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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For Quarterly Period Ended March 31, 2013

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period from ______ to ______

Commission file number 001-18298

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

Delaware	**95-4255452**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One East Wacker Drive, Chicago, Illinois	**60601**
(Address of principal executive offices)	**(Zip Code)**

(312) 661-4600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

58,041,289 shares of common stock, $0.10 par value, were outstanding as of April 30, 2013.

KEMPER CORPORATION

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Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), Quantitative and Qualitative Disclosures About Market Risk, Risk Factors and the accompanying unaudited Condensed Consolidated Financial Statements (including the notes thereto) of Kemper Corporation ("Kemper") and its subsidiaries (individually and collectively referred to herein as the "Company") may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

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

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company's actual future results and financial condition. The reader should consider the following list of general factors that could affect the Company's future results and financial condition, as well as those discussed under Item 1A., Risk Factors, of Part I of Kemper's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the "SEC"), for the year ended December 31, 2012 (the "2012 Annual Report") as updated by Item 1A. of Part II of this Quarterly Report on Form 10-Q.

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

- The incidence, frequency, and severity of catastrophes occurring in any particular reporting period or geographic area, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The number and severity of insurance claims (including those associated with catastrophe losses) and their impact on the adequacy of loss reserves;
- Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses ("LAE") reserves;
- The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;
- Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;
- The impact of residual market assessments and assessments for insurance industry insolvencies;
- Changes in industry trends and significant industry developments;
- Uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;
- Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence losses incurred in connection with hurricanes and other catastrophes;
- Changes in ratings by credit 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 requirements to existing life insurance policies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services;

Caution Regarding Forward-Looking Statements (continued)

- Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act, the Health Care and Education Reconciliation Act of 2010 and the Dodd-Frank Act, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;
- Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;
- Changes in general economic conditions, including performance of financial markets, interest rates, unemployment rates and fluctuating values of particular investments held by the Company;
- The level of success and costs expended in realizing economies of scale and implementing significant business consolidations and technology initiatives;
- Heightened competition, including, with respect to pricing, entry of new competitors and the development of new products by new and existing competitors;
- Increased costs and risks related to data security;
- Absolute and relative performance of the Company’s products or services; and
- Other risks and uncertainties described from time to time in Kemper’s filings with the SEC.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended	
	Mar 31, 2013	Mar 31, 2012
Revenues:		
Earned Premiums	$ 509.9	$ 529.2
Net Investment Income	80.8	77.4
Other Income	0.2	0.2
Net Realized Gains on Sales of Investments	26.9	4.9
Other-than-temporary Impairment Losses:		
Total Other-than-temporary Impairment Losses	(2.4)	(0.5)
Portion of Losses Recognized in Other Comprehensive Income	0.5	—
Net Impairment Losses Recognized in Earnings	(1.9)	(0.5)
Total Revenues	615.9	611.2
Expenses:		
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	349.2	376.6
Insurance Expenses	158.3	162.4
Interest and Other Expenses	23.8	21.8
Total Expenses	531.3	560.8
Income from Continuing Operations before Income Taxes	84.6	50.4
Income Tax Expense	(26.0)	(14.1)
Income from Continuing Operations	58.6	36.3
Income (Loss) from Discontinued Operations	(0.2)	7.3
Net Income	$ 58.4	$ 43.6
Income from Continuing Operations Per Unrestricted Share:		
Basic	$ 1.00	$ 0.61
Diluted	$ 1.00	$ 0.60
Net Income Per Unrestricted Share:		
Basic	$ 1.00	$ 0.73
Diluted	$ 1.00	$ 0.72
Dividends Paid to Shareholders Per Share	$ 0.24	$ 0.24

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

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

	Three Months Ended	
	Mar 31, 2013	Mar 31, 2012
Net Income	$ 58.4	$ 43.6
Other Comprehensive Income (Loss) Before Income Taxes:		
Unrealized Holding Gains (Losses)	(48.0)	1.3
Foreign Currency Translation Adjustments	(0.2)	0.7
Amortization of Unrecognized Postretirement Benefit Costs	5.4	4.4
Other Comprehensive Income (Loss) Before Income Taxes	(42.8)	6.4
Other Comprehensive Income Tax Benefit (Expense)	16.2	(2.3)
Other Comprehensive Income (Loss)	(26.6)	4.1
Total Comprehensive Income	$ 31.8	$ 47.7

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

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

	Mar 31, 2013	Dec 31, 2012
Assets:	(Unaudited)	
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2013 - $4,342.6; 2012 - $4,283.8)	$ 4,856.5	$ 4,860.2
Equity Securities at Fair Value (Cost: 2013 - $480.6; 2012 - $462.7)	554.1	521.9
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	248.1	253.0
Short-term Investments at Cost which Approximates Fair Value	362.8	327.5
Other Investments	494.8	497.5
Total Investments	6,516.3	6,460.1
Cash	97.5	96.3
Receivables from Policyholders	363.2	369.3
Other Receivables	202.7	206.1
Deferred Policy Acquisition Costs	304.5	303.4
Goodwill	311.8	311.8
Current Income Tax Assets	—	5.4
Other Assets	260.2	256.7
Total Assets	$ 8,056.2	$ 8,009.1
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	$ 3,174.8	$ 3,161.6
Property and Casualty	942.3	970.6
Total Insurance Reserves	4,117.1	4,132.2
Unearned Premiums	646.8	650.9
Liabilities for Income Taxes	25.8	21.5
Notes Payable at Amortized Cost (Fair Value: 2013 - $677.0; 2012 - $675.5)	611.6	611.4
Accrued Expenses and Other Liabilities	482.5	431.4
Total Liabilities	5,883.8	5,847.4
Shareholders' Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 58,321,766 Shares Issued and Outstanding at March 31, 2013 and 58,454,390 Shares Issued and Outstanding at December 31, 2012	5.8	5.8
Paid-in Capital	722.5	725.0
Retained Earnings	1,158.0	1,118.2
Accumulated Other Comprehensive Income	286.1	312.7
Total Shareholders' Equity	2,172.4	2,161.7
Total Liabilities and Shareholders' Equity	$ 8,056.2	$ 8,009.1

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

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

	Three Months Ended	
	Mar 31, 2013	Mar 31, 2012
Operating Activities:		
Net Income	$ 58.4	$ 43.6
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(1.1)	(3.9)
Amortization of Life Insurance in Force Acquired and Customer Relationships Acquired	2.1	2.0
Equity in Earnings of Equity Method Limited Liability Investments	(8.6)	(6.7)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	3.4	—
Amortization of Investment Securities and Depreciation of Investment Real Estate	4.6	4.1
Net Realized Gains on Sales of Investments	(26.9)	(4.9)
Net Impairment Losses Recognized in Earnings	1.9	0.5
Net Gain on Sale of Portfolio of Automobile Loan Receivables	—	(11.3)
Benefit for Loan Losses	—	(2.0)
Depreciation of Property and Equipment	4.2	3.3
Decrease in Receivables	8.7	7.5
Decrease in Insurance Reserves	(15.7)	(13.1)
Increase (Decrease) in Unearned Premiums	(4.1)	2.1
Change in Income Taxes	25.3	16.2
Increase in Accrued Expenses and Other Liabilities	20.7	6.8
Other, Net	8.4	11.4
Net Cash Provided by Operating Activities	81.3	55.6
Investing Activities:		
Sales and Maturities of Fixed Maturities	297.5	103.7
Purchases of Fixed Maturities	(307.5)	(136.1)
Sales of Equity Securities	24.9	7.7
Purchases of Equity Securities	(40.7)	(17.4)
Return of Investment of Equity Method Limited Liability Investments	13.1	10.6
Acquisitions of Equity Method Limited Liability Investments	(5.1)	(9.3)
Increase in Short-term Investments	(36.3)	(116.7)
Improvements of Investment Real Estate	(1.0)	(1.1)
Sales of Investment Real Estate	3.8	—
Increase in Other Investments	(2.0)	(1.8)
Acquisition of Software	(6.6)	(8.1)
Disposition of Business, Net of Cash Disposed	3.8	—
Net Proceeds (Payments) from Sale of Portfolio of Automobile Loan Receivables	(0.5)	20.1
Receipts from Automobile Loan Receivables	—	2.0
Other, Net	(3.7)	(0.3)
Net Cash Used by Investing Activities	(60.3)	(146.7)
Financing Activities:		
Common Stock Repurchases	(6.5)	(17.9)
Cash Dividends Paid to Shareholders	(14.0)	(14.5)
Excess Tax Benefits from Share-based Awards	0.3	0.5
Other, Net	0.4	0.5
Net Cash Used by Financing Activities	(19.8)	(31.4)
Increase (Decrease) in Cash	1.2	(122.5)
Cash, Beginning of Year	96.3	251.2
Cash, End of Period	$ 97.5	$ 128.7

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

Note 1 - Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the SEC and include the accounts of Kemper Corporation ("Kemper") and its subsidiaries (individually and collectively referred to herein as the "Company") and are unaudited. All significant intercompany accounts and transactions have been eliminated.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") is not required by the rules and regulations of the SEC for interim financial reporting and has been condensed or omitted. In the opinion of the Company's management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements and related notes included in the 2012 Annual Report.

Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board ("FASB") issues ASUs to amend the authoritative literature in the FASB Accounting Standards Codification ("ASC"). There have been seven ASUs issued in 2013 that amend the original text of the ASC. Except as described below, the ASUs are not expected to have a material impact on the Company.

Adoption of New Accounting Standards

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The standard is effective for the first interim or annual period beginning after December 15, 2012. The new standard amends and enhances disclosure requirements by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The Company adopted the standard in the first quarter of 2013. Except for the additional disclosure requirements, the initial application of the standard did not have an impact on the Company.

Note 2 - Investments

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at March 31, 2013 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 389.2	$ 40.9	$ (1.0)	$ 429.1
States and Political Subdivisions	1,258.9	143.2	(0.3)	1,401.8
Canadian Government and Provinces	0.6	—	—	0.6
Corporate Securities:				
Bonds and Notes	2,651.0	337.3	(9.2)	2,979.1
Redeemable Preferred Stocks	10.8	2.2	—	13.0
Mortgage and Asset-backed	32.1	1.3	(0.5)	32.9
Investments in Fixed Maturities	$ 4,342.6	$ 524.9	$ (11.0)	$ 4,856.5

Included in the fair value of Mortgage and Asset-backed investments at March 31, 2013 are $24.5 million of collateralized loan obligations, $6.8 million of collateralized debt obligations, $1.3 million of non-governmental residential mortgage-backed securities and $0.3 million of other asset-backed securities.

Note 2 - Investments (continued)

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

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

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

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at March 31, 2013 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$ 101.3	$ 104.5
Due after One Year to Five Years	562.1	592.3
Due after Five Years to Ten Years	1,273.4	1,379.6
Due after Ten Years	2,177.2	2,534.3
Asset-backed Securities Not Due at a Single Maturity Date	228.6	245.8
Investments in Fixed Maturities	$ 4,342.6	$ 4,856.5

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 March 31, 2013 consisted of securities issued by the Government National Mortgage Association with a fair value of $195.3 million, securities issued by the Federal National Mortgage Association with a fair value of $17.1 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $0.5 million and securities of other issuers with a fair value of $32.9 million.

There were no unsettled sales of Investments in Fixed Maturities at either March 31, 2013 or December 31, 2012. Accrued Expenses and Other Liabilities at March 31, 2013 includes a payable of $29.8 million for purchases of Investments in Fixed Maturities that settled in April 2013. Accrued Expenses and Other Liabilities at December 31, 2012 includes a payable of $1.5 million for purchases of Investments in Fixed Maturities that settled in January 2013.

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

Note 2 - Investments (continued)

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at March 31, 2013 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$ 72.4	$ 4.8	$ (0.1)	$ 77.1
Other Industries	14.1	4.6	(0.5)	18.2
Common Stocks:				
Manufacturing	67.4	29.2	(0.7)	95.9
Other Industries	48.9	15.1	(0.1)	63.9
Other Equity Interests:				
Exchange Traded Funds	149.7	5.4	—	155.1
Limited Liability Companies and Limited Partnerships	128.1	18.5	(2.7)	143.9
Investments in Equity Securities	$ 480.6	$ 77.6	$ (4.1)	$ 554.1

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

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

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

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at March 31, 2013 is presented below:

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 68.9	$ (1.0)	$ —	$ —	$ 68.9	$ (1.0)
States and Political Subdivisions	41.1	(0.3)	0.3	—	41.4	(0.3)
Corporate Securities:						
Bonds and Notes	313.1	(6.3)	60.6	(2.9)	373.7	(9.2)
Redeemable Preferred Stocks	—	—	0.2	—	0.2	—
Mortgage and Asset-backed	21.3	(0.4)	1.8	(0.1)	23.1	(0.5)
Total Fixed Maturities	444.4	(8.0)	62.9	(3.0)	507.3	(11.0)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	—	—	2.4	(0.1)	2.4	(0.1)
Other Industries	1.3	(0.5)	0.8	—	2.1	(0.5)
Common Stocks:						
Manufacturing	3.3	(0.6)	0.2	(0.1)	3.5	(0.7)
Other Industries	1.6	(0.1)	1.9	—	3.5	(0.1)
Other Equity Interests:						
Exchange Traded Funds	5.0	—	—	—	5.0	—
Limited Liability Companies and Limited Partnerships	59.2	(1.6)	6.3	(1.1)	65.5	(2.7)
Total Equity Securities	70.4	(2.8)	11.6	(1.3)	82.0	(4.1)
Total	$ 514.8	$ (10.8)	$ 74.5	$ (4.3)	$ 589.3	$ (15.1)

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. The portions of the declines in the fair values of investments that are determined to be other-than-temporary are reported as losses in the Condensed Consolidated Statements of Income in the periods when such determinations are made.

Unrealized losses on fixed maturities, which the Company has determined to be temporary at March 31, 2013, were $11.0 million, of which $3.0 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading "Less Than 12 Months" are unrealized losses of $0.5 million at March 31, 2013 related to securities for which the Company has recognized credit losses in earnings. There were no unrealized losses 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 March 31, 2013 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $6.6 million and below-investment-grade fixed maturity investments comprised $4.4 million of the unrealized losses on investments in fixed maturities at March 31, 2013. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was 3% of the amortized cost basis of the investment. At March 31, 2013, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at March 31, 2013 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such

Note 2 - Investments (continued)

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 March 31, 2013 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 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 March 31, 2013.

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

Note 2 - Investments (continued)

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

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 40.8	$ (0.2)	$ —	$ —	$ 40.8	$ (0.2)
States and Political Subdivisions	6.3	(0.1)	0.3	—	6.6	(0.1)
Corporate Securities:						
Bonds and Notes	268.5	(5.2)	38.1	(2.3)	306.6	(7.5)
Redeemable Preferred Stocks	—	—	0.4	—	0.4	—
Mortgage and Asset-backed	—	—	1.7	(0.3)	1.7	(0.3)
Total Fixed Maturities	315.6	(5.5)	40.5	(2.6)	356.1	(8.1)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	—	—	2.4	(0.1)	2.4	(0.1)
Other Industries	2.3	(0.8)	3.7	(0.1)	6.0	(0.9)
Common Stocks:						
Manufacturing	6.3	(0.4)	—	—	6.3	(0.4)
Other Industries	14.2	(0.4)	1.3	(0.1)	15.5	(0.5)
Other Equity Interests:						
Limited Liability Companies and Limited Partnerships	5.5	(0.5)	6.7	(0.9)	12.2	(1.4)
Total Equity Securities	28.3	(2.1)	14.1	(1.2)	42.4	(3.3)
Total	$ 343.9	$ (7.6)	$ 54.6	$ (3.8)	$ 398.5	$ (11.4)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at December 31, 2012, were $8.1 million, of which $2.6 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading "Less Than 12 Months" were unrealized losses of $0.3 million at December 31, 2012 related to securities for which the Company has recognized credit losses in earnings. There were no unrealized losses at December 31, 2012 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of $0.1 million at December 31, 2012 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $3.8 million and below-investment-grade fixed maturity investments comprised $4.3 million of the unrealized losses on investments in fixed maturities at December 31, 2012. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 3% of the amortized cost basis of the investment. At December 31, 2012, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at December 31, 2012 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

Note 2 - Investments (continued)

The Company concluded that the unrealized losses on its investments in preferred and common stocks at December 31, 2012 were temporary based on 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.

The following table sets forth the pre-tax amount of other-than-temporary-impairment ("OTTI") credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Balance at Beginning of Period	$ 4.6	$ 3.9
Additions for Previously Unrecognized OTTI Credit Losses	0.7	—
Reductions to Previously Recognized OTTI Credit Losses	—	(0.1)
Reductions for Change in Impairment Status:		
From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell	(1.1)	—
Reductions for Investments Sold During Period	(0.1)	—
Balance at End of Period	$ 4.1	$ 3.8

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

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Loans to Policyholders at Unpaid Principal	$ 268.3	$ 266.3
Real Estate at Depreciated Cost	221.3	226.2
Trading Securities at Fair Value	4.6	4.5
Other	0.6	0.5
Total	$ 494.8	$ 497.5

Note 3 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Property and Casualty Insurance Reserves:		
Gross of Reinsurance at Beginning of Year	$ 970.6	$ 1,029.1
Less Reinsurance Recoverables at Beginning of Year	66.2	74.5
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	904.4	954.6
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	269.6	291.1
Prior Years:		
Continuing Operations	(13.7)	(5.7)
Discontinued Operations	0.4	(1.2)
Total Incurred Losses and LAE Related to Prior Years	(13.3)	(6.9)
Total Incurred Losses and LAE	256.3	284.2
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	111.8	122.2
Prior Years:		
Continuing Operations	171.5	179.0
Discontinued Operations	4.1	6.2
Total Paid Losses and LAE Related to Prior Years	175.6	185.2
Total Paid Losses and LAE	287.4	307.4
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	873.3	931.4
Plus Reinsurance Recoverables at End of Period	69.0	70.0
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$ 942.3	$ 1,001.4

Property and Casualty Insurance Reserves are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends on a quarterly basis. Changes in such estimates are included in the Condensed Consolidated Statements of Income in the period of change.

For the three months ended March 31, 2013, the Company reduced its property and casualty insurance reserves by $13.3 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $14.4 million and commercial lines insurance losses and LAE reserves developed unfavorably by $1.1 million. Personal automobile insurance losses and LAE reserves developed favorably by $6.8 million, homeowners insurance losses and LAE reserves developed favorably by $6.2 million and other personal lines losses and LAE reserves developed favorably by $1.4 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the three most recent accident years. The commercial lines insurance losses and LAE reserves included unfavorable development of $0.7 million from continuing operations and $0.4 million from discontinued operations. The commercial lines insurance losses and LAE reserves developed unfavorably from continuing operations due primarily to the emergence of more unfavorable loss patterns than expected for the most recent accident year.

Note 3 - Property and Casualty Insurance Reserves (continued)

For the three months ended March 31, 2012, the Company reduced its property and casualty insurance reserves by $6.9 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed unfavorably by $0.4 million and commercial lines insurance losses and LAE reserves developed favorably by $7.3 million. The commercial lines insurance losses and LAE reserves included favorable development of $6.1 million from continuing operations and $1.2 million from discontinued operations. The commercial lines insurance losses and LAE reserves from continuing operations developed favorably due primarily to the emergence of more favorable loss patterns than expected for the four most recent accident years.

The Company cannot predict whether losses and LAE will develop favorably or unfavorably from the amounts reported in the Company's Condensed Consolidated Financial Statements. The Company believes that any such development will not have a material effect on the Company's consolidated shareholders' equity, but could have a material effect on the Company's consolidated financial results for a given period.

Note 4 - Notes Payable

Total debt outstanding at March 31, 2013 and December 31, 2012 was:

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	$ 357.4	$ 357.3
6.00% Senior Notes due November 30, 2015	248.7	248.6
Mortgage Note Payable at Amortized Cost	5.5	5.5
Notes Payable at Amortized Cost	$ 611.6	$ 611.4

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

Interest Expense, including facility fees, accretion of discount and write-off of unamortized issuance costs from the former credit agreement, for the three months ended March 31, 2013 and 2012 was:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Notes Payable under Revolving Credit Agreements	$ 0.3	$ 1.0
Senior Notes Payable:		
6.00% Senior Notes due May 15, 2017	5.5	5.5
6.00% Senior Notes due November 30, 2015	3.9	3.9
Mortgage Note Payable	0.1	0.1
Interest Expense before Capitalization of Interest	9.8	10.5
Capitalization of Interest	(0.3)	(0.8)
Total Interest Expense	$ 9.5	$ 9.7

Note 4 - Notes Payable (continued)

Interest paid, including facility fees and credit agreement issuance costs, for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Notes Payable under Revolving Credit Agreements	$ —	$ 1.7
Mortgage Note Payable	0.1	0.1
Total Interest Paid	$ 0.1	$ 1.8

Note 5 - Long-term Equity-based Compensation Plans

As of March 31, 2013, there were 8,745,753 common shares available for future grants under Kemper's long-term equity-based compensation plan, of which 554,175 shares were reserved for future grants based upon the achievement of performance goals under the terms of outstanding performance-based restricted stock awards. Equity-based compensation expense was $0.8 million and $1.5 million for the three months ended March 31, 2013 and 2012, respectively. Total unamortized compensation expense related to nonvested awards at March 31, 2013 was $8.9 million, which is expected to be recognized over a weighted-average period of 1.5 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The assumptions used in the Black-Scholes pricing model for options granted during the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Range of Valuation Assumptions		
Expected Volatility	39.10% - 48.23%	29.36% - 53.84%
Risk-free Interest Rate	0.62 - 1.38	0.16 - 1.26
Expected Dividend Yield	2.83 - 2.83	3.17 - 3.26
Weighted-Average Expected Life in Years		
Employee Grants	4 - 7	1 - 7

Option and stock appreciation right activity for the three months ended March 31, 2013 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share ($)	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	3,192,054	$ 40.53		
Granted	247,750	33.45		
Exercised	(58,500)	25.76		
Forfeited or Expired	(451,188)	42.27		
Outstanding at March 31, 2013	2,930,116	$ 39.95	4.43	$ 4.6
Vested and Expected to Vest at March 31, 2013	2,886,465	$ 40.10	4.36	$ 4.5
Exercisable at March 31, 2013	2,358,551	$ 42.32	3.36	$ 3.1

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

The weighted-average grant-date fair values of options granted during the three months ended March 31, 2013 and 2012 were $10.23 per option and $9.39 per option, respectively. Total intrinsic value of stock options exercised was $0.3 million and $0.1 million for the three months ended March 31, 2013 and 2012, respectively. The total tax benefit realized for tax deductions from option exercises was $0.1 million for the three months ended March 31, 2013. The total tax benefit realized for tax deductions from option exercises was insignificant for the three months ended March 31, 2012. Cash received from option exercises were insignificant for the three months ended March 31, 2013 and 2012.

Information pertaining to options and stock appreciation rights outstanding at March 31, 2013 is presented below:

Range of Exercise Prices	Outstanding: Shares Subject to Options	Outstanding: Weighted-Average Exercise Price Per Share ($)	Outstanding: Weighted-Average Remaining Contractual Life (in Years)	Exercisable: Shares Subject to Options	Exercisable: Weighted-Average Exercise Price Per Share ($)
$ 10.00 - $ 15.00	35,000	$ 13.55	5.85	35,000	$ 13.55
15.01 - 20.00	8,000	16.48	6.10	8,000	16.48
20.01 - 25.00	207,500	23.61	6.84	150,062	23.64
25.01 - 30.00	507,250	28.76	8.19	219,873	28.44
30.01 - 35.00	226,750	33.43	9.84	—	—
35.01 - 40.00	336,750	37.25	4.61	336,750	37.25
40.01 - 45.00	366,252	43.57	1.35	366,252	43.57
45.01 - 50.00	999,722	48.64	2.60	999,722	48.64
50.01 - 55.00	242,892	50.52	1.14	242,892	50.52
10.00 - 55.00	2,930,116	39.95	4.43	2,358,551	42.32

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 three months ended March 31, 2013 was as follows:

	Time-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	126,349	$ 26.19
Granted	54,625	33.45
Vested	(17,000)	15.24
Forfeited	(17,145)	24.91
Nonvested Balance at End of Period	146,829	$ 30.31

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

The grant date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method. Activity related to nonvested performance-based restricted stock for the three months ended March 31, 2013 was as follows:

	Performance-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	187,075	$ 36.70
Granted	70,675	42.12
Vested	(53,118)	33.14
Forfeited	(19,907)	38.78
Nonvested Balance at End of Period	184,725	$ 39.57

The initial number of shares awarded to each participant of a performance-based restricted stock award represents the shares that would vest if the performance goals were achieved at the “target” performance level. The final payout of these awards will be determined based on Kemper’s total shareholder return over a three-year performance period relative to a peer group comprised of all the companies in the S&P Supercomposite Insurance Index. The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares for the 2013, 2012, and 2011 three-year performance periods was 64,975 common shares, 62,025 common shares and 57,725 common shares, respectively, at March 31, 2013. For the 2010 three-year performance period, the Company exceeded target performance levels with a payout percentage of 114%. Accordingly, an additional 6,996 shares of stock were issued to award recipients on February 2, 2013 (the “2010 Additional Shares”).

The total fair value of the shares of restricted stock that vested during the three months ended March 31, 2013 and the 2010 Additional Shares that were issued was $2.6 million and the tax benefits for tax deductions realized from such shares was $0.9 million. The total fair value of the shares of restricted stock that vested during the three months ended March 31, 2012 and the additional shares that were issued in connection with the 2009 performance-based restricted stock awards was $2.8 million and the tax benefits for tax deductions realized from such shares was $1.0 million.

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

Note 6 - Income from Continuing Operations Per Unrestricted Share

The Company’s awards of restricted stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the three months ended March 31, 2013 and 2012 is as follows:

	Three Months Ended	
	Mar 31, 2013	Mar 31, 2012
(Dollars in Millions)		
Income from Continuing Operations	$ 58.6	$ 36.3
Less Income from Continuing Operations Attributed to Restricted Shares	0.3	0.2
Income from Continuing Operations Attributed to Unrestricted Shares	58.3	36.1
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$ 58.3	$ 36.1
(Shares in Thousands)		
Weighted-Average Unrestricted Shares Outstanding	58,130.5	59,865.7
Equity-based Compensation Equivalent Shares	110.3	130.4
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	58,240.8	59,996.1
(Per Unrestricted Share in Whole Dollars)		
Basic Income from Continuing Operations Per Unrestricted Share	$ 1.00	$ 0.61
Diluted Income from Continuing Operations Per Unrestricted Share	$ 1.00	$ 0.60

Options outstanding to purchase 2.3 million shares of Kemper common stock were excluded from the computation of Equity-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended March 31, 2013 because their exercise prices exceeded the average market price. Options outstanding to purchase 3.2 million shares of Kemper common stock were excluded from the computation of Equity-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended March 31, 2012 because their exercise prices exceeded the average market price.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

The components of Other Comprehensive Income (Loss) Before Income Taxes for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Other Comprehensive Income (Loss) Before Income Taxes:		
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$ (23.9)	$ 5.2
Reclassification Adjustment for Amounts Included in Net Income	(24.1)	(3.9)
Unrealized Holding Gains (Losses)	(48.0)	1.3
Foreign Currency Translation Adjustments	(0.2)	0.7
Amortization of Unrecognized Postretirement Benefit Costs	5.4	4.4
Other Comprehensive Income (Loss) Before Income Taxes	$ (42.8)	$ 6.4

The components of Other Comprehensive Income Tax Benefit (Expense) for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Income Tax Benefit (Expense):		
Unrealized Holding (Gains) Losses Arising During the Period Before Reclassification Adjustment	$ 9.6	$ (1.8)
Reclassification Adjustment for Amounts Included in Net Income	8.4	1.4
Unrealized Holding (Gains) Losses	18.0	(0.4)
Foreign Currency Translation Adjustment	0.1	(0.3)
Amortization of Unrecognized Postretirement Benefit Costs	(1.9)	(1.6)
Other Comprehensive Income Tax Benefit (Expense)	$ 16.2	$ (2.3)

The components of Accumulated Other Comprehensive Income (“AOCI”) at March 31, 2013 and December 31, 2012 were:

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$ 1.0	$ 1.4
Other Unrealized Gains on Investments	378.5	408.1
Foreign Currency Translation Adjustments, Net of Income Taxes	0.6	0.7
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(94.0)	(97.5)
Accumulated Other Comprehensive Income	$ 286.1	$ 312.7

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

Components of AOCI were reclassified to the following lines of the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Reclassification of AOCI from Unrealized Gains and Losses on Available For Sale Securities to:		
Net Realized Gains on Sales of Investments	$ 26.0	$ 4.4
Net Impairment Losses Recognized in Earnings	(1.9)	(0.5)
Total Before Income Taxes	24.1	3.9
Income Tax Expense	(8.4)	(1.4)
Total Net of Income Taxes	15.7	2.5
Reclassification of AOCI from Amortization of Unrecognized Postretirement Benefit Costs to:		
Interest and Other Expenses	(5.4)	(4.4)
Income Tax Benefit	1.9	1.6
Total Net of Income Taxes	(3.5)	(2.8)
Total Reclassification from AOCI to Net Income	$ 12.2	$ (0.3)

Note 8 - Income Taxes

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

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Current Income Tax Liabilities	$ 12.0	$ —
Deferred Income Tax Liabilities	7.4	15.1
Unrecognized Tax Benefits	6.4	6.4
Liabilities for Income Taxes	$ 25.8	$ 21.5

Income taxes paid were $0.2 million and $2.4 million for the three months ended March 31, 2013 and 2012, respectively.

Note 9 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Service Cost Earned	$ 2.7	$ 3.0
Interest Cost on Projected Benefit Obligation	5.5	5.6
Expected Return on Plan Assets	(7.4)	(7.4)
Amortization of Accumulated Unrecognized Actuarial Loss	5.9	4.5
Total Pension Expense Recognized	$ 6.7	$ 5.7

Note 9 - Pension Benefits and Postretirement Benefits Other Than Pensions (continued)

The components of Postretirement Benefits Other than Pensions Expense for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Service Cost on Benefits Earned	$ 0.1	$ 0.1
Interest Cost on Projected Benefit Obligation	0.3	0.4
Amortization of Accumulated Unrecognized Actuarial Gain	(0.3)	(0.1)
Total Postretirement Benefits Other than Pensions Expense	$ 0.1	$ 0.4

Note 10 - Business Segments

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

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

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Note 10 - Business Segments (continued)

Segment Revenues for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Revenues:		
Kemper Preferred:		
Earned Premiums	$ 219.2	$ 215.0
Net Investment Income	15.0	10.9
Other Income	0.1	0.1
Total Kemper Preferred	234.3	226.0
Kemper Specialty:		
Earned Premiums	99.2	106.8
Net Investment Income	6.3	5.2
Other Income	0.1	—
Total Kemper Specialty	105.6	112.0
Kemper Direct:		
Earned Premiums	33.7	47.0
Net Investment Income	3.8	3.6
Total Kemper Direct	37.5	50.6
Life and Health Insurance:		
Earned Premiums	157.8	160.4
Net Investment Income	53.0	55.7
Other Income	—	0.1
Total Life and Health Insurance	210.8	216.2
Total Segment Revenues	588.2	604.8
Net Realized Gains on Sales of Investments	26.9	4.9
Net Impairment Losses Recognized in Earnings	(1.9)	(0.5)
Other	2.7	2.0
Total Revenues	$ 615.9	$ 611.2

Segment Operating Profit (Loss) for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Segment Operating Profit (Loss):		
Kemper Preferred	$ 26.4	$ 13.1
Kemper Specialty	4.2	4.9
Kemper Direct	9.6	(3.0)
Life and Health Insurance	31.9	43.0
Total Segment Operating Profit	72.1	58.0
Corporate and Other Operating Loss	(12.5)	(12.0)
Total Operating Profit	59.6	46.0
Net Realized Gains on Sales of Investments	26.9	4.9
Net Impairment Losses Recognized in Earnings	(1.9)	(0.5)
Income from Continuing Operations before Income Taxes	$ 84.6	$ 50.4

Note 10 - Business Segments (continued)

Segment Net Operating Income (Loss) for the three months ended March 31, 2013 and 2012 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Segment Net Operating Income (Loss):		
Kemper Preferred	$ 18.8	$ 10.4
Kemper Specialty	3.5	4.1
Kemper Direct	6.7	(1.3)
Life and Health Insurance	21.2	27.8
Total Segment Net Operating Income	50.2	41.0
Corporate and Other Net Operating Loss	(7.9)	(7.6)
Consolidated Net Operating Income	42.3	33.4
Unallocated Net Income (Loss) From:		
Net Realized Gains on Sales of Investments	17.5	3.2
Net Impairment Losses Recognized in Earnings	(1.2)	(0.3)
Income from Continuing Operations	$ 58.6	$ 36.3

Earned Premiums by product line for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Life	$ 97.9	$ 98.5
Accident and Health	40.2	41.5
Property and Casualty:		
Personal Lines:		
Automobile	245.7	267.7
Homeowners	80.4	77.1
Other Personal	33.6	34.2
Total Personal Lines	359.7	379.0
Commercial Automobile	12.1	10.2
Total Earned Premiums	$ 509.9	$ 529.2

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Note 11 - Discontinued Operations

Summary financial information included in Income (Loss) from Discontinued Operations for the three months ended March 31, 2013 and 2012 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Revenues Included in Discontinued Operations:		
Net Gain on Sale of Loan Portfolio	$ —	$ 11.3
Income (Loss) from Discontinued Operations before Income Taxes:		
Results of Operations	$ —	$ (0.2)
Net Gain on Sale of Loan Portfolio	—	11.3
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	(0.4)	1.2
Income (Loss) from Discontinued Operations before Income Taxes	(0.4)	12.3
Income Tax Benefit (Expense)	0.2	(5.0)
Income (Loss) from Discontinued Operations	$ (0.2)	$ 7.3
Income (Loss) from Discontinued Operations Per Unrestricted Share:		
Basic	$ —	$ 0.12
Diluted	$ —	$ 0.12

Note 12 - Fair Value Measurements

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

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at March 31, 2013 is summarized below:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$ 133.5	$ 295.6	$ —	$ 429.1
States and Political Subdivisions	—	1,401.8	—	1,401.8
Canadian Government and Provinces	—	0.6	—	0.6
Corporate Securities:				
Bonds and Notes	—	2,635.6	343.5	2,979.1
Redeemable Preferred Stocks	—	8.6	4.4	13.0
Mortgage and Asset-backed	—	1.7	31.2	32.9
Total Investments in Fixed Maturities	133.5	4,343.9	379.1	4,856.5
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	77.1	—	77.1
Other Industries	—	11.1	7.1	18.2
Common Stocks:				
Manufacturing	87.4	6.8	1.7	95.9
Other Industries	56.7	1.4	5.8	63.9
Other Equity Interests:				
Exchange Traded Funds	155.1	—	—	155.1
Limited Liability Companies and Limited Partnerships	—	—	143.9	143.9
Total Investments in Equity Securities	299.2	96.4	158.5	554.1
Other Investments:				
Trading Securities	4.6	—	—	4.6
Total	$ 437.3	$ 4,440.3	$ 537.6	$ 5,415.2

At March 31, 2013, the Company had unfunded commitments to invest an additional $97.3 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests.

Note 12 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at December 31, 2012 is summarized below:

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

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

Note 12 - Fair Value Measurements (continued)

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

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

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

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

(Dollars in Millions)	Unobservable Input	Total Fair Value	Range of Unobservable Inputs			Weighted Average Yield
Investment Grade Private Placements	Yield	$ 108.3	1.2%	-	5.9%	3.8%
Non-investment Grade:						
Senior Debt	Yield	75.8	5.3	-	18.6	8.6
Junior Debt	Yield	148.4	8.3	-	24.3	14.1
Other Debt	Various	11.0				
Bonds and Notes Classified as Level 3		$ 343.5				

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

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Note 12 - Fair Value Measurements (continued)

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the three months ended March 31, 2013 is presented below:

	Fixed Maturities			Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 361.0	$ 4.7	$ 0.1	$ 13.3	$ 141.3	$ 520.4
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(0.8)	(0.3)	—	—	(0.2)	(1.3)
Included in Other Comprehensive Income	(3.8)	—	(0.3)	1.5	(2.3)	(4.9)
Purchases	38.7	—	29.0	0.1	10.5	78.3
Settlements	(45.8)	—	—	—	(5.4)	(51.2)
Sales	—	—	—	(0.3)	—	(0.3)
Transfers into Level 3	—	—	2.4	—	—	2.4
Transfers out of Level 3	(5.8)	—	—	—	—	(5.8)
Balance at End of Period	$ 343.5	$ 4.4	$ 31.2	$ 14.6	$ 143.9	$ 537.6

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 three months ended March 31, 2013. The transfers into and out of Level 3 for the three months ended March 31, 2013 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 three months ended March 31, 2012 is presented below:

	Fixed Maturities			Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 235.1	$ 6.1	$ 0.3	$ 13.5	$ 93.1	$ 348.1
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	0.1	—	—	3.2	0.3	3.6
Included in Other Comprehensive Income	0.9	0.2	—	(1.2)	1.1	1.0
Purchases	44.8	—	—	0.5	16.0	61.3
Settlements	(16.2)	—	—	—	(4.0)	(20.2)
Sales	(0.3)	—	—	(3.7)	—	(4.0)
Transfers into Level 3	0.9	—	—	—	—	0.9
Transfers out of Level 3	(6.1)	—	—	—	—	(6.1)
Balance at End of Period	$ 259.2	$ 6.3	$ 0.3	$ 12.3	$ 106.5	$ 384.6

There were no transfers between Levels 1 and 2 or Levels 1 and 3 for the three months ended March 31, 2012. Transfers into and out of Level 3 for the three months ended March 31, 2012 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 13 - Contingencies

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

Certain state insurance regulators, legislators and treasurers 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 prior to the submission of death claims by the insureds’ beneficiaries as required under standard life insurance policy forms.

Legislation enacted in Kentucky, New York, Maryland, Montana and Alabama, with varying effective dates between January 1, 2013 and January 1, 2014, require life insurers to compare their in-force policy records on a regular basis against the database of reported deaths maintained by the Social Security Administration (the “SSA Death Master File”). Legislation of this type has also been introduced and is pending in Massachusetts, Nevada, North Dakota, Rhode Island and Vermont. One state, New Mexico, has enacted legislation that also requires in-force policy record comparisons, but exempts life insurers, like the Company, that have not previously utilized the SSA Death Master File, and instead, only requires that such companies conduct SSA Death Master File comparisons for policies and contracts issued and delivered in New Mexico after the legislation’s July 1, 2013 effective date. An amendment to Alabama's previously-enacted statute referenced above has been passed by the Alabama House of Representatives and is pending in the Senate. If enacted, this amendment will limit the policies required to be compared against the SSA Death Master File only to policies issued on or after January 1, 2016. The Company cannot predict whether or when other states will introduce or enact legislation of the types described above, or the exact form or approach that such legislation might take.

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,” one of the enacted statutes referenced above) 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 what the Company believes are the requirements of applicable Kentucky statutory law and Kentucky and federal constitutional provisions. On April 1, 2013, the trial court denied the Company’s motion for summary judgment and held that the requirements of the Kentucky Act applied to life insurance policies issued before the Kentucky Act’s effective date. The Company believes that the court did not correctly apply governing law and has appealed the trial court’s decision to the Kentucky Court of Appeals, which has issued a stay of enforcement of the Kentucky Act against the Company under the emergency relief rules of such Court. The Company does not expect the outcome of this appeal to be known for a considerable amount of time, and likely not before the second half of 2014.

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. Such companies are also the subject of a market conduct exam by one state insurance regulator for the purpose of verifying such companies’ compliance with relevant regulations governing life insurance claims handling and unclaimed property practices. The results of these examinations cannot presently be predicted.

The Company continues to maintain that states lack authority to establish new requirements that have the effect of changing the terms of existing life insurance contracts in the ways described above. If state officials are successful in applying such new requirements 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 “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. The Company cannot reasonably estimate the amount of loss, if any, that the Company would recognize if it were subjected to such requirements on a retroactive basis.

Note 14 - Related Parties

Mr. Fayez Sarofim, who served as a director of Kemper until May 1, 2013, is the Chairman of the Board, Chief Executive Officer and the majority shareholder of Fayez Sarofim & Co. ("FS&C"), a registered investment advisory firm. Mr. Christopher B. Sarofim, who was elected as a director of Kemper on May 1, 2013, is Vice Chairman of FS&C. Kemper's subsidiary, Trinity, had $140.2 million in assets managed by FS&C at March 31, 2013, under an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of Trinity for a fee based on the fair market value of the assets under management. Such agreement is terminable by either party at any time upon 30 days advance written notice. Investment expenses incurred in connection with such agreement were $0.1 million for the three months ended March 31, 2013. Investment expenses incurred in connection with such agreement were $0.1 million for the three months ended March 31, 2012.

FS&C also provides investment management services with respect to certain funds of the Company's defined benefit pension plan. The Company's defined benefit pension plan had $130.1 million in assets managed by FS&C at March 31, 2013, under an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of the defined benefit pension plan for a fee based on the fair market value of the assets under management. Such agreement is terminable by either party at any time upon 30 days advance written notice. Investment expenses incurred in connection with such agreement were $0.1 million for the three months ended March 31, 2013. Investment expenses incurred in connection with such agreement were $0.1 million for the three months ended March 31, 2012.

With respect to the Company's defined contribution plans, one of the alternative investment choices afforded to participating employees is the Dreyfus Appreciation Fund, an open-end, diversified managed investment fund. FS&C provides investment management services to the Dreyfus Appreciation Fund as a sub-investment advisor. According to published reports filed by FS&C with the SEC, the Dreyfus Appreciation Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Dreyfus Appreciation Fund's average daily net assets. The Company does not compensate FS&C for services provided to the Dreyfus Appreciation Fund. Participants in the Company's defined contribution plans had allocated $21.0 million for investment in the Dreyfus Appreciation Fund at March 31, 2013, representing 6.5% of the total amount invested in the Company's defined contribution plans at March 31, 2013.

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

Note 15 - Relationships with Mutual Insurance Companies

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Results

Net Income

Net Income was $58.4 million ($1.00 per unrestricted common share) for the three months ended March 31, 2013, compared to $43.6 million ($0.73 per unrestricted common share) for the same period in 2012.

Income from Continuing Operations was $58.6 million ($1.00 per unrestricted common share) for the three months ended March 31, 2013, compared to $36.3 million ($0.61 per unrestricted common share) for the same period in 2012.

A reconciliation of Segment Net Operating Income to Net Income for the three months ended March 31, 2013 and 2012 is presented below:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Mar 31, 2012	Increase (Decrease)
Segment Net Operating Income (Loss):			
Kemper Preferred	$ 18.8	$ 10.4	$ 8.4
Kemper Specialty	3.5	4.1	(0.6)
Kemper Direct	6.7	(1.3)	8.0
Life and Health Insurance	21.2	27.8	(6.6)
Total Segment Net Operating Income	50.2	41.0	9.2
Corporate and Other Net Operating Loss	(7.9)	(7.6)	(0.3)
Consolidated Net Operating Income	42.3	33.4	8.9
Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	17.5	3.2	14.3
Net Impairment Losses Recognized in Earnings	(1.2)	(0.3)	(0.9)
Income from Continuing Operations	58.6	36.3	22.3
Income (Loss) from Discontinued Operations	(0.2)	7.3	(7.5)
Net Income	$ 58.4	$ 43.6	$ 14.8

Revenues

Earned Premiums were $509.9 million for the three months ended March 31, 2013, compared to $529.2 million for the same period in 2012, a decrease of $19.3 million. Earned Premiums for the three months ended March 31, 2013 decreased by $13.3 million, $7.6 million and $2.6 million in the Kemper Direct, Kemper Specialty and Life and Health Insurance segments, respectively, and increased by $4.2 million in the Kemper Preferred segment.

Net Investment Income increased by $3.4 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to higher dividends on Equity Securities, higher income from Equity Method Limited Liability Investments and higher investment income from real estate investments, partially offset by lower interest and dividends on Fixed Maturities.

Net Realized Gains on Sales of Investments were $26.9 million for the three months ended March 31, 2013, compared to $4.9 million for the same period in 2012. Net Impairment Losses Recognized in Earnings were $1.9 million for the three months ended March 31, 2013, compared to $0.5 million for the same period in 2012. The Company cannot predict if or when similar investment gains or losses may occur in the future.

Catastrophes

Catastrophe losses and LAE (excluding loss and LAE reserve development from prior accident years) were $11.1 million for the three months ended March 31, 2013, compared to $11.4 million for the same period in 2012. Catastrophe losses and LAE (excluding loss and LAE reserve development) by business segment for the three months ended March 31, 2013 and 2012 are presented below:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Kemper Preferred	$ 7.0	$ 8.5
Kemper Specialty	1.1	0.1
Kemper Direct	0.6	2.1
Life and Health Insurance	2.4	0.7
Total Catastrophe Losses and LAE	$ 11.1	$ 11.4

Loss and LAE Reserve Development

Increases (decreases) in the Company's property and casualty loss and LAE reserves for the three months ended March 31, 2013 and 2012 to recognize adverse (favorable) loss and LAE reserve development from prior accident years in continuing operations, hereinafter also referred to as "reserve development" in the discussion of segment results, is presented below:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Kemper Preferred:		
Non-catastrophe	$ (6.8)	$ (0.6)
Catastrophe	(1.4)	(0.3)
Total	(8.2)	(0.9)
Kemper Specialty:		
Non-catastrophe	0.6	(1.0)
Catastrophe	0.1	0.1
Total	0.7	(0.9)
Kemper Direct:		
Non-catastrophe	(5.8)	(3.9)
Catastrophe	(0.2)	—
Total	(6.0)	(3.9)
Life and Health Insurance:		
Non-catastrophe	0.2	(0.3)
Catastrophe	(0.4)	0.3
Total	(0.2)	—
Decrease in Total Loss and LAE Reserves Related to Prior Years:		
Non-catastrophe	(11.8)	(5.8)
Catastrophe	(1.9)	0.1
Decrease in Total Loss and LAE Reserves Related to Prior Years	$ (13.7)	$ (5.7)

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

Non-GAAP Financial Measures

Underlying Losses and LAE and Underlying Combined Ratio

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

Consolidated Net Operating Income

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

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

A reconciliation of Consolidated Net Operating Income to Income from Continuing Operations for the three months ended March 31, 2013 and 2012 is presented below:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Consolidated Net Operating Income	$ 42.3	$ 33.4
Net Income (Loss) From:		
Net Realized Gains on Sales of Investments	17.5	3.2
Net Impairment Losses Recognized in Earnings	(1.2)	(0.3)
Income from Continuing Operations	$ 58.6	$ 36.3

There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income for the three months ended March 31, 2013 and 2012.

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

Kemper Preferred

Selected financial information for the Kemper Preferred segment follows:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Net Premiums Written	$ 205.8	$ 207.0
Earned Premiums:		
Automobile	$ 127.1	$ 126.6
Homeowners	78.2	74.7
Other Personal	13.9	13.7
Total Earned Premiums	219.2	215.0
Net Investment Income	15.0	10.9
Other Income	0.1	0.1
Total Revenues	234.3	226.0
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	147.9	145.0
Catastrophe Losses and LAE	7.0	8.5
Prior Years:		
Non-catastrophe Losses and LAE	(6.8)	(0.6)
Catastrophe Losses and LAE	(1.4)	(0.3)
Total Incurred Losses and LAE	146.7	152.6
Insurance Expenses	61.2	60.3
Operating Profit	26.4	13.1
Income Tax Expense	(7.6)	(2.7)
Segment Net Operating Income	$ 18.8	$ 10.4
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	67.4%	67.4%
Current Year Catastrophe Losses and LAE Ratio	3.2	4.0
Prior Years Non-catastrophe Losses and LAE Ratio	(3.1)	(0.3)
Prior Years Catastrophe Losses and LAE Ratio	(0.6)	(0.1)
Total Incurred Loss and LAE Ratio	66.9	71.0
Incurred Expense Ratio	27.9	28.0
Combined Ratio	94.8%	99.0%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	67.4%	67.4%
Incurred Expense Ratio	27.9	28.0
Underlying Combined Ratio	95.3%	95.4%
Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	95.3%	95.4%
Current Year Catastrophe Losses and LAE Ratio	3.2	4.0
Prior Years Non-catastrophe Losses and LAE Ratio	(3.1)	(0.3)
Prior Years Catastrophe Losses and LAE Ratio	(0.6)	(0.1)
Combined Ratio as Reported	94.8%	99.0%

Kemper Preferred (continued)

Insurance Reserves

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Insurance Reserves:		
Automobile	$ 281.0	$ 287.6
Homeowners	120.5	123.7
Other Personal	41.7	41.0
Insurance Reserves	$ 443.2	$ 452.3
Insurance Reserves:		
Loss Reserves:		
Case	$ 279.9	$ 284.7
Incurred but Not Reported	102.5	105.5
Total Loss Reserves	382.4	390.2
LAE Reserves	60.8	62.1
Insurance Reserves	$ 443.2	$ 452.3

Earned Premiums in the Kemper Preferred segment increased by $4.2 million for the three months ended March 31, 2013, compared to the same period in 2012. Earned premiums increased by $0.5 million, $3.5 million and $0.2 million in automobile insurance, homeowners insurance and other personal insurance, respectively, due primarily to higher average premium, partially offset by lower volume.

Net Investment Income in the Kemper Preferred segment increased by $4.1 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments, higher dividends on equity securities and higher levels of investments allocated to the Kemper Preferred segment. The Kemper Preferred segment reported net investment income from Equity Method Limited Liability Investments of $3.5 million in 2013, compared to $1.4 million in 2012.

Operating Profit in the Kemper Preferred segment increased by $13.3 million before taxes for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to higher levels of favorable loss and LAE reserve development, higher net investment income and lower incurred catastrophe losses and LAE. Favorable loss and LAE reserve development (including catastrophe development) was $8.2 million in 2013, compared to $0.9 million in 2012. Catastrophe losses and LAE (excluding development) were $7.0 million in 2013, compared to $8.5 million in 2012. The Kemper Preferred segment continues to take actions intended to improve profitability, including additional rate increases, enhanced pricing segmentation, higher deductibles, especially for wind or hail events, and other underwriting actions.

Automobile insurance incurred losses and LAE were $93.8 million, or 73.8% of automobile insurance earned premiums, for the three months ended March 31, 2013, compared to $92.1 million, or 72.7% of automobile insurance earned premiums, for the same period in 2012. Automobile insurance incurred losses as a percentage of automobile earned premiums increased by 1.1% due primarily to higher underlying losses and LAE as a percentage of automobile insurance earned premiums, higher incurred catastrophe losses and LAE (excluding development), partially offset by the favorable impact from a change in loss and LAE reserve development. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Underlying losses and LAE as a percentage of automobile insurance earned premiums were 74.1% in 2013, compared to 70.9% in 2012. Underlying losses and LAE as a percentage of automobile insurance earned premiums increased due primarily to higher severity of bodily injury losses, higher frequency of collision claims and higher severity of collision losses. Catastrophe losses and LAE (excluding development) were $1.1 million in 2013, compared to $0.6 million in 2012. Favorable loss and LAE reserve development (excluding catastrophes) was $1.3 million in 2013, compared to adverse loss and LAE reserve development (excluding catastrophes) of $1.8 million in 2012.

Kemper Preferred (continued)

Homeowners insurance incurred losses and LAE were $47.9 million, or 61.3% of homeowners insurance earned premiums, for the three months ended March 31, 2013, compared to $53.4 million, or 71.5% of homeowners insurance earned premiums, for the same period in 2012. Homeowners insurance incurred losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to higher levels of favorable loss and LAE reserve development, lower catastrophe losses and LAE (excluding development) and lower underlying losses and LAE as a percentage of homeowners insurance earned premiums. Favorable loss and LAE reserve development was $5.4 million in 2013, compared to $1.3 million in 2012. Catastrophe losses and LAE (excluding development) on homeowners insurance were $5.7 million in 2013, compared to $7.5 million in 2012. Underlying losses and LAE as a percentage of homeowners insurance earned premiums were 60.9% in 2013, compared to 63.3% in 2012. Underlying losses and LAE as a percentage of homeowners insurance earned premiums decreased due primarily to higher average premium, lower frequency of claims, partially offset by higher severity of homeowners insurance losses.

Other personal insurance incurred losses and LAE were $5.0 million, or 36.0% of other personal insurance earned premiums, for the three months ended March 31, 2013, compared to $7.1 million, or 51.8% of other personal insurance earned premiums, for the same period in 2012. Other personal insurance incurred losses and LAE decreased by $2.1 million due primarily to lower underlying losses and LAE. Underlying losses and LAE were $6.0 million in 2013, a decrease of $2.0 million compared to 2012.

Insurance Expenses increased by $0.9 million for the three months ended March 31, 2013, compared to 2012, due primarily to higher earned premiums.

The Kemper Preferred segment reported Segment Net Operating Income of $18.8 million for the three months ended March 31, 2013, compared to $10.4 million for the same period in 2012. The Kemper Preferred segment’s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $5.0 million in 2013, compared to $5.6 million in 2012.

Kemper Specialty

Selected financial information for the Kemper Specialty segment follows:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Net Premiums Written	$ 108.4	$ 117.7
Earned Premiums:		
Personal Automobile	$ 87.1	$ 96.6
Commercial Automobile	12.1	10.2
Total Earned Premiums	99.2	106.8
Net Investment Income	6.3	5.2
Other Income	0.1	—
Total Revenues	105.6	112.0
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	78.7	86.2
Catastrophe Losses and LAE	1.1	0.1
Prior Years:		
Non-catastrophe Losses and LAE	0.6	(1.0)
Catastrophe Losses and LAE	0.1	0.1
Total Incurred Losses and LAE	80.5	85.4
Insurance Expenses	20.9	21.7
Operating Profit	4.2	4.9
Income Tax Expense	(0.7)	(0.8)
Segment Net Operating Income	$ 3.5	$ 4.1
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	79.3%	80.7%
Current Year Catastrophe Losses and LAE Ratio	1.1	0.1
Prior Years Non-catastrophe Losses and LAE Ratio	0.6	(0.9)
Prior Years Catastrophe Losses and LAE Ratio	0.1	0.1
Total Incurred Loss and LAE Ratio	81.1	80.0
Incurred Expense Ratio	21.1	20.3
Combined Ratio	102.2%	100.3%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	79.3%	80.7%
Incurred Expense Ratio	21.1	20.3
Underlying Combined Ratio	100.4%	101.0%
Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	100.4%	101.0%
Current Year Catastrophe Losses and LAE Ratio	1.1	0.1
Prior Years Non-catastrophe Losses and LAE Ratio	0.6	(0.9)
Prior Years Catastrophe Losses and LAE Ratio	0.1	0.1
Combined Ratio as Reported	102.2%	100.3%

Kemper Specialty (continued)

Insurance Reserves

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Insurance Reserves:		
Personal Automobile	$ 159.1	$ 164.8
Commercial Automobile	44.6	43.9
Other	7.0	7.2
Insurance Reserves	$ 210.7	$ 215.9
Insurance Reserves:		
Loss Reserves:		
Case	$ 126.0	$ 130.9
Incurred but Not Reported	48.7	48.3
Total Loss Reserves	174.7	179.2
LAE Reserves	36.0	36.7
Insurance Reserves	$ 210.7	$ 215.9

Earned Premiums in the Kemper Specialty segment decreased by $7.6 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to lower earned premiums for personal automobile insurance, partially offset by higher earned premiums for commercial automobile insurance. Personal automobile insurance earned premiums decreased by $9.5 million in 2013, compared to 2012, due primarily to lower volume, partially offset by higher average premium. Personal automobile insurance policies in force were approximately 251,000 at March 31, 2013, compared to 260,000 at the beginning of 2013 and 302,000 at the beginning of 2012. Commercial automobile insurance earned premiums increased by $1.9 million in 2013, compared to 2012, due primarily to higher volume from an increase in new business production.

Net Investment Income in the Kemper Specialty segment increased by $1.1 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments and higher dividends on equity securities. The Kemper Specialty segment reported net investment income of $1.4 million from Equity Method Limited Liability Investments in 2013, compared to $0.6 million for 2012.

Operating Profit in the Kemper Specialty segment decreased by $0.7 million before taxes for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to lower operating profit in commercial automobile insurance, offset by higher operating profit in personal automobile insurance.

Personal automobile insurance operating results increased by $5.8 million before taxes for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to the favorable impact of loss and LAE reserve development, lower underlying losses and LAE as a percentage of personal automobile insurance earned premiums and higher net investment income, partially offset by higher catastrophe losses and LAE (excluding development). Underlying losses and LAE were $69.3 million, or 79.5% of personal automobile insurance earned premiums for the three months ended March 31, 2013, compared to $77.6 million, or 80.3% of personal automobile insurance earned premiums for the same period in 2012. Personal automobile insurance underlying losses and LAE as a percentage of personal automobile insurance earned premiums decreased due primarily to higher average premiums. Favorable loss and LAE reserve development on personal automobile insurance was $0.1 million for the three months ended March 31, 2013, compared to adverse loss and LAE reserve development of $5.1 million for the same period in 2012.

Kemper Specialty (continued)

Commercial automobile insurance operating profit decreased by $6.5 million for the three months ended March 31, 2013, compared to the same period 2012, due primarily to the adverse effects of loss and LAE reserve development and higher insurance expenses as a percentage of commercial automobile insurance earned premiums, partially offset by lower underlying losses and LAE as a percentage of commercial automobile insurance earned premium and higher net investment income. Adverse loss and LAE reserve development on commercial automobile insurance was $0.7 million for the three months ended March 31, 2013, comprised of adverse development of $1.6 million related to the 2012 accident year, offset by $0.9 million of favorable reserve development related to 2011 and prior accident years. Favorable loss and LAE reserve development was $6.1 million in 2012. Underlying losses and LAE as a percentage of commercial automobile insurance earned premiums were 77.7% for the three months ended March 31, 2013, compared to 84.3% in 2012, and decreased due primarily to lower claims handling costs, partially offset by higher severity associated with bodily injury claims.

Insurance expenses as a percentage of earned premiums was 21.1% for the three months ended March 31, 2013, compared to 20.3% in 2012, and increased due primarily to higher expenses associated with information technology initiatives.

Segment Net Operating Income in the Kemper Specialty segment was $3.5 million for the three months ended March 31, 2013, compared to $4.1 million for the same period in 2012. The Kemper Specialty segment’s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $2.0 million in 2013, compared to $2.7 million in 2012.

Kemper Direct

Selected financial information for the Kemper Direct segment follows:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Net Premiums Written	$ 31.2	$ 43.9
Earned Premiums:		
Automobile	$ 31.5	$ 44.5
Homeowners	2.2	2.4
Other Personal	—	0.1
Total Earned Premiums	33.7	47.0
Net Investment Income	3.8	3.6
Total Revenues	37.5	50.6
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	24.5	39.8
Catastrophe Losses and LAE	0.6	2.1
Prior Years:		
Non-catastrophe Losses and LAE	(5.8)	(3.9)
Catastrophe Losses and LAE	(0.2)	—
Total Incurred Losses and LAE	19.1	38.0
Insurance Expenses	8.8	15.6
Operating Profit (Loss)	9.6	(3.0)
Income Tax Benefit (Expense)	(2.9)	1.7
Segment Net Operating Income (Loss)	$ 6.7	$ (1.3)
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	72.7%	84.7%
Current Year Catastrophe Losses and LAE Ratio	1.8	4.5
Prior Years Non-catastrophe Losses and LAE Ratio	(17.2)	(8.3)
Prior Years Catastrophe Losses and LAE Ratio	(0.6)	—
Total Incurred Loss and LAE Ratio	56.7	80.9
Incurred Expense Ratio	26.1	33.2
Combined Ratio	82.8%	114.1%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	72.7%	84.7%
Incurred Expense Ratio	26.1	33.2
Underlying Combined Ratio	98.8%	117.9%
Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	98.8%	117.9%
Current Year Catastrophe Losses and LAE Ratio	1.8	4.5
Prior Years Non-catastrophe Losses and LAE Ratio	(17.2)	(8.3)
Prior Years Catastrophe Losses and LAE Ratio	(0.6)	—
Combined Ratio as Reported	82.8%	114.1%

Kemper Direct (continued)

Insurance Reserves

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Insurance Reserves:		
Automobile	$ 164.6	$ 173.3
Homeowners	1.9	2.7
Other	1.6	1.8
Insurance Reserves	$ 168.1	$ 177.8
Insurance Reserves:		
Loss Reserves:		
Case	$ 108.8	$ 115.4
Incurred but Not Reported	39.0	39.7
Total Loss Reserves	147.8	155.1
LAE Reserves	20.3	22.7
Insurance Reserves	$ 168.1	$ 177.8

In 2012, the Company announced that the Kemper Direct segment 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% in 2013 as a result of this and other actions. In line with this expectation, Earned Premiums in the Kemper Direct segment decreased by $13.3 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to lower volume, partially offset by higher average premium rates.

Net Investment Income in the Kemper Direct segment increased by $0.2 million for the three months ended March 31, 2013, compared to 2012, due primarily to higher net investment income from Equity Method Limited Liability Investments, higher dividends on equity securities, partially offset by lower levels of investments allocated to the Kemper Direct segment. Net investment income from Equity Method Limited Liability Investments was $0.9 million in 2013, compared to $0.5 million in 2012.

The Kemper Direct segment reported an Operating Profit of $9.6 million before taxes for the three months ended March 31, 2013, compared to an Operating Loss of $3.0 million before taxes in 2012. Operating results improved in the Kemper Direct segment in 2013, compared to 2012, due primarily to lower underlying losses and LAE, higher levels of favorable reserve development, lower insurance expenses and lower catastrophe losses and LAE.

Incurred losses and LAE were $19.1 million, or 56.7% as a percentage of earned premiums, for the three months ended March 31, 2013, compared to $38.0 million, or 80.9% as a percentage of earned premiums, for the same period in 2012. Incurred losses and LAE decreased in 2013, due primarily to the impact of lower earned premiums, lower underlying losses and LAE as a percentage of earned premiums, higher levels of favorable loss and LAE reserve development and lower incurred catastrophe losses and LAE (excluding development). Underlying losses and LAE as a percentage of earned premiums were 72.7% in 2013, compared to 84.7% in 2012. Underlying losses and LAE as a percentage of earned premiums decreased due to lower frequency of automobile insurance claims, lower severity of automobile insurance losses and lower frequency of homeowners insurance claims. Favorable loss and LAE reserve development was $6.0 million in 2013, compared to $3.9 million in 2012. Catastrophe losses and LAE (excluding development) were $0.6 million in 2013, compared to $2.1 million in 2012.

Insurance expenses were $8.8 million, or 26.1% of earned premiums, for the three months ended March 31, 2013, compared to $15.6 million, or 33.2% of earned premiums, for the same period in 2012. Insurance Expenses as a percentage of earned premiums decreased due primarily to reduced salaries and marketing related expenses.

Kemper Direct reported Segment Net Operating Income of $6.7 million for the three months ended March 31, 2013, compared to Segment Net Operating Loss of $1.3 million for the same period in 2012. The Kemper Direct segment’s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $1.3 million in 2013, compared to $1.8 million in 2012.

Life and Health Insurance

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

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Earned Premiums:		
Life	$ 97.9	$ 98.5
Accident and Health	40.2	41.5
Property	19.7	20.4
Total Earned Premiums	157.8	160.4
Net Investment Income	53.0	55.7
Other Income	—	0.1
Total Revenues	210.8	216.2
Policyholders' Benefits and Incurred Losses and LAE	102.9	100.6
Insurance Expenses	76.0	72.6
Operating Profit	31.9	43.0
Income Tax Expense	(10.7)	(15.2)
Segment Net Operating Income	$ 21.2	$ 27.8

Insurance Reserves

(Dollars in Millions)	Mar 31, 2013	Dec 31, 2012
Insurance Reserves:		
Future Policyholder Benefits	$ 3,119.4	$ 3,103.1
Incurred Losses and LAE Reserves:		
Life	35.0	36.8
Accident and Health	20.4	21.7
Property	8.0	7.0
Total Incurred Losses and LAE Reserves	63.4	65.5
Insurance Reserves	$ 3,182.8	$ 3,168.6

Earned Premiums in the Life and Health Insurance segment decreased by $2.6 million for the three months ended March 31, 2013, compared to the same period in 2012. Earned premiums on life insurance decreased by $0.6 million in 2013, compared to 2012, due primarily to lower volume of insurance. Earned premiums on accident and health insurance decreased by $1.3 million in 2013, compared to 2012, due primarily to lower volume of insurance resulting from the suspension of sales of certain health insurance products, partially offset by higher volume of supplemental health insurance products. Reserve National has been adapting its business model in response to the Health Care Acts and suspended sales of certain health insurance products at the end of 2011 and began transitioning its sales to supplemental health insurance products that are not expected to be as severely impacted by the Health Care Acts. Earned premiums on property insurance decreased by $0.7 million in 2013, compared to 2012, due primarily to lower volume of insurance from the run-off and, in certain geographical areas, the non-renewal of dwelling coverage, partially offset by the impact of non-renewing the Life and Health Insurance segment's catastrophe reinsurance program. Catastrophe reinsurance premiums reduced earned premiums by $0.5 million for the three months ended March 31, 2012.

Net Investment Income decreased by $2.7 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to lower book yields on fixed maturities and lower investment income from Equity Method Limited Liability Investments, partially offset by a higher level of investments in fixed maturities and higher real estate investment income from the early termination of one tenant's lease. Net investment income from Equity Method Limited Liability Investments was $2.3 million in 2013, compared to $3.9 million in 2012.

Life and Health Insurance (continued)

Operating Profit in the Life and Health Insurance segment was $31.9 million before taxes for the three months ended March 31, 2013, compared to $43.0 million for the same period in 2012. Policyholders' Benefits and Incurred Losses and LAE increased by $2.3 million in 2013 due primarily to higher policyholders' benefits on life insurance and higher catastrophe losses and LAE, partially offset by lower underlying losses on property insurance. Policyholders' benefits on life insurance were $70.6 million in 2013, compared to $68.0 million in 2012, an increase of $2.6 million. Policyholder benefits on life insurance increased due primarily to slightly higher mortality rates. Incurred accident and health insurance losses were $22.7 million, or 56.5% of accident and health insurance earned premiums, in 2013, compared to $23.3 million, or 56.1% of accident and health insurance earned premiums, in 2012. Incurred Losses and LAE on property insurance were $9.6 million, or 48.7% of property insurance earned premiums, in 2013, compared to $9.3 million, or 45.6% of property insurance earned premiums in 2012. Underlying losses and LAE on property insurance were $7.4 million, or 37.6% of property insurance earned premiums, in 2013, compared to $8.6 million, or 42.2% of property insurance earned premiums, in 2012. Catastrophe losses and LAE (excluding development) were $2.4 million in 2013, compared to $0.7 million in 2012. Expenses in the Life and Health Insurance segment increased by $3.4 million in 2013, compared to 2012, due primarily to higher legal costs and start-up expenses to expand Reserve National's distribution channels.

Segment Net Operating Income in the Life and Health Insurance segment was $21.2 million for the three months ended March 31, 2013, compared to $27.8 million in 2012.

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 impose new requirements that change existing life insurance contracts. See Item 1A., "Risk Factors," of Part II under the caption "Changes in state enforcement of unclaimed property laws and related insurance claims handling practices could have a significant effect on (including an acceleration of) the payment and/or escheatment of life insurance death benefits relative to what is currently contemplated by Kemper and significantly increase claims handling costs," Note 13, "Contingencies," to the Condensed Consolidated Financial Statements and MD&A, "Liquidity and Capital Resources" for additional information about these matters.

Investment Results

Investment Income

Net Investment Income for the three months ended March 31, 2013 and 2012 was:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2013	Mar 31, 2012
Investment Income:		
Interest and Dividends on Fixed Maturities	$ 59.1	$ 62.2
Dividends on Equity Securities	8.8	5.2
Loans to Policyholders	4.9	4.7
Real Estate	7.4	6.4
Equity Method Limited Liability Investments	8.6	6.7
Total Investment Income	88.8	85.2
Investment Expenses:		
Real Estate	6.3	6.3
Other Investment Expenses	1.7	1.5
Total Investment Expenses	8.0	7.8
Net Investment Income	$ 80.8	$ 77.4

Net Investment Income was $80.8 million and $77.4 million for the three months ended March 31, 2013 and 2012, respectively. Net Investment Income increased by $3.4 million in 2013 due primarily to higher dividends on equity securities, higher investment income from Equity Method Limited Liability Investments and higher investment income from real estate investments, partially offset by lower Interest and Dividends on Fixed Maturities. Dividends on Equity Securities increased by $3.6 million due primarily to a higher distributions from limited liability companies and limited partnerships classified as Other Equity Interests and higher levels of investments in exchange traded funds. Investment income from Equity Method Limited Liability Investments increased by $1.9 million due to higher investment returns. Investment income from real estate increased by $1.0 million due primarily to income from the early termination of one tenant's lease. Interest and Dividends on Fixed Maturities decreased by $3.1 million in 2013 due primarily to lower book yields.

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Fixed Maturities:		
Gains on Sales	$ 25.7	$ 0.4
Equity Securities:		
Gains on Sales	0.4	4.1
Losses on Sales	(0.1)	—
Real Estate:		
Gains on Sales	0.6	—
Other Investments:		
Gains on Sales	0.1	—
Net Gains on Trading Securities	0.2	0.4
Net Realized Gains on Sales of Investments	$ 26.9	$ 4.9
Gross Gains on Sales	$ 26.8	$ 4.5
Gross Losses on Sales	(0.1)	—
Net Gains on Trading Securities	0.2	0.4
Net Realized Gains on Sales of Investments	$ 26.9	$ 4.9

In the first quarter of 2013, the Company sold $138.5 million of Corporate Bonds and Notes in conjunction with a comprehensive review of the prospects of each issuer in the Company's publicly-traded corporate bond portfolio. Realized Gains on Sales of Fixed Maturities for the three months ended March 31, 2013 include realized gains of $24.8 million from such sales.

Net Impairment Losses Recognized in Earnings

The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Fixed Maturities	$ (1.7)	$ —
Equity Securities	(0.2)	(0.5)
Net Impairment Losses Recognized in Earnings	$ (1.9)	$ (0.5)

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 values are reported in the Condensed Consolidated Statements of Income in the period that the declines are determined to be other-than-temporary. Net Impairment Losses Recognized in the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 include losses of $1.7 million from other-than-temporary declines in the fair values of investments in fixed maturities of three issuers. Net Impairment Losses Recognized in the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 include losses of $0.2 million from other-than-temporary declines in the fair values of investments in equity securities of two issuers.

Net Impairment Losses Recognized in the Condensed Consolidated Statements of Income for the three months ended March 31, 2012 include OTTI losses of $0.5 million from other-than-temporary declines in the fair values of investments in equity securities of two issuers.

Total Comprehensive Investment Gains (Losses)

Total Comprehensive Investment Gains (Losses) are comprised of Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings that are reported in the Condensed Consolidated Statements of Income and unrealized investment gains and losses that are not reported in the Condensed Consolidated Statements of Income, but rather are reported in the Condensed Consolidated Statement of Comprehensive Income. The components of Total Comprehensive Investment Gains (Losses) for the three months ended March 31, 2013 and 2012 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Fixed Maturities:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	$ 25.7	$ 0.4
Net Impairment Losses Recognized in Earnings	(1.7)	—
Total Recognized in Condensed Consolidated Statements of Income	24.0	0.4
Recognized in Other Comprehensive Losses	(62.5)	(17.2)
Total Comprehensive Investment Losses on Fixed Maturities	(38.5)	(16.8)
Equity Securities:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	0.4	4.1
Losses on Sales	(0.1)	—
Net Impairment Losses Recognized in Earnings	(0.2)	(0.5)
Total Recognized in Condensed Consolidated Statements of Income	0.1	3.6
Recognized in Other Comprehensive Gains	14.3	19.2
Total Comprehensive Investment Gains on Equity Securities	14.4	22.8
Real Estate:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	0.6	—
Other Investments:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	0.1	—
Trading Securities Net Gains	0.2	0.4
Total Recognized in Condensed Consolidated Statements of Income	0.3	0.4
Total Comprehensive Investment Gains (Losses)	$ (23.2)	$ 6.4
Recognized in Condensed Consolidated Statements of Income	$ 25.0	$ 4.4
Recognized in Other Comprehensive Income (Loss)	(48.2)	2.0
Total Comprehensive Investment Gains (Losses)	$ (23.2)	$ 6.4

Investment Quality and Concentrations

The Company's fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At March 31, 2013, 94% 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 Standard & Poors ("S&P"); a rating of Aaa, Aa, A or Baa from Moody's Investors Services ("Moody's"); a rating of AAA, AA, A or BBB from Fitch Ratings ("Fitch") or a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2.

The following table summarizes the credit quality of the Company's fixed maturity investment portfolio at March 31, 2013 and December 31, 2012:

		Mar 31, 2013		Dec 31, 2012	
NAIC Rating	S & P Equivalent Rating	Fair Value in Millions	Percentage of Total	Fair Value in Millions	Percentage of Total
1	AAA, AA, A	$ 3,359.3	69.2%	$ 3,319.1	68.3%
2	BBB	1,185.5	24.4	1,199.0	24.7
3-4	BB, B	121.7	2.5	158.9	3.2
5-6	CCC or Lower	190.0	3.9	183.2	3.8
Total Investments in Fixed Maturities		$ 4,856.5	100.0%	$ 4,860.2	100.0%

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were $4.4 million and $4.3 million at March 31, 2013 and December 31, 2012, respectively.

At March 31, 2013, the Company had $269.8 million of bonds issued by states and political subdivisions 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. At March 31, 2013, the Company had $1,132.0 million of investments in bonds issued by states and political subdivisions, commonly referred to as "municipal bonds," that had not been pre-refunded, of which $96.8 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.

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at March 31, 2013 and December 31, 2012:

	Mar 31, 2013		Dec 31, 2012	
(Dollars in Millions)	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Government and Government Agencies and Authorities	$ 429.1	6.6%	$ 428.9	6.6%
Pre-refunded with U.S. Government and Government Agencies and Authorities Held in Trust	269.8	4.1	288.5	4.5
States	539.8	8.3	545.1	8.4
Political Subdivisions	133.1	2.0	122.9	1.9
Revenue Bonds	459.1	7.0	444.9	6.9
Canadian Government and Provinces	0.6	—	—	—
Total Investments in Governmental Fixed Maturities	$ 1,831.5	28.0%	$ 1,830.3	28.3%

The Company's short-term investments primarily consist of overnight repurchase agreements, money market funds and U.S. Treasuries. At March 31, 2013, the Company had $196.0 million invested in overnight repurchase agreements primarily collateralized by securities issued by the U.S. government, $102.0 million invested in money market funds which primarily invest in U.S. Treasury securities and $48.4 million of U.S. Treasury bills. 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.

Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at March 31, 2013 and December 31, 2012:

	Mar 31, 2013		Dec 31, 2012	
(Dollars in Millions)	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Manufacturing	$ 1,318.0	20.2%	$ 1,371.1	21.2%
Finance, Insurance and Real Estate	801.5	12.3	780.8	12.1
Transportation, Communication and Utilities	300.1	4.6	289.2	4.5
Services	291.4	4.5	298.6	4.6
Mining	151.5	2.3	143.4	2.2
Wholesale Trade	69.9	1.1	57.8	0.9
Retail Trade	65.9	1.0	66.5	1.0
Agriculture, Forestry and Fishing	19.0	0.3	19.2	0.3
Other	7.7	0.1	3.3	0.1
Total Investments in Non-governmental Fixed Maturities	$ 3,025.0	46.4%	$ 3,029.9	46.9%

Seventy-nine companies comprised over 75% of the Company's fixed maturity exposure to the Manufacturing industry at March 31, 2013, with the largest single exposure, Merck & Co., comprising 2.7%, or $35.6 million, of the Company's fixed maturity exposure to such industry. Thirty-seven companies comprised over 75% of the Company's exposure to the Finance, Insurance and Real Estate industry at March 31, 2013, with the largest single exposure, Wells Fargo & Company, comprising 4.5%, or $35.9 million, of the Company's exposure to such industry.

The following table summarizes the fair value of the Company's ten largest investment exposures excluding investments in U.S. Government and Government Agencies and Authorities and Pre-refunded Municipal Bonds at March 31, 2013:

(Dollars in Millions)	Fair Value	Percentage of Total Investments
Fixed Maturities:		
States and Political Subdivisions:		
Texas	$ 84.1	1.3%
Georgia	68.3	1.0
Colorado	62.7	1.0
Washington	53.1	0.8
Maryland	51.2	0.8
Ohio	50.8	0.8
Equity Securities:		
iShares® iBoxx $ Investment Grade Corporate Bond Fund	100.1	1.5
Equity Method Limited Liability Investments:		
Tennenbaum Opportunities Fund V, LLC	72.3	1.1
Goldman Sachs Vintage Fund IV, L.P.	59.6	0.9
Special Value Opportunities Fund, LLC	51.4	0.8
Total	$ 653.6	10.0%

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. Additional information pertaining to these investments at March 31, 2013 and December 31, 2012 is presented below:

(Dollars in Millions)	Asset Class	Unfunded Commitment Mar 31, 2013	Reported Value Mar 31, 2013	Reported Value Dec 31, 2012	Stated Fund End Date
Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:					
Tennenbaum Opportunities Fund V, LLC	Distressed Debt	$ —	$ 72.3	$ 69.9	10/10/2016
Goldman Sachs Vintage Fund IV, LP	Secondary Transactions	17.1	59.6	58.9	12/31/2016
Special Value Opportunities Fund, LLC	Distressed Debt	—	51.4	59.4	7/13/2016
BNY Mezzanine - Alcentra Partners III, LP	Mezzanine Debt	22.3	21.9	18.9	2021-2022
BNY Mezzanine Partners, LP	Mezzanine Debt	0.4	9.1	9.2	4/17/2016
Ziegler Meditech Equity Partners, LP	Growth Equity	—	8.6	8.9	1/31/2016
NYLIM Mezzanine Partners II, LP	Mezzanine Debt	4.0	8.1	10.3	7/31/2016
Other Funds		8.3	17.1	17.5	Various
Total for Equity Method Limited Liability Investments		52.1	248.1	253.0	
Reported as Other Equity Interests and Reported at Fair Value:					
Highbridge Principal Strategies Mezzanine Partners, LP	Mezzanine Debt	2.4	20.3	22.1	1/23/2018
Goldman Sachs Vintage Fund V, LP	Secondary Transactions	5.9	13.9	13.7	12/31/2018
Highbridge Principal Strategies Credit Opportunities Fund, LP	Hedge Fund	—	11.2	11.0	12/29/2021
GS Mezzanine Partners V, LP	Mezzanine Debt	14.7	8.0	9.3	12/31/2021
Other		74.3	90.5	85.2	Various
Total Reported as Other Equity Interests and Reported at Fair Value		97.3	143.9	141.3	
Total		$ 149.4	$ 392.0	$ 394.3	

While the Company's investments in any particular fund may increase over the next several years as the Company funds its commitments, the Company expects that the aggregate amount invested in these funds will remain relatively steady as existing investments held by the funds either mature or are realized and the proceeds distributed to the Company.

Interest and Other Expenses

Interest and Other Expenses was $23.8 million for the three months ended March 31, 2013, compared to $21.8 million for the same period in 2012. Interest and Other Expenses increased by $2.0 million for the three months ended March 31, 2013, compared to the same period in 2012, due primarily to higher salary and postretirement benefit costs.

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. Tax-exempt investment income and dividends received deductions were $9.4 million for the three months ended March 31, 2013, compared to $11.5 million for the same period in 2012.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The standard is effective for the first interim or annual period beginning on or after December 15, 2012. The new standard amends and enhances disclosure requirements by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The Company adopted the standard in the first quarter of 2013. Except for the additional disclosure requirements, the initial application of the standard did not have an impact on the Company.

There have been six other ASUs issued in 2013 that amend the original text of the ASC. The ASUs are not expected to have a material impact on the Company.

Liquidity and Capital Resources

There were no outstanding borrowings at March 31, 2013 under Kemper's 2016 Credit Agreement, a four-year, $325.0 million, unsecured, revolving credit agreement, expiring March 7, 2016. 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 and Trinity. Proceeds from advances under the 2016 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness.

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 did not pay dividends to Kemper during the first three months of 2013. Kemper estimates that its direct insurance subsidiaries would be able to pay $179.7 million in dividends to Kemper during the remainder of 2013 without prior regulatory approval.

During the first three months of 2013, Kemper repurchased 0.2 million shares of its common stock at an aggregate cost of $6.5 million in open market transactions.

Kemper paid a quarterly dividend to shareholders of $0.24 per common share in the first quarter of 2013. Dividends paid were $14.0 million for the three months ended March 31, 2013.

Kemper directly held cash and investments totaling $187.4 million at March 31, 2013, compared to $190.2 million at December 31, 2012. 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 the Company's Risk Factor set forth in Item 1A. of Part II of this Quarterly Report on Form 10-Q and Note 13 "Contingencies," to the Condensed Consolidated Financial Statements and section of this MD&A entitled "Life and Health Insurance" for additional information on 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 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.

Net Cash Provided by Operating Activities was $81.3 million for the three months ended March 31, 2013, compared to Net Cash Provided by Operating Activities of $55.6 million for the same period in 2012.

Liquidity and Capital Resources (continued)

Net Cash Used by Financing Activities decreased by $11.6 million for the three months ended March 31, 2013, compared to the same period in 2012. Kemper used $6.5 million of cash during the first three months of 2013 to repurchase shares of its common stock, compared to $17.9 million of cash used to repurchase shares of its common stock in the same period of 2012. Kemper used $14.0 million of cash to pay dividends for the three months ended March 31, 2013, compared to $14.5 million of cash used to pay dividends in the same period of 2012. The quarterly dividend rate was $0.24 per common share for the first quarters of 2013 and 2012.

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 Used by Investing Activities decreased by $86.4 million for the three months ended March 31, 2013, compared to the same period of 2012. Purchases of Fixed Maturities exceeded Sales of Fixed Maturities by $10.0 million for the three months ended March 31, 2013, compared to $32.4 million for the the same period in 2012. Purchases of Equity Securities exceeded Sales of Equity Securities by $15.8 million for the three months ended March 31, 2013, compared to $9.7 million for the the same period in 2012. Net cash used by acquisitions of short-term investments was $36.3 million for the three months ended March 31, 2013, compared to $116.7 million for the same period in 2012. Net proceeds from the sale of Fireside's active loan portfolio provided $20.1 million of cash for the three months ended March 31, 2012.

Critical Accounting Estimates

Kemper's subsidiaries conduct their continuing operations in two industries: property and casualty insurance and life and health insurance. Accordingly, the Company is subject to several industry-specific accounting principles under 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 reserves for property and casualty insurance incurred losses and LAE, the assessment of recoverability of goodwill, the valuation of pension benefit obligations and the valuation of postretirement benefit obligations other than pensions. The Company's critical accounting policies are described in the MD&A included in the 2012 Annual Report. There has been no material change, subsequent to December 31, 2012, to the information previously disclosed in the 2012 Annual Report with respect to these critical accounting estimates and the Company's critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to the rules and regulations of the SEC, the Company is required to provide the following disclosures about Market Risk.

Quantitative Information About Market Risk

The Company's Condensed Consolidated Balance Sheets at both March 31, 2013 and December 31, 2012 included three types of financial instruments subject to 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 possible 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 March 31, 2013 and December 31, 2012 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 pre-paid 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 March 31, 2013 and December 31, 2012. 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 both March 31, 2013 and December 31, 2012. 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 levels at March 31, 2013 and December 31, 2012, respectively, 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 0.93 and 0.91 at March 31, 2013 and December 31, 2012, respectively. The portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended March 31, 2013 and December 31, 2012, respectively, and weighted on the fair value of such securities at March 31, 2013 and December 31, 2012, respectively. For equity securities without observable market inputs the Company assumed a beta of 1.00 at March 31, 2013 and December 31, 2012. 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.

Quantitative Information About Market Risk (continued)

The estimated adverse effects on the fair values of the Company's financial instruments using these assumptions were:

(Dollars in Millions)	Fair Value	Pro Forma Increase (Decrease) Interest Rate Risk	Pro Forma Increase (Decrease) Equity Price Risk	Pro Forma Increase (Decrease) Total Market Risk
March 31, 2013				
Assets:				
Investments in Fixed Maturities	$ 4,856.5	$ (332.2)	$ —	$ (332.2)
Investments in Equity Securities	554.1	(19.8)	(86.4)	(106.2)
Liabilities:				
Notes Payable	677.0	21.9	—	21.9
December 31, 2012				
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 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 in 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 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company’s management, with the participation of Kemper’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 Exchange Act), as of the end of the period covered by this report. Based on such evaluation, Kemper’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 Kemper 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 Kemper’s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

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 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Items not listed here have been omitted because they are inapplicable or the answer is negative.

Item 1. Legal Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 13, “Contingencies,” to the Condensed Consolidated Financial Statements (Unaudited) in Part I of this Form 10-Q.

Item 1A. Risk Factors

There were no significant changes in the risk factors included in Item 1A. of Part I of the 2012 Annual Report, except for the following risk factor, which is amended and restated in its entirety as follows:

> ***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. At least five states have enacted legislation of this type, with varying effective dates, and an additional five states have similar legislation pending. 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. One additional state has enacted a version of the model legislation that applies only prospectively to life insurers (such as Kemper’s life insurance companies) that have not previously used the SSA Death Master File. An amendment to Alabama's previously-enacted statute referenced above has been passed by the Alabama House of Representatives and is pending in the Senate. If enacted, this amendment will limit the policies required to be compared against the SSA Death Master File only to policies issued on or after January 1, 2016. The

Company cannot predict whether or when other states will introduce or enact legislation of the types described above, or the exact form or approach that such legislation might take.

The Company has challenged the validity of the Kentucky Unclaimed Life Insurance Benefit Act (one of the enacted statutes referenced above) insofar as it purports to impose new requirements on existing life insurance contracts issued by Kemper's life insurance companies. The trial court in that case has denied the Company's motion for summary judgment and held that the requirements of the Kentucky Act apply to life insurance policies issued before the Kentucky Act's January 1, 2013 effective date. The case is on appeal by the Company. See Note 13, "Contingencies," to the Condensed Consolidated Financial Statements for additional information about this litigation.

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. Such companies are also the subject of a market conduct exam by one state insurance regulator for the purpose of verifying such companies' compliance with relevant regulations governing life insurance claims handling and unclaimed property practices. The results of these examinations cannot presently be predicted.

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

See Note 13, "Contingencies," to the Condensed 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information pertaining to purchases of Kemper common stock for the three months ended March 31, 2013 follows.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions)
January 1 - January 31	—	N/A	—	$ 211.9
February 1 - February 28	25,473	$ 33.63	—	$ 211.9
March 1 - March 31	216,814	$ 31.04	210,474	$ 205.4

(1) 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.

During the quarter ended March 31, 2013, 2,741 shares were withheld to satisfy the withholding obligations relating to the exercise of stock appreciation rights under Kemper's long-term equity-based compensation plans. During the quarter ended March 31, 2013, 25,473 shares were withheld to satisfy tax withholding obligations on the vesting of restricted stock awards under Kemper's long-term equity-based compensation plans.

Item 5. Other Information.

On May 1, 2013, the Board of Directors approved amendments to the Company’s Bylaws, effective at the close of business on May 1, 2013. The amendments make the following substantive changes:

- *Meetings by Remote Communication*: enable Kemper to hold stockholder meetings by means of remote communications *(provided for in Article II, Section 1 and referenced in multiple sections throughout the Bylaws)*
- *Electronic Transmission:* enable the provision of notices of meetings, and of authorizations and consents and other communications to be made by electronic means such as email and electronic networks *(e.g., Article II, Sections 3, 5, 7 and 10; Article III, Section 10, Article IV, and defined in Article VII, Section 5)*
- *Dual Record Dates:* allow the Board of Directors to establish separate record dates for stockholders entitled to notice of a stockholders meeting and for stockholders entitled to vote at such meeting *(provided for in Article II, Sections 3 and 5, Article VI, Section 5 and referenced in multiple sections throughout the Bylaws)*
- *Meeting Quorum and Adjournment:* specify provisions on stockholder meeting quorums, adjournment and business *(Article II, Section 8)*
- *Advance Notice Provisions:* clarify provisions and deadlines for a stockholder to propose a director nominee or bring business before a meeting, specify detailed information to be disclosed in notice and questionnaire about the stockholder and proposed nominee and their holdings of Kemper stock and related derivative instruments and require information supplements *(Article II, Section 14 (a) - (i))*
- *Directors:* specify information on director terms and vacancies and eligibility to serve as a director nominee; specify process for calling special meetings by Chairman or by specified officers on request of majority of directors; specify required standing board committees and related requirements; change references to specific types of compensation to general authorization to determine compensation consistent with legal requirements *(Article III, Sections 3, 5, 8, 12 and 14)*
- *Officers:* add detail on the terms, duties and election and appointment process for officers, enable assignment of additional title designations and delete the provision (previously Section 3 of Article V) regarding officer compensation, as that subject is handled by the Compensation Committee in accordance with its charter and the Governing Rules that are referenced in Article III, Section 12 *(Article V)*
- *Stock Certificates:* revise details on requirements for replacement of lost or damage stock certificates *(Article VI, Section 3)*
- *Evidence of Indebtedness:* delete the provision regarding signatures for checks and other evidence of indebtedness *(formerly included as Article VII, Section 3)*
- *Fiscal Year:* specify that December 31 each year is the fiscal year end date, consistent with the date previously set by the board, subject to change by board resolution *(Article VII, Section 3)*

The foregoing summary of the amendments made to the Amended and Restated Bylaws is qualified in its entirety by reference to the full text of the Amended and Restated Bylaws, Effective May 1, 2013, filed as Exhibit 3.1 to this Quarterly Report on Form 10-Q.

Also on May 1, 2013, the Board of Directors approved:

- An amended Stock Option and SAR Agreement and Deferred Stock Unit Award (“DSU”) Agreement for the Company’s non-employee directors pursuant to the prior approval of an award of 500 DSUs as a component of the annual award grant to Kemper’s non-employee directors on the day of the Company’s Annual Shareholder Meeting. The DSU agreement provides for vesting upon the grant date, conversion of the DSUs into shares of Kemper common stock on the date that the director’s board service terminates, and payment of dividend equivalents in cash on a quarterly basis, in the amount and at the time that dividends would have been payable if the DSUs were shares of Kemper common stock. The Stock Option and SAR Agreement was amended to remove the one-year vesting period and add a termination events provision to replace a similar provision removed from Kemper’s 2011 Omnibus Equity Plan. Under the new provision, the agreement will terminate ninety days after the end of the director’s board service, or one year after the end of the director’s board service if it terminates as a result of the director’s death or disability; and

- A one-time service recognition award to retiring board member Reuben Hedlund in the amount of $90,000, payable in a lump sum on or before May 15, 2013.

In its Current Report on Form 8-K filed on February 6, 2013, under Item 5.02(e), paragraph number 2, the Company described one exception to the statement that the "compensation approved for 2013 for the named executive officers was materially consistent with their compensation for 2012." The Company should have described an additional exception: "In addition, the Compensation Committee approved an annual base salary of $430,000 for 2013 for Edward J. Konar, Vice President, an increase from his 2012 annual base salary of $315,000."

Item 6. Exhibits

Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K. Exhibits 10.1 through 10.3 relate to compensatory plans or agreements.

3.1	Amended and Restated Bylaws, Effective May 1, 2013.
10.1	Form of Stock Option and SAR Agreement for Non-Employee Directors under the Kemper 2011 Omnibus Equity Plan, as of May 1, 2013.
10.2	Form of Deferred Stock Unit Agreement for Non-Employee Directors under the Kemper 2011 Omnibus Equity Plan, as of May 1, 2013.
10.3	Agreement, dated March 18, 2013, with Dennis R. Vigneau, former Senior Vice President and Chief Financial Officer.
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

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kemper Corporation

Date: May 2, 2013

/S/ DONALD G. SOUTHWELL

Donald G. Southwell

Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 2, 2013

/S/ FRANK J. SODARO

Frank J. Sodaro

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: May 2, 2013

/S/ RICHARD ROESKE

Richard Roeske

Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 3.1

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KEMPER CORPORATION

AMENDED AND RESTATED BYLAWS

Effective May 1, 2013

....

Exhibit 3.1

TABLE OF CONTENTS

TABLE OF DEFINITIONS

KEMPER CORPORATION

AMENDED AND RESTATED BYLAWS

ARTICLE I. - OFFICES

Section 1. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and outside of the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II. - MEETINGS OF STOCKHOLDERS

Section 1. Annual and special meetings of stockholders may be held at such date, time and place, within or outside of the State of Delaware, or solely by means of remote communication pursuant to Section 211(a)(2) of the Delaware General Corporation Law ("DGCL"), as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. The annual meeting of stockholders shall be held on such date as may be fixed by resolution of the board of directors at least ten days prior to the date so fixed, for the purpose of electing directors and for the transaction of such other business as may properly come before the meeting. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly constituted annual or special meeting of stockholders.

Section 3. Notice, in writing or by electronic transmission, of the annual meeting shall be given to each stockholder entitled to vote, as determined pursuant to Sections 5 and 6 of Article VI, as of the record date for determining the stockholders entitled to notice of the meeting, not less than ten nor more than sixty days before the date of the meeting, except as otherwise provided herein or as required from time to time by the DGCL or the corporation's certificate of incorporation. Such notice shall state (a) the date, time and place (if any) thereof, (b) the means of remote communication (if any) by which stockholders and proxy holders may be deemed present in person and may vote at such meeting, and (c) the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting. All informalities or irregularities in any notice of meeting, or in the areas of credentials, proxies, quorums, voting, and similar matters, will be deemed waived if no objection is made before or at the meeting.

Section 4. Special meetings of stockholders, unless otherwise prescribed by statute or by the corporation's certificate of incorporation, may be called only by the Chairman of the Board or by the board of directors pursuant to a resolution adopted by a majority of directors then in office.

Section 5. Notice, in writing or by electronic transmission, of a special meeting of stockholders shall be given to each stockholder entitled to vote, as determined pursuant to Sections 5 and 6 of Article VI, as of the record date for determining the stockholders entitled to notice of the meeting, not less than ten nor more than sixty days before the date fixed for the meeting, except as otherwise provided herein or as required from time to time by the DGCL or the corporation's certificate of incorporation. Such notice shall state (a) the date, time, place (if any) and purpose thereof, (b) the means of remote communication (if any) by which stockholders and proxy holders may be deemed present in person and may vote at such meeting, and (c) the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting. All informalities or irregularities in any notice of meeting, or in the areas of credentials, proxies, quorums, voting, and similar matters, will be deemed waived if no objection is made before or at the meeting.

Section 6. Business transacted at any special meeting of stockholders shall be limited to the business stated in the notice.

Section 7. The officer who has charge of the stock ledger of the corporation shall prepare and make available, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting (provided, however, if the record date for determining the stockholders entitled to vote is less than ten days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date), arranged in alphabetical order, and showing the address of, and the number of shares registered in the name of, each stockholder. Nothing contained in this paragraph shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a physical location, the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and subject to the inspection of any stockholder who may be present. If the meeting is to be held solely by means of remote communication, then such list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 8. The holders of a majority of the voting power of all of the shares of stock issued and outstanding and entitled to vote at a meeting of the stockholders, present in person or represented by proxy, shall constitute a quorum at such meeting for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. Where a separate vote by a class or classes or series is required, a majority of the voting power of the shares of such class or classes or series present in person or represented by proxy shall constitute a quorum entitled to take action with respect to that vote on that matter. The chair of the meeting may adjourn the meeting from time to time, whether or not there is a quorum. No notice of the time and place of the adjourned meeting and means of remote communication (if any) by which stockholders and proxy holders may be deemed present in person and vote at such meeting, need be given except as required by law. If the adjournment is for more than thirty days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. The board of directors may fix a new record date for the adjourned meeting in accordance with Section 5 of Article VI of these Bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date so fixed for notice of such adjourned meeting. If a meeting at which a quorum was established is adjourned, any business may be transacted at the adjourned meeting that might have been transacted at the meeting as originally notified. A quorum shall not be broken by the subsequent withdrawal of any stockholders.

Section 9. (a) At a meeting at which a quorum is present, any matter to be decided by the stockholders other than an election of directors shall be decided by the majority of the votes cast with respect to such matter (with “abstentions” and “broker non-votes” not counted as a vote cast either “for” or “against” such matter), unless the matter is one for which a different vote is required by express provision of the DGCL, the certificate of incorporation or these Bylaws, in which case such express provision shall govern.

(b) Except as otherwise provided in Section 9(c) below, in an election of directors at a meeting at which a quorum is present, a nominee for director shall be elected to the board of directors if the votes cast for such nominee’s election exceed the votes cast against such nominee’s election (with “abstentions” and “broker non-votes” not counted as a vote cast either “for” or “against” such nominee’s election). An incumbent director who is not elected at such a meeting shall promptly tender his or her resignation to the board of directors. In such case, the Nominating & Corporate Governance Committee shall consider the matter of the resignation and make a recommendation to the board of directors on whether to accept or reject the resignation within 45 days after the date of certification of the election results by the inspector of elections. The board of directors shall then consider such recommendation and all other factors it deems relevant and shall make a decision on the matter within 90 days after the date of such certification, and the corporation shall publically disclose the board of directors’ decision. The director whose resignation was tendered shall not participate in the recommendation by the committee or the decision of the board of directors.

(c) Notwithstanding the provisions of Section 9(b) above, directors shall be elected by a plurality of the votes cast at any meeting at which a quorum is present and for which (i) the

Secretary of the corporation has received one or more stockholder notices nominating at least one person for election to the board of directors in compliance with the advance notice requirements for stockholder nominations for director set forth in Article II, Section 14 of these Bylaws, and (ii) such nomination or nominations have not been withdrawn, so that, on the tenth (10th) day before the corporation first mails its notice for such meeting to the stockholders, the number of nominees for director is greater than the number of directors to be elected. An election by plurality vote means that the nominees receiving the greatest number of votes cast shall be elected.

Section 10. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted or acted on after three years from its date, unless the proxy provides for a longer period. Proxies may be authorized by an instrument in writing or by an electronic transmission permitted by law filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section may be substituted or used in lieu of the original writing or transmission that could be used, provided that the copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 11. Prior to any meeting of stockholders, the board of directors shall designate one or more inspectors of elections to act at such meeting or any adjournment thereof, and make a written report. The inspector or inspectors may, in the discretion of the board of directors, be officers, employees or agents of the corporation, or independent individuals, corporations, partnerships, or other entities, or any combination thereof. The inspectors may appoint or retain other persons or entities to assist them in the performance of their duties.

Section 12. Each stockholders' meeting will be called to order and thereafter chaired by the Chairman of the Board if there then is one, or if not, or if the Chairman of the Board is absent or so requests, then by the Chief Executive Officer or the President. If none of the Chairman of the Board, the Chief Executive Officer or the President is available, then the meeting will be called to order and chaired by such other officer of the corporation as may be appointed by the board of directors. The Secretary (or in his or her absence an Assistant Secretary) of the corporation will act as secretary of each stockholders' meeting. If neither the Secretary nor an Assistant Secretary is in attendance, the chair of the meeting may appoint any person (whether a stockholder or not) to act as secretary of the meeting. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting. No ballots, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors or the chair of the meeting after the closing of the polls unless the Delaware Court of Chancery upon application by a stockholder shall determine otherwise. The chair of the meeting will, among other things, have absolute authority to determine the order of business to be conducted at such meeting and to establish rules for, and appoint personnel to assist in, preserving the orderly conduct of the business of the meeting (including any informal, or question and answer, portions thereof). Any informational or other informal session of stockholders conducted under the auspices of the corporation after the conclusion of, or otherwise in conjunction with, any formal business meeting of the stockholders will be chaired by the same person who chairs the formal meeting, and the foregoing authority on his or her part will extend to the conduct of such informal session.

Section 13. The board of directors may submit any contract or act for approval or ratification at any duly constituted meeting of the stockholders, the notice of which either includes mention of the proposed submittal or is waived as provided by law. If any contract or act so submitted is approved or ratified by a majority of the votes cast thereon at such meeting, the same will be valid and as binding upon the corporation as it would be if approved and ratified by each and every stockholder of the corporation.

Section 14. (a) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the corporation's notice of meeting (or any supplement thereto), (ii) by or at the direction of the board of directors, or (iii) by any stockholder of the corporation who was a stockholder of record at the time of giving of the notice provided for in this Article II, Section 14 and on the record date (or dates) for determination of the stockholders entitled to notice of and to vote at such meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Article II, Section 14. For the avoidance of doubt, the foregoing clause (iii) shall be the exclusive means for a stockholder to make nominations or propose business at an annual meeting of stockholders, other than business included in the corporation's proxy materials pursuant to Rules 14a-8 under the Securities Exchange Act of 1934, as amended (such act, and the rules and regulations promulgated thereunder, the "Exchange Act").

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) of this Article II, Section 14:

(i) the stockholder of record must have given timely notice thereof in writing to the Secretary of the corporation,

(ii) the stockholder of record must provide to the Secretary of the corporation any updates or supplements to such notice at the times and in the forms specified in this Section 14, and

(iii) any such business must be a proper matter for stockholder action under Delaware law.

(c) For the stockholder's notice described in paragraph (b)(i) of this Article II, Section 14 to be timely, the notice shall be delivered to the Secretary at the principal executive offices of the corporation not less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days or delayed by more than sixty days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the sixtieth day prior to such annual meeting or the tenth day following the day on which Public

Announcement (as defined below in paragraph (h) of this Article II, Section 14) of the date of such meeting is first made.

(d) The stockholder's notice described in paragraph (b) of this Article II, Section 14 shall set forth:

(i) as to each person whom the stockholder proposes to nominate for election or reelection as a director:

(A) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act,

(B) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected,

(C) a description of all direct and indirect compensation or other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder of record and beneficial owner or owners (if any) and their respective affiliates and associates, on the one hand, and each proposed nominee and his or her respective affiliates and associates, on the other hand, including without limitation all information that would be required to be disclosed pursuant to Item 404 of SEC Regulation S-K if the stockholder of record making the nomination and any beneficial owner or owners (if any) or other person on whose behalf the nomination is made, or any affiliate or associate thereof, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant, and

(D) a completed and signed questionnaire and representation and agreement and any other information, in each case, as required pursuant to Section 5 of Article III of these Bylaws.

(ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any financial or other interest in such business of such stockholder and the beneficial owner (if any) on whose behalf the proposal is made; and

(iii) as to the stockholder giving the notice and the beneficial owner (if any) on whose behalf the nomination or proposal is made:

(A) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner,

(B) (I) the class, series, and number of shares of the corporation that are owned, directly or indirectly, beneficially and of record by each such party,

(II) any Derivative Instrument (as defined below in paragraph (h) of this Article II, Section 14) directly or indirectly owned beneficially by each such party, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation,

(III) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the corporation,

(IV) any short interest in any security of the corporation held by each such party (for purposes of this Section 14(d), a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security),

(V) any rights to dividends on the shares of the corporation owned beneficially directly or indirectly by each such party that are separated or separable from the underlying shares of the corporation,

(VI) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which either party is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, and

(VII) any performance-related fees (other than an asset-based fee) that each such party is directly or indirectly entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments (if any) as of the date of such notice, including without limitation any such interests held by members of each such party’s immediate family sharing the same household (which information set forth in this paragraph shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than ten days after the record date for the meeting to disclose such ownership as of the record date),

(C) any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act (whether or not such party intends to deliver a proxy statement or conduct its own proxy solicitation), and

(D) a statement as to whether or not each such party will deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of voting power of all of the shares of capital stock of the corporation required under applicable law to carry the proposal or, in the case of a nomination or nominations for election as directors, at least the percentage of voting power of all of the shares of capital stock of the corporation reasonably believed by the stockholder of record or beneficial owner or owners, as the case may be, to be sufficient to elect the persons proposed to be nominated by the stockholder of record.

(e) A stockholder of record providing notice of a nomination of director or other business proposed to be brought before a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 14 shall be true and correct as of the record date for determining the stockholders entitled to notice of the meeting and as of the date that is ten business days prior to the meeting or any adjournment or postponement thereof, provided that if the record date for determining the stockholders entitled to vote at the meeting is less than ten business days prior to the meeting or any adjournment or postponement thereof, the information shall be supplemented and updated as of such later date. Any such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation (i) not later than five business days after the record date for determining the stockholders entitled to notice of the meeting (in the case of the update and supplement required to be made as of the record date for determining the stockholders entitled to notice of the meeting), (ii) not later than five business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten business days prior to the meeting or any adjournment or postponement thereof), and (iii) not later than five business days after the record date for determining the stockholders entitled to vote at the meeting, but not later than the date prior to the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to made as of a date less than ten business days prior to the date of the meeting or any adjournment or postponement thereof).

(f) Notwithstanding anything in paragraph (c) of this Article II, Section 14 to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no Public Announcement naming all of the nominees for director or specifying the size of the increased board of directors made by the corporation at least seventy days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Article II, Section 14 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth day following the day on which such Public Announcement is first made by the corporation. In no event shall an adjournment or postponement of an annual meeting for which notice has been given commence a new time period for the giving of a stockholder's notice.

(g) Only such persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election or reelection as directors and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in these Bylaws. The chair of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposed business or nomination shall be disregarded.

(h) For purposes of these Bylaws:

(i) "Public Announcement" shall mean disclosure (A) in a press release issued by the corporation in accordance with its customary press release procedures, that is reported by the Dow Jones News Service, Associated Press or a comparable national news service or is generally available on internet news sites, or (B) in a document publicly filed by the corporation with the Securities and Exchange Commission ("SEC") pursuant to Section 13, 14 or 15(d) of the Exchange Act; and

(ii) "Derivative Instrument" means any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise.

(i) Notwithstanding the foregoing provisions of this Article II, Section 14, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Article II, Section 14. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE III. - DIRECTORS

GENERAL PROVISIONS

Section 1. The number of directors which shall constitute the whole board shall be not less than three nor more than twelve. Within the limits above specified, the number of directors shall be determined exclusively by resolution of the board of directors. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 3 of this Article, and each director elected shall hold office until his successor is elected and qualified or his earlier resignation or removal, or as otherwise provided in Section 9(b) of Article II.

Section 2. The board of directors shall designate one of its members Chairman of the Board to serve until his resignation or removal. The Chairman of the Board shall preside at all meetings of the stockholders and the board of directors and shall have such other duties and powers as are specified in the corporation's certificate of incorporation and these Bylaws or as may be prescribed by the board of directors from time to time. The Chairman of the Board may be removed only by the board of directors in accordance with a resolution adopted by a majority of the directors then in office. The board of directors may designate one of its members as Vice Chairman of the Board to serve until his resignation or removal. The Vice Chairman shall have such duties and powers as may be specified in these Bylaws or otherwise prescribed by the board of directors from time to time.

Section 3. Subject to the rights of the holders of any class or series of Preferred Stock and to the requirements of law, unless the board of directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies resulting from death, resignation, retirement, disqualification or removal from office or other cause may be filled only by a majority of the directors then in office, though less than a quorum, and the directors so chosen shall hold office for a term expiring at the next annual meeting of the stockholders and until their successors are duly elected and qualified or their earlier resignation or removal, or as otherwise provided in Section 9(b) of Article II. No decrease in the number of authorized directors constituting the board of directors shall shorten the term of any incumbent director.

Section 4. The business of the corporation shall be managed by or under the direction of the board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 5. To be eligible to be a nominee for election or reelection as a director of the corporation, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 14 of Article II of these Bylaws or such period as the board of directors may specify) to the Secretary at the principal executive offices of the corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which form of questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that such person (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed in writing to the corporation or (ii) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law, (b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (c) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the corporation. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation and to determine the independence of such nominee under the Exchange Act and applicable stock exchange rules.

MEETINGS OF THE BOARD OF DIRECTORS

Section 6. The board of directors of the corporation may hold meetings, both regular and special, either within or outside of the State of Delaware.

Section 7. Regular meetings of the board of directors may be fixed by resolution of the board of directors. Notice need not be given of regular meetings.

Section 8. Special meetings of the board may be called by the Chairman of the Board, Chief Executive Officer or President on one day's prior notice to each director either personally, by mail, facsimile or other means of electronic transmission. Special meetings shall be called by the Chairman of the Board, Chief Executive Officer, President or Secretary on like notice on the written request of a majority of the directors then in office.

Section 9. At all meetings of the board a majority of the directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors except as may be otherwise specifically provided by statute, the certificate of incorporation or these Bylaws. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 10. Unless otherwise restricted by the certificate of incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting, if all members of the board or of such committee, as the case may be, consent thereto in writing (or by electronic transmission), and such writings and transmissions are filed with the minutes of proceedings of the board or committee.

Section 11. Unless otherwise provided by the certificate of incorporation or these Bylaws, members of the board of directors of the corporation, or any committee designated by the board of directors, may participate in a meeting of the board of directors or such committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

COMMITTEES OF DIRECTORS

Section 12. The board of directors shall have the following three standing committees of the board of directors: an Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee. Each of these three committees shall meet all requirements of applicable law, regulations and the listing requirements of the New York Stock Exchange or such other securities market or exchange on which the corporation's common stock may from time to time be listed or qualified for trading (collectively, the "Governing Rules"), including the requirement to have a written charter addressing such committee's purpose, responsibilities, authority and any other matters mandated by the Governing Rules. The board of directors may have, or may from time to time establish by resolution of a majority of the directors then in office, one or more additional committees, each consisting of one or more directors of the corporation, subject to the Governing Rules. Each of these committees, to the extent provided in the resolutions establishing such committee or these bylaws, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it, subject to the limitations set forth in the DGCL.

Section 13. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

COMPENSATION OF DIRECTORS

Section 14. The board of directors or a duly authorized committee thereof shall have the authority to determine how the directors will be compensated for their service. Such compensation may take any lawful form of compensation or consideration that is consistent with the Governing Rules. In addition, the directors shall be entitled to be reimbursed for their actual expenses incurred in attending all meetings of the board of directors or any committee of the board. Subject to the Governing Rules, no compensation of directors under this Section shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

ARTICLE IV. - NOTICES

Section 1. Notices given by the corporation shall be in writing or by electronic transmission. Notices shall be delivered to stockholders at the address appearing on the books of the corporation by any of the following methods: U.S. mail; personal delivery (including by courier service or messenger); electronic transmission (including facsimile, electronic mail, posting to electronic networks, or as otherwise defined in and consistent with the provisions of Section 232 (or successor provision) of the DGCL); or other method permissible under the DGCL. Notices shall be delivered to directors by any of the following methods: U.S. mail; personal delivery (including by courier service or messenger); electronic transmission (including facsimile, electronic mail or posting to electronic networks); or such other method as may be determined by resolution of the board of directors.

Section 2. Notice shall be deemed to be given to stockholders when the same shall be deposited in the mail, postage prepaid, upon delivery in the case of personal delivery, and as provided by the DGCL in the case of electronic transmission. Notice shall be deemed to be given to directors when the same shall be deposited in the mail, postage prepaid, upon delivery in the case of personal delivery, and upon transmission in the case of electronic transmission.

Section 3. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, or waiver thereof by electronic transmission by such person, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance at a meeting of stockholders, board of directors, or committees thereof as may from time to time be established, shall constitute a waiver of notice of such meeting, except when the stockholder, director or member of such committee attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE V. - OFFICERS

GENERAL PROVISIONS

Section 1. The officers of the corporation shall be elected annually by the board of directors at its first meeting following the annual meeting of the stockholders and shall consist of a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as the board of directors may designate from time to time. The board of directors may also assign to any officers designations such as Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer, Executive Vice President, Senior Vice President and other similar designations. The board of directors shall designate which of the officers are to be considered "executive officers" as defined by the rules promulgated pursuant to the Exchange Act, provided that the Chief Executive Officer and President shall in all cases be deemed to be executive officers, as will any officers with any of the designations specified in the second sentence of this Section 1. Any two or more offices may be held by the same person.

Section 2. The board of directors and the Chief Executive Officer may appoint such assistant officers (such as assistant secretaries and assistant treasurers) as shall be deemed necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board of directors or the Chief Executive Officer in accordance with these Bylaws.

Section 3. The officers of the corporation shall hold office until their successors are elected or appointed or until their earlier resignation, death, incapacity or removal. Except as otherwise provided in these Bylaws or in the certificate of incorporation, any officer or assistant officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. At its discretion, the board of directors may leave any office vacant, for such period as it may deem appropriate, and may designate persons to serve as interim officers or assistant officers pending approval of permanent replacements.

CHIEF EXECUTIVE OFFICER

Section 4. The Chief Executive Officer shall be responsible for the general and active management of the business of the corporation and shall have all powers and duties commonly incident to the office of Chief Executive Officer. The Chief Executive Officer shall also perform such other duties as the board of directors may designate from time to time and shall see that all orders and resolutions of the board of directors are carried into effect. The Chief Executive Officer may execute contracts, certificates, filings with governmental entities, bonds, notes, mortgages and other documents or instruments except where required by law to be otherwise signed and executed, and provided that the signing and execution thereof may be delegated by the board of directors or the Chief Executive Officer to other officers or agents of the corporation.

PRESIDENT

Section 5. The President shall, after the Chief Executive Officer, be responsible for the general and active management of the business of the corporation. The President shall also perform such other duties as the board of directors or the Chief Executive Officer may designate from time to time and shall see that all orders and resolutions of the board of directors are carried into effect. The President may execute contracts, certificates, filings with governmental entities, bonds, notes, mortgages and other documents and instruments except where required by law to be otherwise signed and executed, and provided that the signing and execution thereof may be delegated by the board of directors to other officers or agents of the corporation. During the absence or disability of the Chief Executive Officer, or if there is no Chief Executive Officer, the President shall perform the duties and have the powers incident to the office of the Chief Executive Officer. In the event of an uncertainty or dispute as to whether the Chief Executive Officer is absent or disabled for purposes of this section, the board of directors shall make the final determination.

VICE PRESIDENTS

Section 6. The Vice Presidents shall perform such duties and have such powers as may be determined by the board of directors or the Chief Executive Officer, or in the absence of such determination, by the President. During the absence or disability of the President, the Vice Presidents in the order determined by the board of directors or the Chief Executive Officer shall perform the duties and have the powers incident to the office of the President.

SECRETARY AND ASSISTANT SECRETARIES

Section 7. The Secretary shall be responsible for the recordation of minutes of all meetings (or consents in lieu thereof) of the board of directors and committees of the board of directors and all meetings of the stockholders, and for preserving such minutes and consents in the permanent records of the corporation, and may issue certified copies to third parties of such minutes or consents, or portions thereof. The Secretary shall cause notice to be given of all meetings of the stockholders, board of directors and committees thereof, and shall perform such other duties and have such other powers as are incident to the office of Secretary or as may be determined by the board of directors or the Chief Executive Officer or, in the absence of such determination, by the President. The Secretary shall keep in safe custody the seal of the corporation, may affix the same to any instrument requiring it and may attest thereto.

Section 8. In the absence or disability of the Secretary or otherwise at the direction of the Chief Executive Officer, the President or the Secretary, an assistant secretary, or if there be more than one, the assistant secretaries may exercise the duties and have the powers incident to the office of the Secretary. Any assistant secretary may affix the corporate seal and attest thereto and may attest the execution of documents on behalf of the corporation.

TREASURER AND ASSISTANT TREASURERS

Section 9. The Treasurer shall perform such duties and have such powers as may be determined by the board of directors or the Chief Executive Officer or, in the absence of such determination, by the President.

Section 10. In the absence or disability of the Treasurer or otherwise at the direction of the Chief Executive Officer, the President or the Treasurer, an assistant treasurer, or if there shall be more than one, the assistant treasurers exercise the duties and have the powers incident to the office of the Treasurer.

ARTICLE VI. - STOCK

ISSUANCE OF STOCK

Section 1. The corporation is authorized to issue shares of stock, directly or through its agent, in certificated form as well as uncertificated form, including book-entry or other method of direct registration.

STOCK CERTIFICATES

Section 2. Every holder of stock in the corporation shall be entitled upon written request to have a certificate signed in the name of the corporation by the Chief Executive Officer, the President or a Vice President and the Treasurer or an assistant treasurer, or the Secretary or an assistant secretary of the corporation, certifying the number of shares owned by such holder in the corporation. Any or all the signatures on a certificate, including the signatures of the corporate officers, the transfer agent and/or the registrar, may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 3. Prior to issuing a replacement certificate in the case of loss of, damage to, or destruction of, an outstanding stock certificate, the corporation may require the owner or the owner's legal representative to provide a bond sufficient to indemnify the corporation against any claim that may be made against it, or to comply with such other terms and conditions as the corporation may from time to time prescribe.

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation or its agent to issue new shares, by certificate or in uncertificated form, to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

FIXING OF RECORD DATES

Section 5. For the purpose of determining the stockholders who shall be entitled to notice of any meeting of stockholders or any adjournment thereof, or to receive payment of any dividend or disbursement or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not precede the date on which the resolution fixing the record date is adopted and which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action described above. If the board fixes a record date for determining the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, such date shall also be the record date for determining the stockholders entitled to vote at such meeting, unless the board of directors determines at the time it fixes such record date that a later date on or before the date of the meeting shall be the date for determining the stockholders entitled to vote at such meeting. If no record date is fixed by the board of directors, the record date (a) for determining stockholders entitled to notice of, or to vote at, a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (b) for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the board of directors adopts a resolution relating thereto. A determination of stockholders of record entitled to notice of, or to vote at, a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may instead fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix the same or an earlier date as the record date for stockholders entitled to notice of such adjourned meeting.

REGISTERED STOCKHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and disbursements, to vote or to receive allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII. - GENERAL PROVISIONS

DIVIDENDS

Section 1. The board of directors may declare dividends upon the capital stock of the corporation, subject to any provisions of the certificate of incorporation, and the DGCL at any regular or special meeting of the board of directors. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to any provisions of the certificate of incorporation and the DGCL.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, determine proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

FISCAL YEAR

Section 3. The fiscal year of the corporation shall end on December 31 each year, or on such other date as may be fixed by resolution of the board of directors.

SEAL

Section 4. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ELECTRONIC TRANSMISSION

Section 5. For purposes of these Bylaws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

ARTICLE VIII. - DIRECTORS' LIABILITY AND INDEMNIFICATION

DIRECTORS' LIABILITY

Section 1. No director of the corporation shall be personally liable to the corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director. Notwithstanding the foregoing sentence, a director shall be liable to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL, or (iv) for any transaction from which such director derived an improper personal benefit. No amendment to or repeal of this Article shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the DGCL is amended hereafter further to eliminate or limit the personal liability of directors, the liability of a director of this corporation shall be limited or eliminated to the fullest extent permitted by the DGCL as amended.

RIGHT TO INDEMNIFICATION

Section 2. Each person who was or is made a party to or is threatened to be made a party to or is involuntarily involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or is or was serving (during his or her tenure as director and/or officer) at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, whether the basis of such Proceeding is an alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the DGCL (or other applicable law), as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection with such Proceeding. Such director or officer shall have the right to be paid by the corporation for expenses incurred in defending any such Proceeding in advance of its final disposition; provided, however, that, if the DGCL (or other applicable law) requires, the payment of such expenses in advance of the final disposition of any such Proceeding shall be made only upon receipt by the corporation of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it should be determined ultimately that he or she is not entitled to be indemnified under this Article or otherwise.

RIGHT OF CLAIMANT TO BRING SUIT

Section 3. If a claim under Section 2 of this Article is not paid in full by the corporation within ninety (90) days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, together with interest thereon, and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim, including reasonable attorneys' fees incurred in connection therewith. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL (or other applicable law) for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (or of its board of directors, its directors who are not parties to the Proceeding with respect to which indemnification is claimed, its stockholders, or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL (or other applicable law), nor an actual determination by any such person or persons that such claimant has not met such applicable standard of conduct, shall be a defense to such action or create a presumption that the claimant has not met the applicable standard of conduct.

NON-EXCLUSIVITY OF RIGHTS

Section 4. The rights conferred by this Article shall not be exclusive of any other right which any director, officer, representative, employee or other agent may have or hereafter acquire under the DGCL or any other statute, or any provision contained in the certificate of incorporation or these Bylaws, or any agreement, or pursuant to a vote of stockholders or disinterested directors, or otherwise.

INSURANCE AND TRUST FUND

Section 5. In furtherance and not in limitation of the powers conferred by statute:

(a) the corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of law; and

(b) the corporation may create a trust fund, grant a security interest and/or use other means (including, without limitation, letters of credit, surety bonds and/or other similar arrangements), as well as enter into contracts providing indemnification to the fullest extent permitted by law and including as part thereof provisions with respect to any or all of the foregoing, to ensure the payment of such amount as may become necessary to effect indemnification as provided therein, or elsewhere.

INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION

Section 6. The corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification, including the right to be paid by the corporation the expenses incurred in defending any Proceeding in advance of its final disposition, to any employee or agent of the corporation to the fullest extent permitted by law.

AMENDMENT

Section 7. This Article VIII is also contained in Articles NINE and TEN of the corporation's certificate of incorporation, and accordingly, may be altered, amended or repealed only to the extent and at the time said Articles NINE and TEN are altered, amended or repealed. Any repeal or modification of this Article VIII shall not change the rights of an officer or director to indemnification with respect to any act or omission occurring prior to such repeal or modification.

ARTICLE IX. - AMENDMENTS

The board of directors may adopt, amend or repeal these Bylaws. Any adoption, amendment or repeal of these Bylaws by the board of directors shall require the approval of a majority of the directors then in office. The stockholders shall also have power to adopt, amend or repeal these Bylaws. In addition to any vote of the holders of any class or series of stock of this corporation required by law or by the certificate of incorporation, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of voting stock voting together as a single class, shall be required to adopt, amend or repeal any provision of these Bylaws.

Kemper Corporation 2011 Omnibus Equity Plan

NON-EMPLOYEE DIRECTOR

NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT

This NON-QUALIFIED STOCK OPTION AND SAR AGREEMENT (the "Agreement") is made as of this ______ day of _________ ("Grant Date"), between KEMPER CORPORATION, a Delaware corporation (the "Company"), and ________________ (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 of the Common Stock of the Company at the purchase price of $______ per share.

SIGNATURES

As of the date set forth above, the parties have executed this Agreement:

KEMPER CORPORATION	**OPTION HOLDER**
By: ______________________	________________________
«Authorized Officer»	«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 this Non-Qualified Stock Option and SAR Agreement.

____

____

Print Name

RECITALS

A. The Board of Directors and Shareholders of the Company have adopted the 2011 Omnibus Equity Plan (the "Plan"), to be administered by the Compensation Committee of the Company's Board of Directors (the "Committee").

B. The Plan provides, among other things, for grants of awards to non-employee directors of the Company, of the type, in the amounts and subject to such terms as shall be determined from time to time by the Board of Directors after considering any recommendation by the Committee.

C. This Agreement sets forth the terms of awards that may be granted to non-employee directors of the Company as determined by the Board of Directors from time to time in the form of an option to purchase shares of Common Stock of the Company ("Common Stock") and tandem stock appreciation rights ("SAR"); neither the Option nor the SAR granted hereby is intended to qualify as an "incentive stock option" under §422A of the Internal Revenue Code of 1986, as amended.

D. Terms used herein and not otherwise defined shall have the meanings given to such terms in the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant.

(a) The Company grants the Option to the Option Holder, which will 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 of this Agreement, or such later date as may result from the application of §6 (the "Expiration Date"). This Option is also subject to early termination in accordance with §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 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 and SAR shall be exercisable in full by the Option Holder as of the date of this Agreement. Subject to earlier termination under §5 or the terms of the Plan and no later than the Expiration Date, the Option Holder may purchase all or any part of the shares subject to this Option in the manner and under the terms specified in §3 hereof, or such lesser number of shares as may be available through the exercise of the SAR. The number of shares subject to this Option that the Option Holder may purchase shall be reduced by the number of shares previously purchased by the Option Holder pursuant to the 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 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.

(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). The Company shall issue to the Option Holder a number of shares of 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 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 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 SAR, the Company shall require the Option Holder or the Option Holder's permitted successor in interest to pay the Company the amount of taxes, if any, which the Company may be required to withhold with respect to such exercise.

(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 Services. Any outstanding portion of this Option and SAR shall terminate 90 days after the date of termination of the Option Holder's services as a director for any reason other than his or her death or total and permanent disability as defined in Section 22(e)(3) of the Code ("Termination Event"). If the Option Holder's services as a director cease because of a Termination Event, any portion of this Option and SAR that remains outstanding at such time shall expire one year after the date of the Termination Event.

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 the 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 Other 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 market(s) 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. By signing this Agreement, the Option Holder represents and warrants that none of the shares to be acquired upon exercise of this Option will be acquired with a view towards any sale, transfer or distribution of said shares in violation of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations promulgated thereunder, or any applicable "blue sky" laws, and that the Option Holder hereby agrees to indemnify the Company in the event of any violation by the Option Holder of such Act, rules, regulations or laws.

8. Transferability. This Option and SAR and all other rights and privileges granted hereby shall not be transferred, assigned, pledged or otherwise encumbered 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 so to transfer, assign, pledge, encumber 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 and 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 Option and SAR 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 the 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 pension, insurance, profit sharing or other welfare plan or program of the Company or of any subsidiary of the Company in which non-employee directors of the Company are otherwise eligible to participate.

11. **No Rights as a Stockholder Until Issuance of Shares**. Neither the Option Holder nor any other person legally entitled to exercise this Option or SAR shall be entitled to any of the rights or privileges of a shareholder of the Company in respect of any shares issuable upon any exercise of this Option unless and until such shares shall have been issued and delivered to: (i) the Option Holder in the form of certificates, (ii) a brokerage or other account for the benefit of the 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 the Option Holder.

12. **No Right to Continue as a Director**. Nothing herein contained shall be construed as an agreement by the Company, expressed or implied, that the Option Holder has a right to continue as a director of the Company for any period of time or at any particular rate of compensation.

13. **Agreement Subject to the Plan**. The 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 shall be amended from time to time in accordance with the terms thereof, but no such amendment shall adversely affect the Option Holder's rights under this Option and SAR without the prior written consent of the Option Holder. In the event that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

14. **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 and principles.

15. **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 Kemper Corporation and the Option Holder or his/her Representative.

Kemper Corporation 2011 Omnibus Equity Plan

NON-EMPLOYEE DIRECTOR

DEFERRED STOCK UNIT AWARD AGREEMENT

This DEFERRED STOCK UNIT AWARD AGREEMENT (the "Agreement") is made as of this ______ day of _________ ("Grant Date"), between KEMPER CORPORATION, a Delaware corporation (the "Company"), and ________________ (the "Award Holder") for an award consisting of the grant of an aggregate of ________________ deferred stock units (the "Deferred Stock Units"), each Deferred Stock Unit representing the right to receive one share of the Common Stock of the Company ("Common Stock") on the terms and conditions hereinafter set forth.

SIGNATURES

As of the date set forth above, the parties have executed this Agreement:

KEMPER CORPORATION	AWARD HOLDER
By: ______________________	________________________
«Authorized Officer»	«Name»

By his or her signature below, the spouse of the Award Holder agrees to be bound by all of the terms and conditions of this Deferred Stock Unit Award Agreement.

____

____

[Name]

RECITALS

A. The Board of Directors and Shareholders of the Company have adopted the 2011 Omnibus Equity Plan (the "Plan"), to be administered by the Compensation Committee of the Company's Board of Directors (the "Committee").

B. The Plan provides, among other things, for grants of awards to non-employee directors of the Company, of the type, in the amounts and subject to such terms as shall be determined from time to time by the Board of Directors after considering any recommendation by the Committee.

C. This Agreement sets forth the terms of awards that may be granted to non-employee directors of the Company as determined by the Board of Directors from time to time in the form of Deferred Stock Units.

D. Terms used herein and not otherwise defined shall have the meanings given to such terms in the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant.

The Company hereby grants the Deferred Stock Units to the Award Holder, subject to the terms set forth in this Agreement. The Deferred Stock Units granted pursuant to this Award shall not entitle the Award Holder to any rights of a shareholder of Common Stock.

2. Vesting. The Deferred Stock Units shall be fully vested as of the date of this Agreement. No shares of Common Stock shall be issued to the Award Holder in settlement of Deferred Stock Units prior to the time specified in Section 3.

3. Conversion of Deferred Stock Units; Issuance of Common Stock. Except as otherwise provided in Sections 6 and 7, upon the date ("Departure Date") of the Award Holder's departure from the Company's Board of Directors for any reason that is considered a "separation from service" as defined in Section 409A of the Internal Revenue Code of 1986 and its accompanying regulations ("Code Section 409A") the Company shall promptly cause to be issued shares of Common Stock in book-entry form, registered in the Award Holder's name (or in the name of the Award Holder's Representative, as the case may be), in payment of whole Deferred Stock Units. Except as otherwise provided in Section 7, in no event shall the date that Common Stock is issued to the Award Holder ("Settlement Date") occur later than ninety (90) days following the Award Holder's Departure Date).

4. Dividend Equivalents. If a cash dividend is declared and paid by the Company with respect to the Common Stock, the Award Holder shall be entitled to receive a cash payment equal to the total cash dividend the Award Holder would have received had the Award Holder's Deferred Stock Units been actual shares of Common Stock. The cash payment shall be made on the date that the dividends are payable to holders of Common Stock (the "Dividend Payment Date"). The rules of Treas. Reg. § 1.409A-3(d) shall be applied in determining whether a cash payment is made on the Dividend Payment Date.

5. **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, Vesting Date, Settlement Date or dividend payment date, 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).

6. **Code Section 409A.** The Company intends that the award hereunder shall comply with Code Section 409A. If the Award Holder is a "specified employee" (within the meaning of Code Section 409A and determined pursuant to procedures adopted by the Company) as of the Departure Date and subject to Code Section 409A(a)(2)(B)(i), payment shall be made on the first day following the six (6) month anniversary of the Award Holder's Departure Date (or, if earlier than the end of the six (6) month period, the date of the Award Holder's death). In no event shall the Company and/or its affiliates be liable for any tax, interest or penalties that may be imposed on the Award Holder (or the Award Holder's estate) under Code Section 409A.

7. **Shares to be Issued in Compliance with Federal Securities Laws and Other Rules**. No shares issuable in settlement of the Deferred Stock Units 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 market(s) 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. By signing this Agreement, the Award Holder represents and warrants that none of the shares to be acquired in settlement of the Deferred Stock Units will be acquired with a view towards any sale, transfer or distribution of said shares in violation of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations promulgated thereunder, or any applicable "blue sky" laws, and that the Award Holder hereby agrees to indemnify the Company in the event of any violation by the Award Holder of such Act, rules, regulations or laws. The Company will use its best efforts to complete all actions necessary for such compliance so that settlement can occur within the period specified in Section 3; provided that if the

Company reasonably anticipates that settlement within such period will cause a violation of applicable law, settlement may be delayed provided that settlement occurs at the earliest date at which the Company reasonably anticipates that such settlement will not cause a violation of applicable law, all in accordance with Treasury Regulation Section 1.409A-2(b)(7)(ii).

8. **Transferability**. The Deferred Stock Units and all other rights and privileges granted hereby shall not be transferred, assigned, pledged or otherwise encumbered 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 Award Holder pursuant to any divorce proceedings, settlement or judgment. Upon any attempt so to transfer, assign, pledge, encumber or otherwise dispose of the Deferred Stock Units or any other rights or privileges granted hereby contrary to the provisions hereof, the Deferred Stock Units and all other rights and privileges contained herein shall immediately become null and void and of no further force or effect.

9. **Certain Adjustments and 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) The Deferred Stock Units may be subject to termination or early vesting in connection with a Change in Control in accordance with the provisions of Article 18.3 of the Plan.

10. **Participation by the Award Holder in Other Company Plans**. Nothing herein contained shall affect the right of the Award Holder to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance, profit sharing or other welfare plan or program of the Company or of any subsidiary of the Company in which non-employee directors of the Company are otherwise eligible to participate.

11. **No Rights as a Stockholder Until Issuance of Shares**. Except as otherwise provided in Section 4, neither the Award Holder nor any Representative of the Award Holder shall be entitled to any of the rights or privileges of a shareholder of the Company in respect of any shares issuable in settlement of the Deferred Stock Units unless and until such shares shall have been issued and delivered to: (i) the Award Holder in the form of certificates, (ii) a brokerage or other account for the benefit of the

Award 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 the Award Holder.

12. No Right to Continue as a Director. Nothing herein contained shall be construed as an agreement by the Company, expressed or implied, that the Award Holder has a right to continue as a director of the Company for any period of time or at any particular rate of compensation.

13. Agreement Subject to the Plan. The Deferred Stock Units hereby granted are subject to, and the Company and the Award Holder agree to be bound by, all of the terms and conditions of the Plan, as the same shall be amended from time to time in accordance with the terms thereof, but no such amendment shall adversely affect the Award Holder's rights under this Agreement without the prior written consent of the Award Holder. In the event that the terms or conditions of this Agreement conflict with the terms or conditions of the Plan, the Plan shall govern.

14. Execution. This Deferred Stock Unit Award 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 and principles.

15. Miscellaneous. This Agreement, together with the Plan, is the entire agreement of the parties with respect to the Deferred Stock Units granted hereby and may not be amended except in a writing signed by both the Company and the Award Holder or his/her Representative.

SEPARATION AGREEMENT

This Separation Agreement ("Agreement") is made between Dennis R. Vigneau ("Employee") and Kemper Corporate Services, Inc., for itself and on behalf of all of its affiliates (collectively, "Employer"), on the date last written below.

BACKGROUND

Employee is currently employed by Employer and, among other things, is the Senior Vice President and Chief Financial Officer of Employer's parent company, Kemper Corporation. Employer does not provide severance pay on the termination of employment as a matter of right or entitlement. Severance pay is a benefit provided solely at Employer's discretion under appropriate circumstances and only when Employer receives a signed release of claims before payments begin.

In consideration of Employee's cooperation and assistance in the transition of his responsibilities, Employer has determined that it is appropriate to provide severance pay to Employee and Employee wishes to take advantage of that benefit. Employee and Employer now wish to specifically describe Employee's severance benefits and the parties' respective rights and obligations.

TERMS AND CONDITIONS

In consideration of their mutual promises and undertakings described below, Employee and Employer agree as follows:

1. Employment Responsibilities End. Employee's employment by Employer shall end at the close of business on March 15, 2013 ("Termination Date"). Employee agrees that Employee has been paid all wages, benefits, and other compensation owed to Employee by Employer through the Termination Date, subject to the obligation of Employer for the payment of: (i) salary at Employee's current base rate through the Termination Date, (ii) expense reimbursement reports that are outstanding on the date hereof or which are submitted hereafter pursuant to Section 15, and (iii) all paid time off (PTO), if any, that will be accrued but unpaid on the Termination Date. Any such accrued and unpaid PTO will be paid to Employee no later than the next regularly scheduled payday after the Termination Date. Employee agrees that Employee is not entitled to any additional or future compensation or benefits arising out of Employee's employment with Employer, except for such compensation or benefits, if any, arising under the retirement, welfare benefits, bonus and equity compensation plans of Kemper Corporation to which Employee may be entitled by virtue of Employee's employment with Employer, subject in all cases to the terms and conditions of the plans and agreements governing such compensation and benefits. Without limitation to the above, Employee acknowledges and agrees that Employee is not entitled to any severance pay pursuant to the Kemper Corporation Employee General Severance Pay Plan.

2. Severance Payment. A cash severance payment in the gross total amount of five hundred seventy thousand dollars ($570,000) will be paid in a lump sum to Employee provided that all of

the following conditions have occurred: (a) Employee signs this Agreement and returns it to Employer by March 18, 2013, (b) Employee submits a signed resignation in the form of Attachment A hereto, such resignation to be effective as of the close of business on March 15, 2013, (c) the seven-day revocation period has passed without revocation of this Agreement, (d) Employee has executed and returned the Acknowledgment Form (Attachment B hereto) to Employer confirming Employee's decision not to revoke this Agreement, and (e) Employee has returned all company property to Employer. Employee acknowledges and agrees that the severance payment: (i) shall not be deemed "compensation" for purposes of any of Employer's qualified retirement plans or other benefit programs and payment of the severance payment does not entitle Employee to any retirement plan contributions by Employer for Employee's benefit or account, and (ii) is in full satisfaction of Employee's annual incentive award for 2013 under the Kemper Corporation 2011 Performance Incentive Plan. Employee further acknowledges and agrees that the termination of Employee's employment will result in the forfeiture of all amounts potentially payable to Employee under multi-year incentive awards granted to Employee in 2011, 2012 and 2013 under the Kemper Corporation 2011 Performance Incentive Plan, in accordance with Section 6.4(a) of such Plan and the agreements governing such awards to which Employee is a party.

If Employee elects to continue health and dental insurance coverage under COBRA, he will be charged for the employee portion of the then-current group health plan rates for individual or family coverage, as applicable during the months in which he elects to maintain coverage. Such continuation coverage will end on the earlier of the date Employee first becomes eligible for health insurance coverage with a subsequent employer or the date Employee is no longer eligible for COBRA coverage under applicable COBRA rules. If this agreement to provide COBRA benefits to Employee raises any compliance issues or impositions of penalties under any non-discrimination rules that have been issued or are issued in the future pursuant to the Patient Protection and Affordable Care Act (PPACA), the parties agree to modify this Agreement so that it complies with the terms of those non-discrimination rules without impairing the economic benefit to Employee of this provision.

3. Outplacement Services. Upon return of the signed Agreement and Attachments A and B to the Employer, Employer agrees to provide at its cost up to 12 months of outplacement services for Employee through DBM or, if Employee elects to obtain outplacement services from another firm of Employee's choosing, then up to thirty thousand dollars ($30,000.00) worth of services from such firm, provided in either case that Employee has commenced utilization of the outplacement services within three months of the date he executes this Agreement.

4. Unemployment Claims. Employer expressly agrees that the release language in Section 6 below shall not prevent Employee from applying for unemployment benefits to which Employee may be entitled under applicable law.

5. Non-Solicitation of Employees, Confidentiality, Good Behavior and Return of Property.

(a) Employee Agrees that he shall not for a period of twelve (12) months immediately following the Termination Date, solicit, induce, entice, or in any manner encourage any person then employed by Employer to leave the employ of Employer. This prohibition applies only to employees with whom Employee had material contact pursuant to Employee's duties during the period of twelve (12) months immediately preceding the Termination Date and includes, without limitation, all officers of Kemper Corporation. For purposes of this Agreement, "Material Contact" means interaction between Employee and another employee of Employer: (i) with whom Employee ·actually dealt, or (ii) whose employment or dealings with Employer or services for Employer were handled, coordinated, managed, or supervised by Employee. If Employee breaches the terms of this Section 5(a), he will be liable for any attorneys' fees incurred by Employer in seeking the enforcement of this Section 5(a) and will forfeit his right to continued health insurance coverage at the employee (or family) non-COBRA rate as described in Section 2. Notwithstanding the foregoing sentence, Employer will also have the right to obtain any other legal and equitable relief to which it might be entitled for any breach of this Agreement, including Section 5(a).

(b) Employee agrees not to disclose, communicate, use to the detriment of Employer or for Employee's own benefit or the benefit of any other person, or misuse in any way any confidential information or trade secrets of Employer.

(c) Employee agrees to return to Employer all Employer credit cards, identification cards, access cards and keys to Employer's properties or facilities that Employee may have in his possession. Employee shall return any and all Employer confidential files and all Employer confidential and proprietary information that Employee may have in his possession. Employee shall return any and all of Employer's property, including but not limited to, computer equipment, peripherals, printers, and company vehicles. Employer agrees that Employee may retain the Employer's cellular phone, including stored contacts, but subject to the removal of all Employer data, that he used during the course of his employment immediately prior to the Termination Date. Employer further agrees that Employee may retain the phone number assigned to the cellular phone number which is assigned to the Employer. Employee will be responsible for taking all necessary steps to transfer such number to an account in his name and will be responsible for all costs of maintaining service for such phone number after the Termination Date and Employer agrees to reasonably cooperate with Employee in connection with such steps.

6. Consideration to Employer - Release of Claims and Agreement Not to Sue. Except as stated below, Employee hereby forever releases, discharges and holds harmless Employer and its respective parent company, subsidiaries, affiliates, predecessors, successors and assigns, and their officers, directors, shareholders, principals, employees, insurers, and agents from any claim or cause of action whatsoever which Employee either has or may have against Employer resulting from or arising out of or related to Employee's employment by Employer, or the termination of that employment, including any claims or causes of action Employee has or may have pursuant to the Age Discrimination in Employment Act, 29 USC Section 621 et seq.; the Older Workers

Benefit Protection Act of 1990; Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991, 42 USC Sec. 2000(e); the Americans with Disabilities Act, 42 USC Sec. 12101; the Rehabilitation Act of 1973, 29 USC Sec. 701; the Family and Medical Leave Act of 1993, 29 USC Sec. 2618; 775 Ill.Comp.Stat.Ann. 5/1-103, 5/2-102, 5/2-103, 5/2-104, and 56 Ill. Adm. Code 5210.110; Employer Retirement Income Security Act of 1974, 29 USC 1001 et seq.; and any other law or regulation of any local, state or federal jurisdiction.

This release does not apply to any claims or rights that may arise after the date that Employee signs this Agreement, or relate to the consideration for this Agreement, vested rights under the Employer's employee benefit plans as applicable on the date Employee signs this Agreement, or any claims that the controlling law clearly states may not be released by private agreement. Furthermore, this release does not waive any rights Employee might have to indemnification as a corporate officer pursuant to Kemper Corporation's certificate of incorporation and bylaws, applicable benefit plan documents, or by applicable statutory or common law.

Subject to the terms and conditions of the Arbitration Agreement, dated October 18, 2010, between Employer and Employee (which shall continue in full force and effect), nothing in this Agreement shall be construed to prohibit Employee from filing a charge with or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission (EEOC), National Labor Relations Board (NLRB), or a comparable state or local agency, or participating in any investigation or proceeding conducted by such administrative agency. Notwithstanding the foregoing, Employee agrees to waive his right to recover monetary damages in any charge, complaint, or arbitration filed by Employee or by anyone else on his behalf. On the date of this Agreement, Employee represents and warrants that Employee has no claims, complaints, charges, or other proceedings pending with any administrative agency, commission or other forum relating directly or indirectly to Employee's employment with Employer, or if Employee does have such a charge pending, he understands that such a claim, complaint, or charge will not result in any monetary benefit to Employee due to acceptance of consideration for signing this release.

Other than an action for breach of this Agreement, Employee expressly acknowledges that if Employee files any claim or arbitration, or causes or aids any claim or arbitration to be filed on Employee's behalf, regarding any matter described in this Agreement, Employer may be entitled to recover from Employee some or all money paid under this Agreement, plus attorneys' fees and costs incurred in defending against such action, to the extent permitted by law.

7. No Admission of Liability. Nothing in this Agreement shall be construed to be an admission of liability by Employer and its respective parent company, subsidiaries, affiliates, predecessors, successors and assigns, and their officers, directors, shareholders, principals, employees, insurers, and agents for any alleged violation of any of Employee's statutory rights or any common law duty imposed upon Employer.

8. Adequate Consideration. Employee agrees that the consideration provided for this Agreement is above and beyond any amounts already owed to Employee and is adequate consideration for all promises and releases contained in this Agreement.

9. Non-waiver. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same or any other provision of this Agreement.

10. Notices. Any notices required or permitted to be given under this Agreement shall be sufficient if in writing and personally delivered or sent by a recognized overnight courier service to Employee's residence as last shown on Employer's employment records, in the case of Employee, or to Kemper Corporate Services, Inc., Attn: Donald G. Southwell, President, One East Wacker Drive, Suite 1000, Chicago, Illinois 60601, in the case of Employer.

11. Successors and Assigns. Except as otherwise provided in specific provisions above, this Agreement shall be binding upon and inure to the benefit of Employee, Employee's spouse, Employee's heirs, executors, administrators, designated beneficiaries and upon anyone claiming under Employee or Employee's spouse, and shall be binding upon and inure to the benefit of Employer and its successors and assigns. Employee warrants and represents that, except as provided herein, no right, claim, cause of action or demand, or any part thereof, which Employee may have arising out of or in any way related to Employee's employment with Employer, has been or will be assigned, granted or transferred in any way to any other person, entity, firm or corporation, in any manner, including by subrogation or by operation of marital property rights.

12. Severability. If a court or other body of competent jurisdiction should determine that any term or provision of this Agreement is invalid or unenforceable, such term or provision shall be reformed rather than voided, if possible, in accordance with the purposes stated in this Agreement and with applicable law, and all other terms and provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

13. Oral Agreements; Applicable Law. The parties acknowledge that there are no oral agreements or understandings that conflict with, modify, supplement or supersede the terms and conditions of this Agreement. This Agreement shall be construed under the laws of the State of Illinois applicable to contracts entered into and to be performed in the State of Illinois.

14. Representations and Warranties. By signing below, the Employee represents and warrants that Employee has been advised in writing to consult with an attorney before signing this Agreement, and Employee has had the opportunity to do so if desired. Employee acknowledges that this Agreement has been delivered to Employee on February 25, 2013 and understands that Employee has up to twenty-one (21) days following such date to sign and return sign and return this Agreement to Employer. Employee agrees that any changes made to this Agreement do not restart the running of the 21-day period.

The Employee further acknowledges and understands that some portions, or all of the payments and/or benefits described in this Agreement, are the consideration to the Employee for waiving rights under the Age Discrimination in Employment Act ("ADEA") referenced in Section 6 and for Employee's obligations described in Section 5.

Finally, Employee understands that Employee has the right within seven (7) days of the signing of this Agreement to revoke Employee's waiver of rights to claim damages under ADEA. If Employee does revoke that waiver within the seven (7) day period, the Agreement shall be null and void.

Any revocation must be in writing and delivered to Donald G. Southwell, President, Kemper Corporate Services, Inc., One East Wacker Drive, Suite 1000, Chicago, IL 60601. Any such revocation must comply with the notice provisions of Section 10 and be delivered to Employer no later than the seventh day after execution of this Agreement.

15. Expense Reimbursement. By no later than the Termination Date, Employee agrees to submit an expense account form to Employer for reimbursement of reasonable business expense items incurred on behalf of Employer prior to the Termination Date for which Employer has not yet then paid. Upon receipt of such expense account form, together with such supporting documentation as Employer may reasonably require, Employer will pay Employee for business expense items so incurred by no later than the date specified in Section 16.

16. Employee Cooperation and Assistance. Employee agrees to cooperate fully with Employer in the defense of any lawsuits or any other types of proceedings, and in the preparation of any response to any examination or investigation by any government entity or agency, and with respect to any other claims or matters (all such lawsuits, proceedings, examinations, investigation, claims and matters being collectively referred to as "Proceedings"), arising out of or in any way related to the policies, practices, or conduct of Employer and its affiliates during the time Employee was employed by Employer, and shall testify fully and truthfully in connection therewith. In addition, Employee agrees that, upon reasonable notice, Employee will participate in such informal interviews by counsel for Employer as may be reasonably necessary to ascertain Employee's knowledge concerning the facts relating to any such Proceedings, and to cooperate with such counsel in providing testimony whether through deposition, affidavit, or at trial in any such Proceeding. If Employee's action is required under this Section after 12 months from the Termination Date, Employer will compensate Employee at an agreed-upon rate for time spent, provided Employee submits a detailed account to Employer of his actions. In all events, Employer will reimburse Employee for his reasonable travel, lodging and other out-of-pocket expenses associated with his compliance with this Section 16. Employer will make every reasonable effort to accommodate Employee's personal and business schedules when requesting his assistance and cooperation.

17. Compliance with Code §409A. Except for payments pursuant to Section 16, all payments due under this Agreement will be paid no later than April 5, 2013.

Caution: This Agreement is a Release. Employer hereby advises Employee to read it and to consult with an attorney prior to signing it.

TO EVIDENCE THEIR AGREEMENT, the parties have executed this document as of the date last written below.

Employee	**Kemper Corporate Services, Inc.**
/s/ Dennis R. Vigneau	/s/ Donald G. Southwell
Dennis R. Vigneau	Donald G. Southwell President
Date: 3/18/13	Date: 2/25/13

Attachment A

Resignation

I, Dennis R. Vigneau, hereby resign, effective as of the close of business on March 15, 2013, as an officer, director and/or member of any benefit plan committee or trust of Kemper Corporation and each of its direct and indirect subsidiaries and other affiliates in which I hold any such positions.

Date: __________________________, 2013

Attachment B

Seven Day Right to Revocation

Acknowledgment Form

I, Dennis R. Vigneau, hereby acknowledge that Kemper Corporate Services, Inc. tendered a Separation Agreement offer which I voluntarily agreed to accept on __________, 2013, a date at least seven days prior to today's date.

I certify that seven calendar days have elapsed since my voluntary acceptance of this above-referenced offer (i.e. seven days have elapsed since the above date), and that I have voluntarily chosen not to revoke my acceptance of the above-referenced Separation Agreement.

Signed this ____day of _________________ 2013.

Exhibit 31.1

CERTIFICATIONS

I, Donald G. Southwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 2, 2013

/S/ DONALD G. SOUTHWELL

Donald G. Southwell
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Frank J. Sodaro, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 2, 2013

/S/ FRANK J. SODARO

Frank J. Sodaro
Senior Vice President and Chief Financial Officer

Exhibit 32.1

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 Quarterly Report on Form 10-Q of Kemper Corporation (the “Company”) for the three months ended March 31, 2013 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:	May 2, 2013

Exhibit 32.2

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 Quarterly Report on Form 10-Q of Kemper Corporation (the "Company") for the three months ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank J. Sodaro, 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/ FRANK J. SODARO
Name:	Frank J. Sodaro
Title:	Senior Vice President and Chief Financial Officer
Date:	May 2, 2013