

KEMPER Corp  
Form 10-Q  
August 06, 2015

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

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For Quarterly Period Ended June 30, 2015

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

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

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Delaware 95-4255452  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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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

51,800,200 shares of common stock, \$0.10 par value, were outstanding as of July 31, 2015.



KEMPER CORPORATION  
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### Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including, but not limited to, 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 performance, 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, Kemper cautions readers not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Kemper bases these statements 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, 2014 (the “2014 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:

- Factors related to the legal and regulatory environment in which Kemper and its subsidiaries operate
- Developments in, and outcomes of, initiatives by state officials that could result in significant changes to unclaimed property laws, or significant changes to the interpretations of existing laws, and significant changes in 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 policy contracts;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Care Acts”), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”), the Risk Management and Own Risk and Solvency Assessment Model Act (“RMORSA”) and other new laws, regulations or court decisions interpreting existing laws and regulations or policy provisions;
- Uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;
- Uncertainties related to regulatory approval of dividends from insurance subsidiaries, acquisitions of businesses and similar matters;
- Factors relating to insurance claims and related reserves in the Company’s insurance businesses
- 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;
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Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses (“LAE”) reserves;

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Caution Regarding Forward-Looking Statements (continued)

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;

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;

Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;

Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;

Factors related to the Company's ability to compete

Changes in the ratings by rating agencies of Kemper and/or its insurance company subsidiaries with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;

The level of success and costs incurred in realizing economies of scale, implementing significant business consolidations, reorganizations and technology initiatives and integrating acquired businesses;

Absolute and relative performance of the Company's products or services;

Heightened competition, including, with respect to pricing, entry of new competitors and alternate distribution channels, introduction of new technologies, the emergence of telematics, refinements of existing products and the development of new products by new and existing competitors;

Factors relating to the business environment in which Kemper and its subsidiaries operate

Changes in general economic conditions, including, but not limited to, performance of financial markets, interest rates, inflation, unemployment rates and fluctuating values of particular investments held by the Company;

Absolute and relative performance of investments held by the Company;

Changes in industry trends and significant industry developments;

Changes in capital requirements, including the calculations thereof, used by regulators and rating agencies;

Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services or after-tax returns from the Company's investments;

The impact of required participation in windpools and joint underwriting associations, residual market assessments and assessments for insurance industry insolvencies;

Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;

Increased costs and risks related to information technology and data security, including, but not limited to, unauthorized disclosure or theft of personal data and the prevention of, or occurrence of, disruption of services; and

Other risks and uncertainties described from time to time in Kemper's filings with the SEC.

Kemper cannot provide any assurances that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable or that future events or developments will not cause such statements to be inaccurate. Kemper assumes no obligation to correct or update any forward-looking statements publicly for any changes in events or developments or in the Company's expectations or results subsequent to the date of this Quarterly Report on Form 10-Q. Kemper advises the reader, 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)

	Six Months Ended		Three Months Ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Revenues:				
Earned Premiums	\$931.4	\$947.9	\$500.1	\$470.3
Net Investment Income	147.3	143.7	76.7	72.6
Other Income	1.5	0.3	0.6	0.2
Net Realized Gains on Sales of Investments	37.4	10.1	34.0	3.5
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(9.2 )	(4.9 )	(2.2 )	(4.1 )
Portion of Losses Recognized in Other Comprehensive Income	—	—	—	—
Net Impairment Losses Recognized in Earnings	(9.2 )	(4.9 )	(2.2 )	(4.1 )
Total Revenues	1,108.4	1,097.1	609.2	542.5
Expenses:				
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	672.8	675.4	375.1	347.5
Insurance Expenses	307.0	313.4	162.1	161.3
Write-off of Long-lived Asset	11.1	—	11.1	—
Loss from Early Extinguishment of Debt	9.1	—	—	—
Interest and Other Expenses	56.3	45.2	26.6	22.5
Total Expenses	1,056.3	1,034.0	574.9	531.3
Income from Continuing Operations before Income Taxes	52.1	63.1	34.3	11.2
Income Tax Expense	(11.2 )	(18.6 )	(6.9 )	(1.9 )
Income from Continuing Operations	40.9	44.5	27.4	9.3
Income (Loss) from Discontinued Operations	2.3	(0.1 )	2.3	—
Net Income	\$43.2	\$44.4	\$29.7	\$9.3
Income from Continuing Operations Per Unrestricted Share:				
Basic	\$0.79	\$0.80	\$0.53	\$0.17
Diluted	\$0.79	\$0.80	\$0.53	\$0.17
Net Income Per Unrestricted Share:				
Basic	\$0.83	\$0.80	\$0.57	\$0.17
Diluted	\$0.83	\$0.80	\$0.57	\$0.17
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.

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

	Six Months Ended		Three Months Ended	
	Jun 30,	Jun 30,	Jun 30,	Jun 30,
	2015	2014	2015	2014
Net Income	\$43.2	\$44.4	\$29.7	\$9.3
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses)	(130.7 )	217.6	(184.0 )	97.6
Foreign Currency Translation Adjustments	(0.8 )	(0.2 )	0.1	(0.2 )
Amortization of Net Unrecognized Postretirement Benefit Costs	11.5	3.9	6.1	1.9
Other Comprehensive Income (Loss) Before Income Taxes	(120.0 )	221.3	(177.8 )	99.3
Other Comprehensive Income Tax Benefit (Expense)	42.6	(78.0 )	62.8	(34.9 )
Other Comprehensive Income (Loss)	(77.4 )	143.3	(115.0 )	64.4
Total Comprehensive Income (Loss)	\$(34.2 )	\$187.7	\$(85.3 )	\$73.7

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)

	Jun 30, 2015	Dec 31, 2014
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2015 - \$4,433.0; 2014 - \$4,341.7)	\$4,764.0	\$4,777.6
Equity Securities at Fair Value (Cost: 2015 - \$518.8; 2014 - \$561.5)	562.9	632.2
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	173.5	184.8
Fair Value Option Investments	160.0	53.3
Short-term Investments at Cost which Approximates Fair Value	338.4	342.2
Other Investments	451.0	449.6
Total Investments	6,449.8	6,439.7
Cash	93.8	76.1
Receivables from Policyholders	335.2	295.3
Other Receivables	267.1	187.0
Deferred Policy Acquisition Costs	317.5	303.3
Goodwill	318.5	311.8
Current and Deferred Income Tax Assets	34.2	—
Other Assets	239.0	220.2
Total Assets	\$8,055.1	\$7,833.4
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	\$3,312.8	\$3,273.7
Property and Casualty	874.4	733.9
Total Insurance Reserves	4,187.2	4,007.6
Unearned Premiums	606.2	536.9
Liabilities for Income Taxes	3.6	36.5
Debt at Amortized Cost (Fair Value: 2015 - \$789.5; 2014 - \$804.4)	750.2	752.1
Accrued Expenses and Other Liabilities	495.6	409.6
Total Liabilities	6,042.8	5,742.7
Shareholders' Equity:		
Common Stock, \$0.10 Par Value, 100 Million Shares Authorized; 51,802,609 Shares Issued and Outstanding at June 30, 2015 and 52,418,246 Shares Issued and Outstanding at December 31, 2014	5.2	5.2
Paid-in Capital	657.1	660.1
Retained Earnings	1,204.7	1,202.7
Accumulated Other Comprehensive Income	145.3	222.7
Total Shareholders' Equity	2,012.3	2,090.7
Total Liabilities and Shareholders' Equity	\$8,055.1	\$7,833.4

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)

	Six Months Ended	
	Jun 30, 2015	Jun 30, 2014
Operating Activities:		
Net Income	\$43.2	\$44.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(14.2)	(1.9)
Amortization of Intangible Assets Acquired	4.5	3.7
Equity in Earnings of Equity Method Limited Liability Investments	(3.5)	(4.8)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	1.3	12.4
Increase in Value of Fair Value Option Investments Reported in Investment Income	(2.7)	(0.3)
Amortization of Investment Securities and Depreciation of Investment Real Estate	7.0	7.3
Net Realized Gains on Sales of Investments	(37.4)	(10.1)
Net Impairment Losses Recognized in Earnings	9.2	4.9
Loss from Early Extinguishment of Debt	9.1	—
Depreciation of Property and Equipment	6.5	8.8
Write-off of Long-lived Asset	11.1	—
Decrease in Receivables	7.9	28.9
Increase in Insurance Reserves	23.3	2.6
Decrease in Unearned Premiums	(3.1)	(27.1)
Change in Income Taxes	(27.9)	(12.4)
Increase in Accrued Expenses and Other Liabilities	27.5	5.5
Other, Net	18.9	10.7
Net Cash Provided by Operating Activities	80.7	72.6
Investing Activities:		
Sales, Paydowns and Maturities of Fixed Maturities	404.0	342.8
Purchases of Fixed Maturities	(309.7)	(225.7)
Sales of Equity Securities	143.4	69.9
Purchases of Equity Securities	(103.7)	(81.0)
Return of Investment of Equity Method Limited Liability Investments	21.0	26.4
Acquisitions of Equity Method Limited Liability Investments	(10.5)	(16.0)
Sales of Fair Value Option Investments	—	2.9
Purchases of Fair Value Option Investments	(104.0)	(42.9)
Decrease (Increase) in Short-term Investments	22.2	(198.0)
Improvements of Investment Real Estate	(0.8)	(1.3)
Sales of Investment Real Estate	—	0.9
Increase in Other Investments	(1.4)	(2.4)
Acquisition of Software	(5.6)	(5.6)
Acquisition of Business, Net of Cash Acquired	(57.6)	—
Disposition of Subsidiary, Net of Cash Disposed	—	8.9
Other, Net	(1.4)	(4.6)
Net Cash Used by Investing Activities	(4.1)	(125.7)
Financing Activities:		
Net Proceeds from Issuances of Debt	288.8	144.2
Repayments of Debt	(300.3)	—

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Common Stock Repurchases	(25.2	)	(70.1	)
Dividends and Dividend Equivalents Paid	(24.8	)	(26.6	)
Cash Exercise of Stock Options	1.9		—	
Other, Net	0.7		0.9	
Net Cash Provided (Used) by Financing Activities	(58.9	)	48.4	
Increase (Decrease) in Cash	17.7		(4.7	)
Cash, Beginning of Year	76.1		66.5	
Cash, End of Period	\$93.8		\$61.8	

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 2014 Annual Report.

Adoption of New Accounting Guidance

In January 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The amendments in ASU 2015-01 can be applied either prospectively or retrospectively. The Company adopted ASU 2015-01 in the first quarter of 2015 and applied its provisions retrospectively. The retrospective application had no impact on the Company’s previously issued financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities while also eliminating the presumption that a general partner should consolidate a limited partnership. ASU 2015-02 may also affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years beginning after December 15, 2015 and interim periods within those years with early adoption being permissible. The Company is currently evaluating the impact of this guidance on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that they be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The Company adopted ASU 2015-03 in the first quarter of 2015 and applied its provisions retrospectively. The retrospective application had no impact on the Company’s previously issued financial statements.

In May 2015, the FASB issued ASU 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts. ASU 2015-09 requires insurers to provide additional disclosures about short-duration insurance contracts, focusing particularly on the liability for unpaid claims and claim adjustment expenses. Insurers will be required to disclose tables showing incurred and paid claims development information by accident year for the number of years that claims typically remain outstanding, although not to exceed ten years, as well as a reconciliation of this information to the balance sheet. Additional disclosures will also be required on the total of incurred-but-not-reported liabilities plus expected development on reported claims, reserving methodologies, quantitative information about claim frequency, qualitative description of methodologies used for determining claim frequency and average annual percentage payout of incurred claims by age. ASU 2015-09 is effective for annual

periods beginning after December 31, 2015 and interim periods within annual periods beginning after December 15, 2016. Except for the retrospective application of additional disclosure requirements, adoption of ASU 2015-09 will not impact the Company's financial statements.

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

Note 1 - Basis of Presentation (continued)

The Company has adopted all other recently issued accounting pronouncements with effective dates prior to July 1, 2015. There were no adoptions of such accounting pronouncements in 2014 or during the six months ended June 30, 2015 that had a material impact on the Company's Condensed Consolidated Financial Statements. The Company does not expect the adoption of all other recently issued accounting pronouncements with effective dates after June 30, 2015 to have a material impact on the Company's financial statements.

Note 2 - Acquisition of Business

On April 30, 2015, Kemper acquired 100% of the outstanding common stock of Alliance United Group and its wholly-owned subsidiaries, Alliance United Insurance Company and Alliance United Insurance Services, (individually and collectively referred to herein as "Alliance United") in a cash transaction for a total purchase price of \$71.0 million, subject to certain post-closing indemnifications. After completing the transaction, Kemper contributed \$75.0 million to support the book of business acquired. The results of Alliance United are included in the Condensed Consolidated Financial Statements from the date of acquisition and are reported in the Company's Property & Casualty Insurance segment. Alliance United is a provider of nonstandard personal automobile insurance in California. As a result of the acquisition, the Company increased its presence in the California nonstandard automobile insurance market by gaining access to additional independent agents and brokers and by gaining expertise in serving the Hispanic market.

The Company has not yet completed the process of estimating the fair value of assets acquired and liabilities assumed, including, but not limited to, receivables, intangible assets, unearned premium reserves, certain tax-related balances and certain other assets and liabilities. Accordingly, the Company's preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as the Company completes the process, which would also likely impact the Company's allocation of the purchase price to Goodwill. The Company expects to finalize the purchase price allocation in the third quarter of 2015. In accordance with Accounting Standards Codification ("ASC") 805, Business Combinations, changes, if any, to the preliminary estimates and allocation will be reported in the Company's financial statements retroactively. Based on the Company's preliminary allocation of the purchase price, the fair values of the assets acquired and liabilities assumed were:

(Dollars in Millions)

Investments	\$187.0	
Cash	13.4	
Receivables from Policyholders	44.4	
Other Receivables	49.2	
Value of Intangible Assets Acquired (Reported in Other Assets)	26.3	
Goodwill	6.7	
Current Income Taxes	1.7	
Other Assets	9.2	
Property and Casualty Insurance Reserves	(155.8	)
Unearned Premiums	(72.4	)
Liabilities for Income Taxes	(3.9	)
Accrued Expenses and Other Liabilities	(34.8	)
Total Purchase Price	\$71.0	

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

Note 3 - Investments

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at June 30, 2015 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Government and Government Agencies and Authorities	\$318.3	\$27.7	\$(4.8)	) \$341.2
States and Political Subdivisions	1,439.7	97.5	(5.9)	) 1,531.3
Corporate Securities:				
Bonds and Notes	2,596.2	236.4	(22.4)	) 2,810.2
Redeemable Preferred Stocks	5.3	0.1	—	) 5.4
Collateralized Loan Obligations	69.7	0.9	(0.2)	) 70.4
Other Mortgage- and Asset-backed	3.8	1.7	—	) 5.5
Investments in Fixed Maturities	\$4,433.0	\$364.3	\$(33.3)	) \$4,764.0

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2014 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Government and Government Agencies and Authorities	\$315.2	\$32.3	\$(2.0)	) \$345.5
States and Political Subdivisions	1,352.5	126.4	(1.8)	) 1,477.1
Corporate Securities:				
Bonds and Notes	2,599.3	294.3	(15.1)	) 2,878.5
Redeemable Preferred Stocks	5.9	0.8	—	) 6.7
Collateralized Loan Obligations	64.9	0.3	(0.8)	) 64.4
Other Mortgage- and Asset-backed	3.9	1.5	—	) 5.4
Investments in Fixed Maturities	\$4,341.7	\$455.6	\$(19.7)	) \$4,777.6

There were no unsettled sales of Investments in Fixed Maturities at June 30, 2015 or December 31, 2014. Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of \$23.3 million at June 30, 2015, all of which settled in the following month. There were no unsettled purchases of Investments in Fixed Maturities at December 31, 2014.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at June 30, 2015 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	\$59.4	\$60.6
Due after One Year to Five Years	787.4	835.1
Due after Five Years to Ten Years	1,376.5	1,416.2
Due after Ten Years	1,998.5	2,230.1
Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date	211.2	222.0
Investments in Fixed Maturities	\$4,433.0	\$4,764.0

The expected maturities of the Company's Investments in Fixed Maturities may differ from the contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investments in Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date at June 30, 2015 consisted of securities issued by the Government National Mortgage Association with a fair value of \$120.2 million, securities issued by the Federal National Mortgage Association with a fair value of \$19.4 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$6.5 million and securities of other non-governmental issuers with a fair value of \$75.9 million.





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

Note 3 - Investments (continued)

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at June 30, 2015 were:

(Dollars in Millions)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Preferred Stocks:				
Finance, Insurance and Real Estate	\$83.7	\$4.5	\$(0.8)	) \$87.4
Other Industries	21.3	3.5	(0.1)	) 24.7
Common Stocks:				
Finance, Insurance and Real Estate	20.8	3.7	(0.9)	) 23.6
Other Industries	9.8	5.4	—	) 15.2
Other Equity Interests:				
Exchange Traded Funds	208.9	4.0	(0.8)	) 212.1
Limited Liability Companies and Limited Partnerships	174.3	28.6	(3.0)	) 199.9
Investments in Equity Securities	\$518.8	\$49.7	\$(5.6)	) \$562.9

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at December 31, 2014 were:

(Dollars in Millions)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Preferred Stocks:				
Finance, Insurance and Real Estate	\$85.5	\$5.2	\$(1.0)	) \$89.7
Other Industries	16.3	3.5	—	) 19.8
Common Stocks:				
Manufacturing	43.4	14.9	(1.1)	) 57.2
Finance, Insurance and Real Estate	34.3	6.2	—	) 40.5
Other Industries	26.5	10.0	(0.4)	) 36.1
Other Equity Interests:				
Exchange Traded Funds	195.2	8.2	(0.7)	) 202.7
Limited Liability Companies and Limited Partnerships	160.3	27.7	(1.8)	) 186.2
Investments in Equity Securities	\$561.5	\$75.7	\$(5.0)	) \$632.2

There were \$36.5 million of unsettled sales of Investments in Equity Securities at June 30, 2015, all of which settled in the following month. There were no unsettled sales of Investments in Equity Securities at December 31, 2014.

There were no unsettled purchases of Investments in Equity Securities at June 30, 2015 or December 31, 2014.

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

Note 3 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at June 30, 2015 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
<b>Fixed Maturities:</b>						
U.S. Government and Government Agencies and Authorities	\$83.0	\$(2.8)	\$24.0	\$(2.0)	\$107.0	\$(4.8)
States and Political Subdivisions	355.7	(5.8)	0.9	(0.1)	356.6	(5.9)
<b>Corporate Securities:</b>						
Bonds and Notes	638.7	(18.0)	100.1	(4.4)	738.8	(22.4)
Collateralized Loan Obligations	19.2	(0.2)	—	—	19.2	(0.2)
Other Mortgage- and Asset-backed	—	—	0.4	—	0.4	—
<b>Total Fixed Maturities</b>	<b>1,096.6</b>	<b>(26.8)</b>	<b>125.4</b>	<b>(6.5)</b>	<b>1,222.0</b>	<b>(33.3)</b>
<b>Equity Securities:</b>						
<b>Preferred Stocks:</b>						
Finance, Insurance and Real Estate	7.6	(0.2)	12.4	(0.6)	20.0	(0.8)
Other Industries	0.9	(0.1)	0.5	—	1.4	(0.1)
<b>Common Stocks:</b>						
Finance, Insurance and Real Estate	7.0	(0.9)	—	—	7.0	(0.9)
Other Industries	0.8	—	—	—	0.8	—
<b>Other Equity Interests:</b>						
Exchange Traded Funds	58.4	(0.8)	—	—	58.4	(0.8)
Limited Liability Companies and Limited Partnerships	65.6	(1.2)	32.4	(1.8)	98.0	(3.0)
<b>Total Equity Securities</b>	<b>140.3</b>	<b>(3.2)</b>	<b>45.3</b>	<b>(2.4)</b>	<b>185.6</b>	<b>(5.6)</b>
<b>Total</b>	<b>\$1,236.9</b>	<b>\$(30.0)</b>	<b>\$170.7</b>	<b>\$(8.9)</b>	<b>\$1,407.6</b>	<b>\$(38.9)</b>

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, 2015, were \$33.3 million, of which \$6.5 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were \$0.1 million of unrealized losses at June 30, 2015 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months." There were no unrealized losses included in the preceding table under the heading "12 Months or Longer" related to securities for which the Company has recognized credit losses in earnings. Investment-grade fixed maturity investments comprised \$26.8 million, and below-investment-grade fixed maturity investments comprised \$6.5 million of the unrealized losses on investments in fixed maturities at June 30, 2015. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At June 30, 2015, 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 it recovered the amortized cost of such investments, which may be at maturity. Based on the Company's evaluation at June 30, 2015 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 not to sell and its determination that it would not be required to sell before it recovered 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.

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

Note 3 - Investments (continued)

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

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

With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments in preferred and common stocks at June 30, 2015 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility. The Company's investments in other equity interests include investments in limited liability companies and limited partnerships that primarily invest in mezzanine debt, distressed debt, and secondary transactions. By the nature of their underlying investments, the Company believes that some of its investments in the limited liability companies and limited partnerships exhibit debt-like characteristics which, among other factors, the Company also considers when evaluating these investments for impairment. Based on evaluations of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company's investments in equity securities presented in the preceding table were temporary at June 30, 2015.

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2014 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
<b>Fixed Maturities:</b>						
U.S. Government and Government Agencies and Authorities	\$24.9	\$(0.7)	\$55.5	\$(1.3)	\$80.4	\$(2.0)
States and Political Subdivisions	1.0	—	126.3	(1.8)	127.3	(1.8)
<b>Corporate Securities:</b>						
Bonds and Notes	250.4	(5.1)	360.5	(10.0)	610.9	(15.1)
Collateralized Loan Obligations	51.2	(0.7)	3.4	(0.1)	54.6	(0.8)
Other Mortgage- and Asset-backed	—	—	0.4	—	0.4	—
<b>Total Fixed Maturities</b>	<b>327.5</b>	<b>(6.5)</b>	<b>546.1</b>	<b>(13.2)</b>	<b>873.6</b>	<b>(19.7)</b>
<b>Equity Securities:</b>						
<b>Preferred Stocks:</b>						
Finance, Insurance and Real Estate	7.5	(0.1)	12.1	(0.9)	19.6	(1.0)
Other Industries	—	—	0.5	—	0.5	—
<b>Common Stocks:</b>						
Manufacturing	15.1	(1.1)	—	—	15.1	(1.1)
Finance, Insurance and Real Estate	—	—	—	—	—	—
Other Industries	4.2	(0.4)	1.0	—	5.2	(0.4)
<b>Other Equity Interests:</b>						
Exchange Traded Funds	14.9	(0.1)	14.4	(0.6)	29.3	(0.7)
	54.4	(1.5)	6.6	(0.3)	61.0	(1.8)

Limited Liability Companies and  
 Limited Partnerships

Total Equity Securities	96.1	(3.2	)	34.6	(1.8	)	130.7	(5.0	)
Total	\$423.6	\$(9.7	)	\$580.7	\$(15.0	)	\$1,004.3	\$(24.7	)

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

Note 3 - Investments (continued)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at December 31, 2014, were \$19.7 million, of which \$13.2 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at December 31, 2014 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the headings “Less Than 12 Months” or “12 Months or Longer.” Investment-grade fixed maturity investments comprised \$14.1 million and below-investment-grade fixed maturity investments comprised \$5.6 million of the unrealized losses on investments in fixed maturities at December 31, 2014. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At December 31, 2014, 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, 2014 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 not to 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.

With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments at December 31, 2014 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility, as well as, the debt-like characteristics of investments in certain other equity interests.

Other-than-temporary impairment (“OTTI”) losses on Investments in Fixed Maturities may include a portion that is credit-related that is recognized in Retained Earnings and a portion related to factors other than credit that is recognized in Accumulated Other Comprehensive Income. The following table presents the pre-tax credit portion of OTTI losses on Investments in Fixed Maturities held with a credit-related loss recognized as of the beginning or end of the periods presented and the changes in the cumulative balances for the periods presented.

(Dollars in Millions)	Six Months Ended		Three Months Ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at Beginning of Period	\$5.3	\$9.9	\$5.3	\$10.2
Pre-tax Credit Losses on Fixed Maturities without Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Period	—	2.4	—	2.4
Additional Pre-tax Credit Losses on Fixed Maturities with Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Period	—	0.6	—	0.3
Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at End of Period	\$5.3	\$12.9	\$5.3	\$12.9

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

Note 3 - Investments (continued)

Gross gains and losses on sales of investments in fixed maturities and equity securities for the six and three months ended June 30, 2015 and 2014 were:

(Dollars in Millions)	Six Months Ended		Three Months Ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Fixed Maturities:				
Gains on Sales	\$5.9	\$4.8	\$3.9	\$0.4
Losses on Sales	(0.6 )	—	(0.5 )	—
Equity Securities:				
Gains on Sales	32.9	3.8	31.4	3.0
Losses on Sales	(0.7 )	—	(0.7 )	—

Equity Method Limited Liability Investments include investments in limited liability investment companies and limited partnerships in which the Company's interests are not deemed minor and are accounted for under the equity method of accounting. The Company's investments in Equity Method Limited Liability Investments are generally of a passive nature in that the Company does not take an active role in the management of the investment entity. The Company's maximum exposure to loss at June 30, 2015 is limited to the total carrying value of \$173.5 million. In addition, the Company had outstanding commitments totaling approximately \$47.4 million to fund Equity Method Limited Liability Investments at June 30, 2015.

The carrying values of the Company's Other Investments at June 30, 2015 and December 31, 2014 were:

(Dollars in Millions)	Jun 30, 2015	Dec 31, 2014
Loans to Policyholders at Unpaid Principal	\$284.8	\$283.4
Real Estate at Depreciated Cost	159.1	160.9
Trading Securities at Fair Value	5.0	4.9
Other	2.1	0.4
Total	\$451.0	\$449.6

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

Note 4 - Property and Casualty Insurance Reserves

Property and casualty insurance reserve activity for the six months ended June 30, 2015 and 2014 was:

(Dollars in Millions)	Six Months Ended	
	Jun 30, 2015	Jun 30, 2014
Property and Casualty Insurance Reserves:		
Gross of Reinsurance at Beginning of Year	\$733.9	\$843.5
Less Reinsurance Recoverables at Beginning of Year	54.9	63.4
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	679.0	780.1
Property and Casualty Insurance Reserves Acquired, Net of Reinsurance and Indemnification	125.4	—
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	501.2	531.2
Prior Years:		
Continuing Operations	(10.4	) (34.2
Discontinued Operations	(3.5	) (0.1
Total Incurred Losses and LAE Related to Prior Years	(13.9	) (34.3
Total Incurred Losses and LAE	487.3	496.9
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	264.1	285.2
Prior Years:		
Continuing Operations	230.2	233.0
Discontinued Operations	3.7	4.7
Total Paid Losses and LAE Related to Prior Years	233.9	237.7
Total Paid Losses and LAE	498.0	522.9
Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at End of Period	793.7	754.1
Plus Reinsurance and Indemnification Recoverables at End of Period	80.7	61.1
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	\$874.4	\$815.2

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, 2015, the Company reduced its property and casualty insurance reserves by \$13.9 million to recognize favorable development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$9.5 million, and commercial lines insurance loss and LAE reserves developed favorably by \$4.4 million. The commercial lines insurance loss and LAE reserve development included favorable development of \$0.9 million from continuing operations and favorable development of \$3.5 million from discontinued operations. Personal automobile insurance loss and LAE reserves developed favorably by \$6.4 million, homeowners insurance loss and LAE reserves developed favorably by \$4.6 million, and other personal lines loss and LAE reserves developed adversely by \$1.4 million. Personal lines insurance loss and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the 2013, 2012



and 2011 accident years, partially offset by the emergence of loss patterns that were worse than expected for the 2014 accident year.

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

Note 4 - Property and Casualty Insurance Reserves (continued)

For the six months ended June 30, 2014, the Company reduced its property and casualty insurance reserves by \$34.3 million to recognize favorable development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$34.1 million, and commercial lines insurance loss and LAE reserves developed favorably by \$0.2 million. The commercial lines insurance loss and LAE reserve development included favorable development of \$0.1 million from continuing operations and favorable development of \$0.1 million from discontinued operations. Personal automobile insurance loss and LAE reserves developed favorably by \$23.5 million, homeowners insurance loss and LAE reserves developed favorably by \$8.8 million, and other personal lines loss and LAE reserves developed favorably by \$1.8 million. Personal lines insurance loss and LAE reserves developed favorably due primarily to the emergence of loss patterns that were more favorable than expected for the 2013, 2012 and 2011 accident years.

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

Note 5 - Debt

The amortized cost of debt outstanding at June 30, 2015 and December 31, 2014 was:

(Dollars in Millions)	Jun 30, 2015	Dec 31, 2014
Senior Notes:		
6.00% Senior Notes due November 30, 2015	\$—	\$249.5
6.00% Senior Notes due May 15, 2017	358.8	358.5
4.35% Senior Notes due February 15, 2025	247.3	—
7.375% Subordinated Debentures due February 27, 2054	144.1	144.1
Total Debt Outstanding	\$750.2	\$752.1

On June 2, 2015, Kemper amended its \$225.0 million, unsecured, revolving credit agreement to, among other things, extend the expiration date to June 2, 2020. Prior to the amendment, the credit agreement was scheduled to expire on March 7, 2016. The credit agreement, as amended, provides for fixed and floating rate advances for periods up to six months at various interest rates. The credit agreement, as amended, 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, Trinity Universal Insurance Company ("Trinity") and United Insurance Company of America ("United Insurance"). Proceeds from advances under the credit agreement, as amended, may be used for general corporate purposes, including repayment of existing indebtedness. There were no outstanding borrowings under the credit agreement, as amended, at either June 30, 2015 or December 31, 2014.

Trinity and United Insurance are members of the Federal Home Loan Bank ("FHLB") of Dallas and Chicago, respectively. As members, Trinity and United Insurance may obtain advances from the FHLB of Dallas and Chicago, respectively. Advances from the FHLB of Dallas and Chicago are subject to collateral requirements as specified in the respective agreements with Trinity and United Insurance. During the first six months of 2015, Trinity borrowed and repaid \$20.5 million under its agreement with the FHLB of Dallas. During the first six months of 2015, United Insurance borrowed and repaid \$21.0 million under its agreement with the FHLB of Chicago. There were no advances from the FHLB of Dallas or Chicago outstanding at either June 30, 2015 or December 31, 2014.

On February 24, 2015, Kemper issued \$250.0 million of its 4.35% senior notes due February 15, 2025 (the "2025 Senior Notes"). The net proceeds of the issuance were \$247.3 million, net of discount and transaction costs, for an effective yield of 4.49%. The 2025 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper used the net proceeds from the sale of the

2025 Senior Notes, together with available cash, to redeem in full the \$250.0 million outstanding principal amount of its 6.00% Senior Notes due November 30, 2015. Kemper recognized a loss of \$9.1 million before income taxes in the first quarter of 2015 from the early redemption of these senior notes.

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

Note 5 - Debt (Continued)

Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, for the six and three months ended June 30, 2015 and 2014 was:

(Dollars in Millions)	Six Months Ended		Three Months Ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Notes Payable under Revolving Credit Agreement	\$0.4	\$0.4	\$0.2	\$0.2
Federal Home Loan Bank of Dallas	—	—	—	—
Federal Home Loan Bank of Chicago	—	—	—	—
Senior Notes Payable:				
6.00% Senior Notes due November 30, 2015	3.7	7.7	—	3.8
6.00% Senior Notes due May 15, 2017	11.1	11.1	5.5	5.6
4.35% Senior Notes due February 15, 2025	3.9	—	2.8	—
7.375% Subordinated Debentures due February 27, 2054	5.5	3.8	2.7	2.8
Interest Expense before Capitalization of Interest	24.6	23.0	11.2	12.4
Capitalization of Interest	(0.5 )	(0.5 )	(0.3 )	(0.2 )
Total Interest Expense	\$24.1	\$22.5	\$10.9	\$12.2

Interest paid, including facility fees, for the six and three months ended June 30, 2015 and 2014 was:

(Dollars in Millions)	Six Months Ended		Three Months Ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Notes Payable under Revolving Credit Agreement	\$1.1	\$0.3	\$0.9	\$0.1
Federal Home Loan Bank of Dallas	—	—	—	—
Federal Home Loan Bank of Chicago	—	—	—	—
Senior Notes Payable:				
6.00% Senior Notes due November 30, 2015	4.8	7.5	—	7.5
6.00% Senior Notes due May 15, 2017	10.8	10.8	10.8	10.8
4.35% Senior Notes due February 15, 2025	—	—	—	—
7.375% Subordinated Debentures due February 27, 2054	5.5	2.8	2.7	2.8
Total Interest Paid	\$22.2	\$21.4	\$14.4	\$21.2

Note 6 - Long-term Equity-based Compensation Plans

As of June 30, 2015, there were 7,742,878 common shares available for future grants under Kemper's long-term equity-based compensation plan, of which 540,900 shares were reserved for future grants based on the performance level attained under the terms of outstanding performance-based restricted stock and performance-based restricted stock unit ("RSU") awards. Equity-based compensation expense was \$3.9 million and \$4.5 million for the six months ended June 30, 2015 and 2014, respectively. Total unamortized compensation expense related to nonvested awards at June 30, 2015 was \$7.2 million, which is expected to be recognized over a weighted-average period of 2.1 years.

Outstanding equity-based compensation awards at June 30, 2015 consisted of tandem stock option and stock appreciation rights ("Tandem Awards"), time-vested restricted stock, time-vested RSUs, performance-based restricted stock, performance-based RSUs and deferred stock units ("DSUs"). Recipients of restricted stock receive full dividend and voting rights on the same basis as all other outstanding shares of Kemper common stock. Recipients of RSUs and DSUs receive full dividend equivalents on the same basis as all other outstanding shares of Kemper common stock, but do not receive voting rights until such shares are issued.

Except for equity-based compensation awards granted to each member of the Board of Directors who is not employed by the Company ("Non-employee Directors"), all outstanding awards are subject to forfeiture until certain restrictions

have lapsed.

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

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

The Company uses the Black-Scholes option pricing model to estimate the fair value of each Tandem Award on the date of grant. The assumptions used in the Black-Scholes pricing model for Tandem Awards granted during the six months ended June 30, 2015 and 2014 were as follows:

Range of Valuation Assumptions	Six Months Ended		Jun 30, 2014		
	Jun 30, 2015		Jun 30, 2014		
Expected Volatility	22.49	%- 41.65	% 25.76	%- 44.43	%
Risk-free Interest Rate					