any fractional Shares that would otherwise result from such application shall be rounded down to the nearest whole number of Shares.

KEMPER CORPORATION AND SUBSIDIARIES
 COMPUTATION OF CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES
 (Dollars in Millions)

	Years Ended December 31,				
	2012	2011	2010	2009	2008
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee	\$ 122.4	\$ 68.3	\$ 226.3	\$ 219.2	\$ (64.9)
Fixed Charges, Excluding Capitalized Interest	43.3	42.5	37.9	38.1	37.5
Earnings from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee and Fixed Charges	\$ 165.7	\$ 110.8	\$ 264.2	\$ 257.3	\$ (27.4)
Interest	\$ 41.4	\$ 40.6	\$ 36.0	\$ 36.1	\$ 35.8
Rental Factor	1.9	1.9	1.9	2.0	1.7
Capitalized Interest	1.8	2.6	1.8	0.7	1.3
Total Fixed Charges	\$ 45.1	\$ 45.1	\$ 39.7	\$ 38.8	\$ 38.8
Ratio of Earnings to Fixed Charges (a)	3.7 x	2.5 x	6.7 x	6.6 x	(b)

- (a) The ratios of earnings to fixed charges have been computed on a consolidated basis by dividing earnings from continuing operations before income taxes and Equity in Net Income (Loss) of Investee and fixed charges by fixed charges. Fixed charges consist of interest on debt and a factor for interest included in rent expense. Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee has the meaning as set forth in the Consolidated Statements of Income included in this 2012 Annual Report on Form 10-K.
- (b) Fixed charges exceeded earnings from continuing operations before income taxes and Equity in Net Income (Loss) of Investee and fixed charges by \$66.0 million for the year ended December 31, 2008 .

Subsidiaries of KEMPER CORPORATION

Subsidiaries of Kemper Corporation, with their states of incorporation in parentheses, are as follows:

1. 301 Oxford Valley Insurance Agency, Inc. (Pennsylvania)
2. Alpha Property & Casualty Insurance Company (Wisconsin)
3. Capitol County Mutual Fire Insurance Company (Texas)*
4. Charter Indemnity Company (Texas)
5. Connecticut Casualty Insurance Agency, Inc. (Connecticut)
6. Direct Response Corporation (Delaware)
7. Family Security Funerals Company (Texas)
8. Financial Indemnity Company (California)
9. Fireside Auto Finance, Inc. (California)
10. KAHG LLC (Illinois)
11. Kemper Corporate Services, Inc. (Illinois)
12. Kemper Direct General Agency, Inc. (Texas)
13. Kemper General Agency, Inc. (Texas)
14. Kemper Independence Insurance Company (Illinois)
15. Merastar Industries LLC (Delaware)
16. Merastar Insurance Company (Illinois)
17. Mutual Savings Fire Insurance Company (Alabama)
18. Mutual Savings Life Insurance Company (Alabama)
19. National Merit Insurance Company (Illinois)
20. NCM Management Corporation (Delaware)
21. Old Reliable Casualty Company (Missouri)*
22. One East Wacker LLC (Illinois)
23. The Reliable Life Insurance Company (Missouri)
24. Reserve National Insurance Company (Oklahoma)
25. Response General Agency of Texas, Inc. (Connecticut)
26. Response Indemnity Company of California (California)
27. Response Insurance Company (Illinois)
28. Response Worldwide Direct Auto Insurance Company (Illinois)
29. Response Worldwide Insurance Company (Illinois)
30. Security One Insurance Agency (Tennessee)
31. Trinity Universal Insurance Company (Texas)
32. UICA Investment Holdings LLC (Delaware)
33. Union National Fire Insurance Company (Louisiana)
34. Union National Life Insurance Company (Louisiana)
35. United Casualty Insurance Company of America (Illinois)
36. United Insurance Company of America (Illinois)
37. Unitrin Advantage Insurance Company (New York)
38. Unitrin Auto and Home Insurance Company (New York)
39. Unitrin County Mutual Insurance Company (Texas)*
40. Unitrin Direct Insurance Company (Illinois)
41. Unitrin Direct Property & Casualty Company (Illinois)
42. Unitrin Preferred Insurance Company (New York)
43. Unitrin Safeguard Insurance Company (Wisconsin)
44. Valley Insurance Company (California)
45. Valley Property & Casualty Insurance Company (Oregon)
46. Warner Insurance Company (Illinois)

* May be deemed to be an affiliate pursuant to Rule 1-02 of SEC Regulation S-X.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-58300, 333-4530, 333-38981, 333-86935, 333-76076, 333-87898, 333-127216 and 333-173877 on Form S-8 and Nos. 333-127215, 333-142722 and 333-170297 on Form S-3 of our report, dated February 15, 2013 , relating to the consolidated financial statements and the financial statement schedules of Kemper Corporation and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, (which report expresses an unqualified opinion and includes an explanatory paragraph as to the changes in the Company's accounting for costs associated with acquiring or renewing insurance contracts in 2012), appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2012 .

/s/ Deloitte & Touche LLP
Chicago, Illinois
February 15, 2013

CERTIFICATIONS

I, Donald G. Southwell, certify that:

1. I have reviewed this annual report on Form 10-K of Kemper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2013

/S/ DONALD G. SOUTHWELL

Donald G. Southwell

Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Dennis R. Vigneau, certify that:

1. I have reviewed this annual report on Form 10-K of Kemper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2013

/S/ DENNIS R. VIGNEAU

Dennis R. Vigneau

Senior Vice President and Chief Financial Officer

**Certification of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Kemper Corporation (the "Company") for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Donald G. Southwell, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DONALD G. SOUTHWELL

Name: Donald G. Southwell
Title: Chairman, President and Chief Executive Officer
Date: February 15, 2013

**Certification of CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Kemper Corporation (the "Company") for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Dennis R. Vigneau, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ DENNIS R. VIGNEAU

Name: Dennis R. Vigneau
Title: Senior Vice President and Chief Financial Officer
Date: February 15, 2013