KEMPER Corp
Form 10-Q
August 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended June 30, 2013
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
Commission file number 001-18298

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

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

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

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

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

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

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

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

56,914,532 shares of common stock, $0.10 par value, were outstanding as of July 31, 2013.

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Caution Regarding Forward-Looking Statements

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

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

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

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

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

- Developments in, and outcomes of, initiatives by state officials that could result in significant changes to unclaimed property laws and claims handling practices with respect to life insurance 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;

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Caution Regarding Forward-Looking Statements (continued)

- Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act, 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.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in millions, except per share amounts)
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenues:				
Earned Premiums	$1,022.7	$1,059.0	$512.8	$529.8
Net Investment Income	155.4	152.6	74.6	75.2
Other Income	0.4	0.4	0.2	0.2
Net Realized Gains on Sales of Investments	29.2	9.0	2.3	4.1
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(4.7)	(0.9)	(2.3)	(0.4)
Portion of Losses Recognized in Other Comprehensive Income	1.8	—	1.3	—
Net Impairment Losses Recognized in Earnings	(2.9)	(0.9)	(1.0)	(0.4)
Total Revenues	1,204.8	1,220.1	588.9	608.9
Expenses:				
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	703.4	800.4	354.2	423.8
Insurance Expenses	321.4	330.1	163.1	167.7
Interest and Other Expenses	49.0	42.7	25.2	20.9
Total Expenses	1,073.8	1,173.2	542.5	612.4
Income (Loss) from Continuing Operations before Income Taxes	131.0	46.9	46.4	(3.5)
Income Tax Benefit (Expense)	(39.9)	(9.0)	(13.9)	5.1
Income from Continuing Operations	91.1	37.9	32.5	1.6
Income from Discontinued Operations	1.3	8.0	1.5	0.7
Net Income	$92.4	$45.9	$34.0	$2.3
Income from Continuing Operations Per Unrestricted Share:				
Basic	$1.57	$0.63	$0.56	$0.03
Diluted	$1.57	$0.63	$0.56	$0.03
Net Income Per Unrestricted Share:				
Basic	$1.59	$0.77	$0.59	$0.04
Diluted	$1.59	$0.77	$0.59	$0.04
Dividends Paid to Shareholders Per Share	$0.48	$0.48	$0.24	$0.24

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

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

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net Income	$92.4	$45.9	$34.0	$2.3
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses)	(283.0)	73.9	(235.0)	72.6
Foreign Currency Translation Adjustments	(0.1)	1.3	0.1	0.6
Amortization of Unrecognized Postretirement Benefit Costs	12.1	7.6	6.7	3.2
Other Comprehensive Income (Loss) Before Income Taxes	(271.0)	82.8	(228.2)	76.4
Other Comprehensive Income Tax Benefit (Expense)	96.8	(29.3)	80.6	(27.0)
Other Comprehensive Income (Loss)	(174.2)	53.5	(147.6)	49.4
Total Comprehensive Income (Loss)	$(81.8)	$99.4	$(113.6)	$51.7

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

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

	June 30, 2013	December 31, 2012
Assets:	(Unaudited)	
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2013 - $4,416.3; 2012 - $4,283.8)	$4,701.1	$4,860.2
Equity Securities at Fair Value (Cost: 2013 - $477.2; 2012 - $462.7)	545.0	521.9
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	241.7	253.0
Short-term Investments at Cost which Approximates Fair Value	239.3	327.5
Other Investments	496.0	497.5
Total Investments	6,223.1	6,460.1
Cash	69.5	96.3
Receivables from Policyholders	357.5	369.3
Other Receivables	206.2	206.1
Deferred Policy Acquisition Costs	308.4	303.4
Goodwill	311.8	311.8
Current and Deferred Income Tax Assets	85.7	5.4
Other Assets	258.6	256.7
Total Assets	$7,820.8	$8,009.1
Liabilities and Shareholders’ Equity:		
Insurance Reserves:		
Life and Health	$3,189.6	$3,161.6
Property and Casualty	919.0	970.6
Total Insurance Reserves	4,108.6	4,132.2
Unearned Premiums	640.3	650.9
Liabilities for Income Taxes	6.5	21.5
Notes Payable at Amortized Cost (Fair Value: 2013 - $670.7; 2012 - $675.5)	611.9	611.4
Accrued Expenses and Other Liabilities	448.5	431.4
Total Liabilities	5,815.8	5,847.4
Shareholders’ Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 57,060,815 Shares Issued and Outstanding at June 30, 2013 and 58,454,390 Shares Issued and Outstanding at December 31, 2012	5.7	5.8
Paid-in Capital	709.1	725.0
Retained Earnings	1,151.7	1,118.2
Accumulated Other Comprehensive Income	138.5	312.7
Total Shareholders’ Equity	2,005.0	2,161.7
Total Liabilities and Shareholders’ Equity	$7,820.8	$8,009.1

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

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

	Six Months Ended	
	June 30, 2013	June 30, 2012
Operating Activities:		
Net Income	$92.4	$45.9
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(5.0)	(9.5)
Amortization of Life Insurance in Force Acquired and Customer Relationships Acquired	4.2	4.1
Equity in Earnings of Equity Method Limited Liability Investments	(12.2)	(7.8)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	8.0	7.7
Amortization of Investment Securities and Depreciation of Investment Real Estate	8.6	7.1
Net Realized Gains on Sales of Investments	(29.2)	(9.0)
Net Impairment Losses Recognized in Earnings	2.9	0.9
Net Gain on Sale of Portfolio of Automobile Loan Receivables	—	(12.4)
Benefit for Loan Losses	—	(2.0)
Depreciation of Property and Equipment	8.6	6.2
Decrease in Receivables	9.0	12.0
Increase (Decrease) in Insurance Reserves	(24.3)	8.1
Decrease in Unearned Premiums	(10.6)	(0.7)
Change in Income Taxes	0.8	(15.0)
Increase in Accrued Expenses and Other Liabilities	4.8	2.2
Other, Net	18.6	18.9
Net Cash Provided by Operating Activities	76.6	56.7
Investing Activities:		
Sales and Maturities of Fixed Maturities	465.7	268.9
Purchases of Fixed Maturities	(572.2)	(191.1)
Sales of Equity Securities	50.7	28.2
Purchases of Equity Securities	(62.8)	(61.7)
Sales of and Return of Investment of Equity Method Limited Liability Investments	18.9	16.4
Acquisitions of Equity Method Limited Liability Investments	(5.3)	(16.1)
Decrease (Increase) in Short-term Investments	87.3	(25.3)
Improvements of Investment Real Estate	(2.7)	(2.7)
Sales of Investment Real Estate	3.8	—
Increase in Other Investments	(3.7)	(4.2)
Acquisition of Software	(9.8)	(14.8)
Disposition of Business, Net of Cash Disposed	3.8	—
Net Proceeds from Sale of Portfolio of Automobile Loan Receivables	—	13.2
Receipts from Automobile Loan Receivables	—	2.0
Other, Net	(5.2)	(4.6)
Net Cash Provided (Used) by Investing Activities	(31.5)	8.2
Financing Activities:		
Common Stock Repurchases	(45.1)	(39.3)
Cash Dividends Paid to Shareholders	(27.9)	(28.8)
Cash Exercise of Stock Options	0.1	—
Excess Tax Benefits from Share-based Awards	0.4	0.6

Other, Net	0.6	0.9
Net Cash Used by Financing Activities	(71.9)	(66.6)
Decrease in Cash	(26.8)	(1.7)
Cash, Beginning of Year	96.3	251.2
Cash, End of Period	$69.5	$249.5

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

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

Note 1 - Basis of Presentation

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

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

Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board ("FASB") issues Accounting Standard Updates ("ASU") to amend the authoritative literature in the FASB Accounting Standards Codification ("ASC"). There have been eleven ASUs issued in 2013 that amend the original text of the ASC. Except as described in the following paragraph and under the caption "Adoption of New Accounting Standard" below, the ASUs are not expected to have a material impact on the Company.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The standard is effective for the first interim or annual period beginning on or after December 15, 2013 with early adoption permitted. The standard amends ASC Topic 740, Income Taxes, to provide guidance and reduce diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Except for the changes, if any, in the Company's presentation, the initial application of the standard will not impact the Company.

Adoption of New Accounting Standard

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The 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 a statement of income. The Company adopted the standard in the first quarter of 2013. Except for the additional disclosure requirements, the initial application of the standard did not have an impact on the Company.

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

Note 2 - Investments
The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at June 30, 2013 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$372.5	$29.8	$(7.1)	$395.2
States and Political Subdivisions	1,333.7	83.6	(16.1)	1,401.2
Canadian Government and Provinces	0.6	—	—	0.6
Corporate Securities:				
Bonds and Notes	2,669.9	234.3	(42.4)	2,861.8
Redeemable Preferred Stocks	2.1	2.2	—	4.3
Mortgage and Asset-backed	37.5	1.5	(1.0)	38.0
Investments in Fixed Maturities	$4,416.3	$351.4	$(66.6)	$4,701.1

Included in the fair value of Mortgage and Asset-backed investments at June 30, 2013 are $29.8 million of collateralized loan obligations, $6.7 million of collateralized debt obligations, $1.2 million of non-governmental residential mortgage-backed securities and $0.3 million of other asset-backed securities.
The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at December 31, 2012 were:

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

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2012 are $2.3 million of collateralized debt obligations, $1.3 million of non-governmental residential mortgage-backed securities, and $0.3 million of other asset-backed securities.
The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at June 30, 2013 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$115.0	$117.8
Due after One Year to Five Years	641.9	675.9
Due after Five Years to Ten Years	1,259.5	1,295.9
Due after Ten Years	2,182.3	2,383.4
Asset-backed Securities Not Due at a Single Maturity Date	217.6	228.1
Investments in Fixed Maturities	$4,416.3	$4,701.1

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 June 30, 2013 consisted of securities issued by the Government National Mortgage Association with a fair value of $175.3 million, securities issued by the Federal National Mortgage Association with a fair value of $14.3 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 $38.0

million.

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

Note 2 - Investments (continued)
There were no unsettled sales of Investments in Fixed Maturities at either June 30, 2013 or December 31, 2012. Accrued Expenses and Other Liabilities at June 30, 2013 includes a payable of $6.2 million for purchases of Investments in Fixed Maturities that settled in July 2013. Accrued Expenses and Other Liabilities at December 31, 2012 includes a payable of $1.5 million for purchases of Investments in Fixed Maturities that settled in January 2013.
Gross unrealized gains and gross unrealized losses on the Company’s Investments in Equity Securities at June 30, 2013 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$75.4	$3.3	$(0.9)	$77.8
Other Industries	14.5	5.3	(0.5)	19.3
Common Stocks:				
Manufacturing	67.3	27.9	(0.2)	95.0
Other Industries	49.8	17.2	(0.4)	66.6
Other Equity Interests:				
Exchange Traded Funds	140.2	0.3	(1.5)	139.0
Limited Liability Companies and Limited Partnerships	130.0	19.9	(2.6)	147.3
Investments in Equity Securities	$477.2	$73.9	$(6.1)	$545.0

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

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at June 30, 2013 is presented below:

(Dollars in Millions)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$89.5	$(7.1)	$0.1	$—	$89.6	$(7.1)
States and Political Subdivisions	216.8	(16.1)	0.3	—	217.1	(16.1)
Corporate Securities:						
Bonds and Notes	754.4	(38.6)	59.6	(3.8)	814.0	(42.4)
Mortgage and Asset-backed	23.3	(0.9)	1.6	(0.1)	24.9	(1.0)
Total Fixed Maturities	1,084.0	(62.7)	61.6	(3.9)	1,145.6	(66.6)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	14.2	(0.8)	2.4	(0.1)	16.6	(0.9)
Other Industries	1.4	(0.5)	0.7	—	2.1	(0.5)
Common Stocks:						
Manufacturing	2.5	(0.2)	0.2	—	2.7	(0.2)
Other Industries	2.2	(0.4)	0.5	—	2.7	(0.4)
Other Equity Interests:						
Exchange Traded Funds	82.2	(1.5)	—	—	82.2	(1.5)
Limited Liability Companies and Limited Partnerships	61.9	(1.9)	6.0	(0.7)	67.9	(2.6)
Total Equity Securities	164.4	(5.3)	9.8	(0.8)	174.2	(6.1)
Total	$1,248.4	$(68.0)	$71.4	$(4.7)	$1,319.8	$(72.7)

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 June 30, 2013, were $66.6 million, of which $3.9 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 $1.3 million at June 30, 2013 related to securities for which the Company has recognized credit losses in earnings. Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of $0.5 million related to securities for which the Company has recognized credit losses in earnings. Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of $0.1 million at June 30, 2013 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $61.3 million and below-investment-grade fixed maturity investments comprised $5.3 million of the unrealized losses on investments in fixed maturities at June 30, 2013. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 5% of the amortized cost basis of the investment. At June 30, 2013, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at June 30, 2013 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost

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Note 2 - Investments (continued)

of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

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

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

The Company concluded that the unrealized losses on its investments in preferred and common stocks at June 30, 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 June 30, 2013.

Note 2 - Investments (continued)

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

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

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

Investment-grade fixed maturity investments comprised $3.8 million and below-investment-grade fixed maturity investments comprised $4.3 million of the unrealized losses on investments in fixed maturities at December 31, 2012. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 3% of the amortized cost basis of the investment. At December 31, 2012, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at December 31, 2012 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

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.

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Balance at Beginning of Period	$4.6	$3.9	$4.1	$3.8
Additions for Previously Unrecognized OTTI Credit Losses	1.0	—	0.3	—
Reductions to Previously Recognized OTTI Credit Losses	—	(0.1)	—	—
Reductions for Change in Impairment Status:				
From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell	(1.1)	—	—	—
Reductions for Investments Sold During Period	(0.1)	(0.2)	—	(0.2)
Balance at End of Period	$4.4	$3.6	$4.4	$3.6

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

(Dollars in Millions)	Jun 30, 2013	Dec 31, 2012
Loans to Policyholders at Unpaid Principal	$270.0	$266.3
Real Estate at Depreciated Cost	221.0	226.2
Trading Securities at Fair Value	4.5	4.5
Other	0.5	0.5
Total	$496.0	$497.5

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Note 3 - Property and Casualty Insurance Reserves
Property and Casualty Insurance Reserve activity for the six months ended June 30, 2013 and 2012 was:

(Dollars in Millions)	Six Months Ended June 30, 2013	June 30, 2012
Property and Casualty Insurance Reserves:		
Gross of Reinsurance at Beginning of Year	$970.6	$1,029.1
Less Reinsurance Recoverables at Beginning of Year	66.2	74.5
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	904.4	954.6
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	549.2	632.1
Prior Years:		
Continuing Operations	(31.1)	(12.3)
Discontinued Operations	(2.3)	(1.1)
Total Incurred Losses and LAE Related to Prior Years	(33.4)	(13.4)
Total Incurred Losses and LAE	515.8	618.7
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	286.4	326.4
Prior Years:		
Continuing Operations	280.6	293.4
Discontinued Operations	7.2	11.3
Total Paid Losses and LAE Related to Prior Years	287.8	304.7
Total Paid Losses and LAE	574.2	631.1
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	846.0	942.2
Plus Reinsurance Recoverables at End of Period	73.0	68.0
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$919.0	$1,010.2

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 six months ended June 30, 2013, the Company reduced its property and casualty insurance reserves by $33.4 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $31.1 million and commercial lines insurance losses and LAE reserves developed favorably by $2.3 million. Personal automobile insurance losses and LAE reserves developed favorably by $15.6 million, homeowners insurance losses and LAE reserves developed favorably by $11.4 million and other personal lines losses and LAE reserves developed favorably by $4.1 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. Discontinued operations accounted for all of the commercial lines loss and LAE reserve development.

Note 3 - Property and Casualty Insurance Reserves (continued)

For the six months ended June 30, 2012, the Company reduced its property and casualty insurance reserves by $13.4 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $1.5 million and commercial lines insurance losses and LAE reserves developed favorably by $11.9 million. The commercial lines insurance losses and LAE reserves included favorable development of $10.8 million from continuing operations and $1.1 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 June 30, 2013 and December 31, 2012 was:

(Dollars in Millions)	Jun 30, 2013	Dec 31, 2012
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	$357.6	$357.3
6.00% Senior Notes due November 30, 2015	248.8	248.6
Mortgage Note Payable at Amortized Cost	5.5	5.5
Notes Payable at Amortized Cost	$611.9	$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 June 30, 2013 or December 31, 2012, and accordingly, $325.0 million was available for future borrowings at such dates.

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

(Dollars in Millions)	Six Months Ended		Three Months Ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Notes Payable under Revolving Credit Agreements	$0.6	$1.3	$0.3	$0.3
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	11.1	11.1	5.6	5.6
6.00% Senior Notes due November 30, 2015	7.7	7.7	3.8	3.8
Mortgage Note Payable	0.2	0.2	0.1	0.1
Interest Expense before Capitalization of Interest	19.6	20.3	9.8	9.8
Capitalization of Interest	(0.5)	(1.4)	(0.2)	(0.6)
Total Interest Expense	$19.1	$18.9	$9.6	$9.2

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Note 4 - Notes Payable (continued)
Interest paid, including facility fees and credit agreement issuance costs, for the six and three months ended June 30, 2013 and 2012 was:

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Notes Payable under Revolving Credit Agreements	$0.2	$1.7	$0.2	$—
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	10.8	10.8	10.8	10.8
6.00% Senior Notes due November 30, 2015	7.5	7.5	7.5	7.5
Mortgage Note Payable	0.2	0.2	0.1	0.1
Total Interest Paid	$18.7	$20.2	$18.6	$18.4

Note 5 - Long-term Equity-based Compensation Plans
As of June 30, 2013, there were 8,665,088 common shares available for future grants under Kemper’s long-term equity-based compensation plan, of which 553,125 shares were reserved for future grants based on the achievement of performance goals under the terms of outstanding performance-based restricted stock awards. Equity-based compensation expense was $3.0 million and $3.3 million for the six months ended June 30, 2013 and 2012, respectively. Total unamortized compensation expense related to nonvested awards at June 30, 2013 was $7.4 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 six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012
Range of Valuation Assumptions		
Expected Volatility	39.10 % - 48.23 %	29.36 % - 53.84 %
Risk-free Interest Rate	0.62 - 1.38	0.16 - 1.26
Expected Dividend Yield	2.83 - 3.00	3.17 - 3.26
Weighted-Average Expected Life in Years		
Employee Grants	4 - 7	1 - 7
Director Grants	6	6

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

	Shares Subject to Options	Weighted-Average Exercise Price Per Share ($)	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	3,192,054	$40.53		
Granted	283,750	33.20		
Exercised	(74,500)	26.29		
Forfeited or Expired	(473,756)	42.47		
Outstanding at June 30, 2013	2,927,548	$39.86	4.20	$6.0
Vested and Expected to Vest at June 30, 2013	2,884,537	$40.01	4.14	$5.9
Exercisable at June 30, 2013	2,387,983	$42.04	3.21	$3.9

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

The weighted-average grant-date fair values of options granted during the six months ended June 30, 2013 and 2012 were $10.20 per option and $9.39 per option, respectively. Total intrinsic value of stock options exercised was $0.4 million and $0.1 million for the six months ended June 30, 2013 and 2012, respectively. The total tax benefit realized for tax deductions from option exercises was $0.2 million for the six months ended June 30, 2013. The total tax benefit realized for tax deductions from option exercises was insignificant for the six months ended June 30, 2012. Cash received from option exercises was $0.1 million for the six months ended June 30, 2013. Cash received from option exercises were insignificant for the six months ended June 30, 2012.

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

Range of Exercise Prices			Outstanding			Exercisable	
			Shares Subject to Options	Weighted-Average Exercise Price Per Share ($)	Weighted-Average Remaining Contractual Life (in Years)	Shares Subject to Options	Weighted-Average Exercise Price Per Share ($)
$ 10.00	-	$ 15.00	35,000	$ 13.55	5.60	35,000	$ 13.55
15.01	-	20.00	8,000	16.48	5.85	8,000	16.48
20.01	-	25.00	207,500	23.61	6.59	150,062	23.64
25.01	-	30.00	491,250	28.78	7.81	235,873	28.64
30.01	-	35.00	262,750	33.17	9.63	36,000	31.50
35.01	-	40.00	334,000	37.25	4.27	334,000	37.25
40.01	-	45.00	360,618	43.58	1.12	360,618	43.58
45.01	-	50.00	991,722	48.63	2.31	991,722	48.63
50.01	-	55.00	236,708	50.51	0.86	236,708	50.51
10.00	-	55.00	2,927,548	39.86	4.20	2,387,983	42.04

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 six months ended June 30, 2013 was as follows:

	Time-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	126,349	$26.19
Granted	71,625	29.95
Vested	(17,000)	15.24
Forfeited	(22,066)	26.12
Nonvested Balance at End of Period	158,908	$29.07

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 six months ended June 30, 2013 was as follows:

	Performance-Based Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	187,075	$36.70
Granted	70,675	42.12
Vested	(53,118)	33.14
Forfeited	(20,257)	38.80
Nonvested Balance at End of Period	184,375	$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 57,375 common shares, respectively, at June 30, 2013. For the 2010 three-year performance period, the Company exceeded target performance levels with a payout percentage of 114%. Accordingly, an additional 6,996 shares of stock were issued to award recipients on February 2, 2013 (the “2010 Additional Shares”).

The total fair value of the shares of restricted stock that vested during the six months ended June 30, 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 six months ended June 30, 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.

The compensation of each member of the Board of Directors who is not employed by the Company (“Non-Employee Director”) includes equity-based compensation awards. Each new Non-Employee Director receives an initial option to purchase 4,000 shares of Kemper common stock immediately upon becoming a director. Thereafter, on the date of each annual meeting of Kemper’s shareholders, eligible Non-Employee Directors automatically receive annual grants of options to purchase 4,000 shares of common stock for so long as they remain eligible directors. Prior to May 1, 2013, such options granted to Non-Employee Directors were exercisable one year from the date of grant at an exercise price equal to the fair market value of Kemper’s common stock on the date of grant and would expire 10 years from the date of grant. Effective May 1, 2013, new grants of such options are are fully vested on the date of grant. In addition to the option awards, effective May 1, 2013, annual awards to each Non-Employee Director include 500 deferred stock units (“DSU”). DSUs give the recipient the right to receive one share of Kemper common stock for each DSU issued. The DSUs granted to Non-Employee Directors are fully vested on the date of grant. Holders of DSUs are entitled to receive dividend equivalents in cash in the amount and at the time that dividends would have been payable if the DSUs were shares of Kemper common stock. Conversion of the DSUs into shares of Kemper’s common stock is deferred until the date a director’s board service terminates. On May 1, 2013, the Company issued 4,000 DSUs at a fair value of $31.50 per DSU.

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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 six and three months ended June 30, 2013 and 2012 is as follows:

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(Dollars in Millions)				
Income from Continuing Operations	$91.1	$37.9	$32.5	$1.6
Less Income from Continuing Operations Attributed to Restricted Shares	0.5	0.2	0.2	—
Income from Continuing Operations Attributed to Unrestricted Shares	90.6	37.7	32.3	1.6
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$90.6	$37.7	$32.3	$1.6
(Shares in Thousands)				
Weighted-Average Unrestricted Shares Outstanding	57,824.7	59,531.2	57,519.0	59,196.7
Equity-based Compensation Equivalent Shares	110.4	133.9	110.4	137.5
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	57,935.1	59,665.1	57,629.4	59,334.2
(Per Unrestricted Share in Whole Dollars)				
Basic Income from Continuing Operations Per Unrestricted Share	$1.57	$0.63	$0.56	$0.03
Diluted Income from Continuing Operations Per Unrestricted Share	$1.57	$0.63	$0.56	$0.03

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

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(Number of Shares in Millions)				
Equity-based Compensation Equivalent Shares	2.2	3.0	2.2	2.8
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	2.2	3.0	2.2	2.8

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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 six and three months ended June 30, 2013 and 2012 were:

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$(257.7)	$81.9	$(233.8)	$76.7
Reclassification Adjustment for Amounts Included in Net Income	(25.3)	(8.0)	(1.2)	(4.1)
Unrealized Holding Gains (Losses)	(283.0)	73.9	(235.0)	72.6
Foreign Currency Translation Adjustments	(0.1)	1.3	0.1	0.6
Amortization of Unrecognized Postretirement Benefit Costs	12.1	7.6	6.7	3.2
Other Comprehensive Income (Loss) Before Income Taxes	$(271.0)	$82.8	$(228.2)	$76.4

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

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Other Comprehensive Income Tax Benefit (Expense):				
Unrealized Holding (Gains) Losses Arising During the Period Before Reclassification Adjustment	$92.2	$(29.0)	$82.6	$(27.2)
Reclassification Adjustment for Amounts Included in Net Income	8.8	2.8	0.4	1.4
Unrealized Holding (Gains) Losses	101.0	(26.2)	83.0	(25.8)
Foreign Currency Translation Adjustment	—	(0.4)	(0.1)	(0.1)
Amortization of Unrecognized Postretirement Benefit Costs	(4.2)	(2.7)	(2.3)	(1.1)
Other Comprehensive Income Tax Benefit (Expense)	$96.8	$(29.3)	$80.6	$(27.0)

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

(Dollars in Millions)	Jun 30, 2013	Dec 31, 2012
Unrealized Gains (Losses) on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$(0.1)	$1.4
Other Unrealized Gains on Investments	227.6	408.1
Foreign Currency Translation Adjustments, Net of Income Taxes	0.6	0.7
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(89.6)	(97.5)
Accumulated Other Comprehensive Income	$138.5	$312.7

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Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (continued)
Components of AOCI were reclassified to the following lines of the Condensed Consolidated Statements of Income for the six and three months ended June 30, 2013 and 2012:

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Reclassification of AOCI from Unrealized Gains and Losses on Available For Sale Securities to:				
Net Realized Gains on Sales of Investments	$28.2	$8.9	$2.2	$4.5
Net Impairment Losses Recognized in Earnings	(2.9)	(0.9)	(1.0)	(0.4)
Total Before Income Taxes	25.3	8.0	1.2	4.1
Income Tax Expense	(8.8)	(2.8)	(0.4)	(1.4)
Reclassification from AOCI, Net of Income Taxes	16.5	5.2	0.8	2.7
Reclassification of AOCI from Amortization of Unrecognized Postretirement Benefit Costs to:				
Interest and Other Expenses	(12.1)	(7.6)	(6.7)	(3.2)
Income Tax Benefit	4.2	2.7	2.3	1.1
Reclassification from AOCI, Net of Income Taxes	(7.9)	(4.9)	(4.4)	(2.1)
Total Reclassification from AOCI to Net Income	$8.6	$0.3	$(3.6)	$0.6

Note 8 - Income Taxes
Current and Deferred Income Tax Assets at June 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Jun 30, 2013	Dec 31, 2012
Current Income Tax Assets	$20.9	$5.4
Deferred Income Tax Assets	64.8	6.6
Valuation Allowance for State Income Taxes	—	(6.6)
Current and Deferred Income Tax Assets	$85.7	$5.4

In 2013, the Company wrote off $6.6 million of deferred state income tax assets that had been previously reserved for in the Valuation Allowance for State Income Taxes at December 31, 2012.
The components of Liabilities for Income Taxes at June 30, 2013 and December 31, 2012 were:

(Dollars in Millions)	Jun 30, 2013	Dec 31, 2012
Deferred Income Tax Liabilities	$—	$15.1
Unrecognized Tax Benefits	6.5	6.4
Liabilities for Income Taxes	$6.5	$21.5

Income taxes paid were $39.5 million and $28.8 million for the six months ended June 30, 2013 and 2012, respectively.
During the second quarter, the Company extended the federal statute of limitations related to its 2007 through 2010 tax years to December 31, 2014. The extension was requested by the Internal Revenue Service (“IRS”) to provide additional time for the IRS to finish processing its audit of the Company’s 2009 and 2010 federal income tax returns and related refund claims and for the IRS to prepare the necessary documentation for the Joint Committee of Taxation's review required by statute. The Company does not anticipate a material modification to the filed returns or the related refunds that have been received.

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Note 9 - Pension Benefits and Postretirement Benefits Other Than Pensions

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

(Dollars in Millions)	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Service Cost Earned	$5.4	$5.6	$2.7	$2.6
Interest Cost on Projected Benefit Obligation	11.2	11.2	5.7	5.6
Expected Return on Plan Assets	(14.9)	(14.9)	(7.5)	(7.5)
Amortization of Accumulated Unrecognized Actuarial Loss	13.1	9.4	7.2	4.9
Total Pension Expense Recognized	$14.8	$11.3	$8.1	$5.6

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

(Dollars in Millions)	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Service Cost on Benefits Earned	$0.1	$0.1	$—	$—
Interest Cost on Projected Benefit Obligation	0.6	0.8	0.3	0.4
Amortization of Accumulated Unrecognized Actuarial Gain	(0.6)	(0.6)	(0.3)	(0.5)
Total Postretirement Benefits Other than Pensions Expense	$0.1	$0.3	$—	$(0.1)

Note 10 - Business Segments

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

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

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Note 10 - Business Segments (continued)

Segment Revenues for the six and three months ended June 30, 2013 and 2012 were:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Revenues:				
Kemper Preferred:				
Earned Premiums	$440.7	$433.0	$221.5	$218.0
Net Investment Income	28.2	22.8	13.2	11.9
Other Income	0.1	0.2	—	0.1
Total Kemper Preferred	469.0	456.0	234.7	230.0
Kemper Specialty:				
Earned Premiums	199.8	213.4	100.6	106.6
Net Investment Income	11.4	9.9	5.1	4.7
Other Income	0.2	0.1	0.1	0.1
Total Kemper Specialty	211.4	223.4	105.8	111.4
Kemper Direct:				
Earned Premiums	65.5	90.9	31.8	43.9
Net Investment Income	7.0	7.3	3.2	3.7
Total Kemper Direct	72.5	98.2	35.0	47.6
Life and Health Insurance:				
Earned Premiums	316.7	321.7	158.9	161.3
Net Investment Income	102.8	105.4	49.8	49.7
Other Income	0.1	0.1	0.1	—
Total Life and Health Insurance	419.6	427.2	208.8	211.0
Total Segment Revenues	1,172.5	1,204.8	584.3	600.0
Net Realized Gains on Sales of Investments	29.2	9.0	2.3	4.1
Net Impairment Losses Recognized in Earnings	(2.9)	(0.9)	(1.0)	(0.4)
Other	6.0	7.2	3.3	5.2
Total Revenues	$1,204.8	$1,220.1	$588.9	$608.9

Segment Operating Profit for the six and three months ended June 30, 2013 and 2012 was:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Segment Operating Profit (Loss):				
Kemper Preferred	$40.1	$(6.0)	$13.7	$(19.1)
Kemper Specialty	4.5	(0.7)	0.3	(5.6)
Kemper Direct	21.2	(8.5)	11.6	(5.5)
Life and Health Insurance	63.1	73.3	31.2	30.3
Total Segment Operating Profit	128.9	58.1	56.8	0.1
Corporate and Other Operating Loss	(24.2)	(19.3)	(11.7)	(7.3)
Total Operating Profit (Loss)	104.7	38.8	45.1	(7.2)
Net Realized Gains on Sales of Investments	29.2	9.0	2.3	4.1
Net Impairment Losses Recognized in Earnings	(2.9)	(0.9)	(1.0)	(0.4)
Income (Loss) from Continuing Operations before Income Taxes	$131.0	$46.9	$46.4	$(3.5)

Note 10 - Business Segments (continued)

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

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Segment Net Operating Income (Loss):				
Kemper Preferred	$29.3	$0.1	$10.5	$(10.3)
Kemper Specialty	4.2	1.3	0.7	(2.8)
Kemper Direct	14.6	(4.2)	7.9	(2.9)
Life and Health Insurance	41.5	47.3	20.3	19.5
Total Segment Net Operating Income	89.6	44.5	39.4	3.5
Corporate and Other Net Operating Loss	(15.6)	(11.9)	(7.7)	(4.3)
Consolidated Net Operating Income (Loss)	74.0	32.6	31.7	(0.8)
Unallocated Net Income (Loss) From:				
Net Realized Gains on Sales of Investments	19.0	5.9	1.5	2.7
Net Impairment Losses Recognized in Earnings	(1.9)	(0.6)	(0.7)	(0.3)
Income from Continuing Operations	$91.1	$37.9	$32.5	$1.6

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

(Dollars in Millions)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Life	$196.5	$197.6	$98.6	$99.1
Accident and Health	80.5	82.9	40.3	41.4
Property and Casualty:				
Personal Lines:				
Automobile	490.3	533.3	244.6	265.6
Homeowners	162.5	155.8	82.1	78.7
Other Personal	67.7	68.7	34.1	34.5
Total Personal Lines	720.5	757.8	360.8	378.8
Commercial Automobile	25.2	20.7	13.1	10.5
Total Earned Premiums	$1,022.7	$1,059.0	$512.8	$529.8

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Note 11 - Discontinued Operations
Summary financial information included in Income from Discontinued Operations for the six and three months ended June 30, 2013 and 2012 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Six Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2012	Three Months Ended Jun 30, 2013	Three Months Ended Jun 30, 2012
Revenues Included in Discontinued Operations:				
Net Gain on Sale of Loan Portfolio	$—	$12.4	$—	$1.1
Income (Loss) from Discontinued Operations before Income Taxes:				
Results of Operations	$—	$(0.2)	$—	$—
Net Gain on Sale of Loan Portfolio	—	12.4	—	1.1
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	2.1	1.1	2.5	(0.1)
Income from Discontinued Operations before Income Taxes	2.1	13.3	2.5	1.0
Income Tax Expense	(0.8)	(5.3)	(1.0)	(0.3)
Income from Discontinued Operations	$1.3	$8.0	$1.5	$0.7
Income from Discontinued Operations Per Unrestricted Share:				
Basic	$0.02	$0.14	$0.03	$0.01
Diluted	$0.02	$0.14	$0.03	$0.01

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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 June 30, 2013 is summarized below:

(Dollars in Millions)	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$127.0	$268.2	$—	$395.2
States and Political Subdivisions	—	1,401.2	—	1,401.2
Canadian Government and Provinces	—	0.6	—	0.6
Corporate Securities:				
Bonds and Notes	—	2,510.3	351.5	2,861.8
Redeemable Preferred Stocks	—	—	4.3	4.3
Mortgage and Asset-backed	—	1.5	36.5	38.0
Total Investments in Fixed Maturities	127.0	4,181.8	392.3	4,701.1
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	77.8	—	77.8
Other Industries	—	11.0	8.3	19.3
Common Stocks:				
Manufacturing	86.8	6.6	1.6	95.0
Other Industries	58.6	1.3	6.7	66.6
Other Equity Interests:				
Exchange Traded Funds	139.0	—	—	139.0
Limited Liability Companies and Limited Partnerships	—	—	147.3	147.3
Total Investments in Equity Securities	284.4	96.7	163.9	545.0
Other Investments:				
Trading Securities	4.5	—	—	4.5
Total	$415.9	$4,278.5	$556.2	$5,250.6

At June 30, 2013, the Company had unfunded commitments to invest an additional $120.4 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests.

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

	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

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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	Market Yield	$ 111.4	1.2	%	-	6.4	%	4.4	%
Non-investment Grade:									
Senior Debt	Market Yield	65.2	5.6		-	13.1		8.6	
Junior Debt	Market Yield	158.3	9.7		-	21.6		14.1	
Other Debt	Various	16.6							
Bonds and Notes Classified as Level 3		$ 351.5							

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 six months ended June 30, 2013 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$361.0	$4.7	$0.1	$13.3	$141.3	$520.4
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(0.9)	(0.4)	0.1	(0.1)	(0.2)	(1.5)
Included in Other Comprehensive Income	(8.1)	—	(0.6)	3.1	(0.8)	(6.4)
Purchases	75.6	—	34.6	0.6	18.0	128.8
Settlements	(73.1)	—	(0.1)	—	(11.0)	(84.2)
Sales	—	—	—	(0.3)	—	(0.3)
Transfers into Level 3	2.8	—	2.4	—	—	5.2
Transfers out of Level 3	(5.8)	—	—	—	—	(5.8)
Balance at End of Period	$351.5	$4.3	$36.5	$16.6	$147.3	$556.2

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 June 30, 2013 is presented below:

(Dollars in Millions)	Fixed Maturities: Corporate Bonds and Notes	Fixed Maturities: Redeemable Preferred Stocks	Fixed Maturities: Mortgage and Asset-backed	Equity Securities: Preferred and Common Stocks	Equity Securities: Other Equity Interests	Total
Balance at Beginning of Period	$343.5	$4.4	$31.2	$14.6	$143.9	$537.6
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(0.1)	(0.1)	0.1	(0.1)	—	(0.2)
Included in Other Comprehensive Income	(4.3)	—	(0.3)	1.6	1.5	(1.5)
Purchases	36.9	—	5.6	0.5	7.5	50.5
Settlements	(27.3)	—	(0.1)	—	(5.6)	(33.0)
Transfers into Level 3	2.8	—	—	—	—	2.8
Balance at End of Period	$351.5	$4.3	$36.5	$16.6	$147.3	$556.2

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

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 six months ended June 30, 2012 is presented below:

(Dollars in Millions)	Fixed Maturities Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Equity Securities 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	2.1					