Seligman Premium Technology Growth Fund, Inc.
Form 497
November 25, 2009

Table of Contents

PROSPECTUS

13,100,000 Common Shares
SELIGMAN PREMIUM TECHNOLOGY GROWTH FUND, INC.

$20.00 PER SHARE

The Fund. Seligman Premium Technology Growth Fund, Inc., a Maryland corporation (the Fund), is a newly organized, non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the Investment Company Act). The Fund s investment manager is RiverSource Investments, LLC (RiverSource Investments or the Investment Manager).

Investment Objectives. The Fund s investment objectives are to seek growth of capital and current income.

NO PRIOR HISTORY. BECAUSE THE FUND IS NEWLY ORGANIZED, IT HAS NO PERFORMANCE HISTORY AND ITS SHARES OF COMMON STOCK (COMMON SHARES) HAVE NO HISTORY OF PUBLIC TRADING. THE COMMON STOCK OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES, SUCH AS THE FUND, FREQUENTLY TRADES AT A DISCOUNT FROM ITS NET ASSET VALUE. THE RISK OF THE COMMON SHARES TRADING AT SUCH A DISCOUNT MAY BE OF GREATER CONCERN FOR INVESTORS EXPECTING TO SELL THEIR SHARES RELATIVELY SOON AFTER COMPLETION OF THIS OFFERING.

The Fund s Common Shares have been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol STK.

INVESTMENT STRATEGY. Under normal market conditions, the Fund s investment program will consist primarily of (1) investing in a portfolio of equity securities of technology and technology-related companies that seeks to exceed the total return, before fees and expenses, of the S&P North America Technology Sector Index® and (2) writing call options on the NASDAQ 100 Index®, an unmanaged index that includes the largest and most active non-financial domestic and international companies listed on the Nasdaq Stock Market, or its exchange-traded fund equivalent (the NASDAQ 100) on a month-to-month basis, with an aggregate notional amount typically ranging from 25% to 90% of the underlying value of the Fund s holdings of common stock. The Fund expects to generate current income from premiums received from writing call options on the NASDAQ 100.

(continued on following page)

THE FUND S INVESTMENT POLICY OF INVESTING IN TECHNOLOGY AND TECHNOLOGY-RELATED COMPANIES AND WRITING CALL OPTIONS INVOLVES A HIGH DEGREE OF RISK. YOU COULD LOSE SOME OR ALL OF YOUR INVESTMENT. SEE RISKS BEGINNING ON PAGE 30.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total(3)
Public offering price	$ 20.00	$ 262,000,000
Sales load(1)	$ 0.90	$ 11,790,000
Estimated offering expenses(2)	$ 0.04	$ 524,000
Proceeds, after expenses, to the Fund	$ 19.06	$ 249,686,000

(1) The Investment Manager (and not the Fund) has agreed to pay from its own assets a structuring fee to each of Wells Fargo Securities, LLC, UBS Securities LLC and Ameriprise Financial Services, Inc. The Investment Manager (and not the Fund) has agreed to pay from its own assets a sales incentive fee to Raymond James & Associates, Inc. See Underwriting.

(2) Total expenses of the Common Share offering paid by the Fund (which do not include the sales load) are estimated to be $524,000, or $599,600 assuming full exercise of the over-allotment option, which represents $0.04 per Common Share issued. The Fund will pay Common Share offering costs up to $0.04 per Common Share, and the Investment Manager has agreed to pay all of the Fund s organizational expenses and Common Share offering costs (other than sales load) that exceed $0.04 per Common Share.

(3) The Fund has granted the underwriters an option to purchase up to 1,890,000 additional Common Shares at the public offering price, less the sales load, within 45 days of the date of this Prospectus solely to cover over-allotments, if any. If such option is exercised in full, the public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be $299,800,000, $13,491,000, $599,600 and $285,709,400, respectively. See Underwriting.

The underwriters expect to deliver the Common Shares to purchasers on or about November 30, 2009.

Wells Fargo Securities **UBS Investment Bank** **Ameriprise Financial Services, Inc.**

Raymond James

Janney Montgomery Scott **Oppenheimer & Co.** **RBC Capital Markets** **Stifel Nicolaus**

Robert W. Baird & Co. **J.J.B. Hilliard, W.L. Lyons, LLC** **Maxim Group LLC**
Wedbush Morgan Securities Inc. **Wunderlich Securities**

The date of this Prospectus is November 24, 2009.

(continued from previous page)

Under normal market conditions, the Fund intends to invest at least 80% of its Managed Assets (as defined herein) in a portfolio of equity securities of technology and technology-related companies that the Investment Manager believes offer attractive opportunities for capital appreciation. These companies are those which the Investment Manager expects will generate a majority of their revenues from the development, advancement, use or sale of technology or technology-related products or services. Technology and technology-related companies may include companies operating in any industry, including but not limited to software, hardware, communications, information, health care, medical technology and technology services, including the internet.

The Fund may invest in companies of any size. Securities of large companies that are well established in the world technology market can be expected to grow with the market. Rapidly changing technologies and expansion of technology-related industries often provide a favorable environment for companies of small- to-medium size, and the Fund may invest in these companies as well. Although the Fund will invest primarily in U.S. companies, the Fund may invest up to 25% of its Managed Assets in companies organized outside of the United States.

In addition to the Fund s holdings in technology and technology-related companies, the Fund will seek to cushion downside volatility and produce current income by writing call options on the NASDAQ 100 on a month-to-month basis, with an aggregate notional amount typically ranging from 25% to 90% of the underlying value of the Fund s holdings of common stock. In determining the level (i.e., 25% to 90%) of call options to be written on the NASDAQ 100, the Investment Manager will use a rules-based call option writing strategy (patent pending) (the Rules-based Option Strategy) based on the CBOE NASDAQ-100 Volatility Index℠ (the VXN Index). The VXN Index measures the market s expectation of 30-day volatility implicit in the prices of near-term NASDAQ 100 Index options. The VXN Index, which is quoted in percentage points (e.g., 19.36), is a leading barometer of investor sentiment and market volatility relating to the NASDAQ 100 Index. In general, the Investment Manager intends to write more call options when market volatility, as represented by the VXN Index, is high (and premiums received for writing the option are high) and write fewer call options when market volatility, as represented by the VXN Index, is low (and premiums for writing the option are low). The Investment Manager s Rules-based Option Strategy with respect to writing call options is as follows:

When the VXN Index is:	**Aggregate Notional Amount of Written Call Options as a Percentage of the Fund s Holdings in Common Stocks**
17 or less	25%
Greater than 17, but less than 18	Increase up to 50%
At least 18, but less than 33	50%
At least 33, but less than 34	Increase up to 90%
At 34 or greater	90%

The Rules-based Option Strategy is based upon the Investment Manager s research and may change over time based upon the Fund s experience and market factors.

In addition to the Rules-based Option Strategy described above, the Fund may write additional calls with aggregate notional amounts of up to 25% of the value of the Fund s holdings in common stocks (to a maximum of 90% when aggregated with the call options written pursuant to the Rules-based Option Strategy) when call premiums are attractive relative to the risk of the price of the NASDAQ 100. The Fund may also close (or buy back) a written call option if the Investment Manager believes that a substantial amount of the premium (typically, 70% or more) to be received by the Fund has been captured before exercise, potentially reducing the call position to 0% of total equity until additional calls are written.

The Fund may also seek to provide downside protection by purchasing puts on the NASDAQ 100 when premiums on these options are considered by the Investment Manager to be low and, therefore, attractive relative to the downside protection provided. Furthermore, under normal market conditions, the Fund may invest up to 20% of its Managed Assets in debt securities (including convertible and non-

Table of Contents

convertible debt securities), such as debt securities issued by technology and technology-related companies and obligations of the U.S. Government, its agencies and instrumentalities and government-sponsored enterprises. The Fund may exceed this limit under certain circumstances during its initial three months of operation.

For more information on the Fund s investment strategies, see The Fund s Investments and Risks.

There can be no assurance that the Fund will achieve its investment objectives.

You should read this Prospectus, which contains important information about the Fund that you ought to know before deciding whether to invest. You should retain this Prospectus for future reference. A Statement of Additional Information (SAI), dated November 24, 2009, containing additional information about the Fund, has been filed with the Securities and Exchange Commission (SEC) and is incorporated by reference in its entirety into (i.e., is legally considered a part of) this Prospectus. You may request a free copy of the SAI, the table of contents of which is on page 58 of this Prospectus, annual and semi-annual reports to stockholders, when available, and other information about the Fund by calling toll-free 800-221-2450 or from the Fund s website at www.seligman.com. Additionally, you may obtain a copy (and other information regarding the Fund) from the SEC s web site (http://www.sec.gov). All website references in this Prospectus and the SAI are inactive textual references and the contents of such websites are not incorporated into such documents. Information on our website is not part of this Prospectus or the SAI and should not be considered when making an investment decision.

Common Shares do not represent a deposit with or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

TABLE OF CONTENTS

YOU SHOULD ONLY RELY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE INTO THIS PROSPECTUS. THE FUND HAS NOT, AND THE UNDERWRITERS HAVE NOT, AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. THE FUND IS NOT, AND THE UNDERWRITERS ARE NOT, MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THIS PROSPECTUS. THE FUND S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this Prospectus. This summary does not contain all of the information that you should consider before investing in the Fund s common stock. You should carefully read the entire Prospectus, including the documents incorporated by reference into it, particularly the section entitled Risks beginning on page 30.

The Fund

Seligman Premium Technology Growth Fund, Inc., a Maryland corporation (the Fund), is a newly organized, non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the Investment Company Act).

The Offering of Common Shares

The Fund is offering shares of common stock at $20.00 per share through a group of underwriters (the underwriters) led by Wells Fargo Securities, LLC, UBS Securities LLC and Ameriprise Financial Services, Inc. The shares of common stock are called Common Shares in this Prospectus. You must purchase at least 100 Common Shares ($2,000) in order to participate in the offering. The Fund has given the underwriters an option to purchase up to 1,890,000 additional Common Shares to cover orders in excess of 13,100,000 Common Shares. See Underwriting. The Fund will pay Common Share offering costs up to $0.04 per Common Share, and the Investment Manager has agreed to pay all of the Fund s organizational expenses and Common Share offering costs (other than sales load) that exceed $0.04 per Common Share.

Financial intermediaries that sell shares may impose fees, terms and conditions on investor accounts and investments in the Fund that are in addition to the terms and conditions imposed by the Fund. Any fees, terms and conditions imposed by financial intermediaries may affect or limit an investor s ability to purchase shares or otherwise transact business with the Fund.

Investment Objectives and Principal Strategies of the Fund

The Fund s investment objectives are to seek growth of capital and current income.

Under normal market conditions, the Fund s investment program will consist primarily of (1) investing in a portfolio of equity securities of technology and technology-related companies that seeks to exceed the total return, before fees and expenses, of the S&P North America Technology Sector Index® and (2) writing call options on the NASDAQ 100 Index®, an unmanaged index that includes the largest and most active non-financial domestic and international companies listed on the Nasdaq Stock Market, or its exchange-traded fund (ETF) equivalent (the NASDAQ 100) on a month-to-month basis, with an aggregate notional amount typically ranging from 25% to 90% of the underlying value of the Fund s holdings of common stock. The Fund expects to generate current income from premiums received from writing call options on the

NASDAQ 100.

Under normal market conditions, the Fund intends to invest at least 80% of its Managed Assets (as defined herein) in a portfolio of

Table of Contents

equity securities of technology and technology-related companies that the Investment Manager believes offer attractive opportunities for capital appreciation. These companies are those which the Investment Manager expects will generate a majority of their revenues from the development, advancement, use or sale of technology or technology-related products or services. Technology and technology-related companies may include companies operating in any industry, including but not limited to software, hardware, communications, information, health care, medical technology and technology services, including the internet.

The Fund may invest in companies of any size. Securities of large companies that are well established in the world technology market can be expected to grow with the market. Rapidly changing technologies and expansion of technology and technology-related industries often provide a favorable environment for companies of small-to-medium size, and the Fund may invest in these companies as well. Although the Fund will invest primarily in U.S. companies, the Fund may invest up to 25% of its Managed Assets in companies organized outside of the United States.

In addition to the Fund s core holdings in technology and technology-related companies, the Fund will seek to cushion downside volatility and produce current income by utilizing certain options strategies (the Options Strategies), primarily consisting of writing call options on the NASDAQ 100 on a month-to-month basis, with an aggregate notional amount typically ranging from 25% to 90% of the underlying value of the Fund s holdings of common stock. In determining the level (i.e., 25% to 90%) of call options to be written on the NASDAQ 100, the Investment Manager will use a rules-based call option writing strategy (patent pending) (the Rules-based Option Strategy) based on the CBOE NASDAQ-100 Volatility Index^{SM} (the VXN Index). The VXN Index measures the market s expectation of 30-day volatility implicit in the prices of near-term NASDAQ 100 Index options. The VXN Index, which is quoted in percentage points (e.g., 19.36), is a leading barometer of investor sentiment and market volatility relating to the NASDAQ 100 Index. In general, the Investment Manager intends to write more call options when market volatility, as represented by the VXN Index, is high (and premiums received for writing the option are high) and write fewer call options when market volatility, as represented by the VXN Index, is low (and premiums for writing the option are

Table of Contents

low). The Investment Manager s Rules-based Option Strategy with respect to writing call options is as follows:

When the VXN Index is:	Aggregate Notional Amount of Written Call Options as a Percentage of the Fund s Holdings in Common Stocks
17 or less	25%
Greater than 17, but less than 18	Increase up to 50%
At least 18, but less than 33	50%
At least 33, but less than 34	Increase up to 90%
At 34 or greater	90%

The Rules-based Option Strategy is based upon the Investment Manager s research and may change over time based upon the Fund s experience and market factors.

In addition to the Rules-based Option Strategy described above, the Fund may write additional calls with aggregate notional amounts of up to 25% of the value of the Fund s holdings in common stocks (to a maximum of 90% when aggregated with the call options written pursuant to the Rules-based Option Strategy) when call premiums are attractive relative to the risk of the price of the NASDAQ 100. The Fund may also close (or buy back) a written call option if the Investment Manager believes that a substantial amount of the premium (typically, 70% or more) to be received by the Fund has been captured before exercise, potentially reducing the call position to 0% of total equity until additional calls are written.

The Fund intends to write (sell) NASDAQ 100 call options that are exchange-listed or traded over-the-counter (OTC). However, index options differ from options on individual securities (including ETFs) in that index options (i) typically are settled in cash rather than by delivery of securities and (ii) reflect price fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single security. Compared to call options on individual stocks (including ETFs), writing call options on the NASDAQ 100 Index can achieve better tax efficiency because listed options on broad-based securities indices are section 1256 contracts that are subject to more favorable U.S. tax treatment than options on individual stocks. Accordingly, given this beneficial tax treatment and that index options are typically settled in cash at expiration (which can be less disruptive to portfolio management), the Investment Manager will generally prefer to write call options on the NASDAQ 100 Index.

As the seller of NASDAQ 100 call options, the Fund will receive cash (premiums) from options purchasers. The purchaser of a NASDAQ 100 call option has the right to any appreciation in the value of the NASDAQ 100 over a fixed price (the exercise price or strike price) as of the relevant exercise date or exercise dates (depending on the style of the option). Generally, the Fund intends to sell NASDAQ 100 call options that are slightly out-of-

3

Table of Contents

the-money (i.e., the exercise price generally will be slightly above the current level of the NASDAQ 100 when the option is sold) and to close out the position if the Investment Manager believes that a substantial amount of the premium (typically, 70% or more) to be received by the Fund has been captured before exercise, potentially reducing the call position to 0% of total equity until additional calls are written. The Rules-based Option Strategy approach is based upon the Investment Manager s research and may change over time based upon the Fund s experience and market factors. The Fund will, in effect, sell the potential appreciation in the value of the NASDAQ 100 above the exercise price in exchange for the option premium received. In the case of a written call option on the NASDAQ 100, if the call option sold by the Fund is exercised, the Fund will pay the purchaser the difference between the cash value of the NASDAQ 100 and the exercise price of the option. The premium, the exercise price and the market value of the NASDAQ 100 will determine the gain or loss realized by the Fund as the seller of the index call option. In the case of a written call option on an ETF, such as the NASDAQ 100, if the call option is exercised, the Fund will be required to deliver the number of shares of that ETF (representing the NASDAQ 100) for which the option was exercised. This is likely to require that the Fund purchase such shares at prices in excess of the exercise price of the option, meaning that it is likely that the Fund will incur a loss. Writing call options on the NASDAQ 100 involves a tradeoff between the option premiums received and reduced participation in potential future stock price appreciation of the Fund s common stock holdings (to the extent the performance of the Fund s holdings correlate to the performance of the NASDAQ 100).

The Fund may also seek to provide downside protection by purchasing puts on the NASDAQ 100 when premiums on these options are considered by the Investment Manager to be low and, therefore, attractive relative to the downside protection provided.

The Fund may also buy or write other call and put options on securities, indices, ETFs and market baskets of securities to generate additional income or return or to provide the portfolio with downside protection. In this regard, options may include writing in- or out-of-the-money put options or buying or selling options in connection with closing out positions prior to expiration of any options. However, the Fund does not intend to write naked call options on individual stocks (i.e., selling a call option on an individual security not owned by the Fund) other than in connection with implementing the Options Strategies with respect to the NASDAQ 100. The put and call options purchased, sold or written by the Fund may be exchange-listed or OTC.

Furthermore, under normal market conditions, the Fund may invest up to 20% of its Managed Assets in debt securities (including convertible and non-convertible debt securities), such as debt securities issued by technology and technology-related companies

Table of Contents

and obligations of the U.S. Government, its agencies and instrumentalities, and government-sponsored enterprises, as well as below-investment grade securities (i.e., high-yield or junk bonds). The Fund may exceed this limit under certain circumstances during its initial three months of operation. See The Fund s Investments Debt Securities.

The Fund may invest up to 15% of its Managed Assets in illiquid securities (i.e., securities that at the time of purchase are not readily marketable). See The Fund s Investments Illiquid Securities.

The Fund s investment objectives and policies are non-fundamental and may be changed by the Fund s Board of Directors (the Board) without approval of the Fund s stockholders. However, the Fund s investment policy of investing at least 80% of its Managed Assets in equity securities of technology and technology-related companies and its policy with respect to the use of the Rules-based Option Strategy on a month-to-month basis may be changed by the Board without stockholder approval only following the provision of 60 days prior written notice to stockholders. The Fund has a fundamental policy of investing at least 25% of its total assets in securities principally engaged in technology and technology-related stocks. This policy may not be changed without a stockholder vote.

Investment Rationale

The Investment Manager believes that a strategy of owning a portfolio of equity securities in technology and technology-related companies in conjunction with writing call options on the NASDAQ 100 should generally provide returns that are superior to investing in the same or similar stocks without an associated call option writing program under three different stock market scenarios: (1) down-trending technology markets; (2) flat market conditions for technology; and (3) moderately rising technology markets. In the Investment Manager s opinion, only in more strongly rising technology markets would the option strategy on the NASDAQ 100 to be used by the Fund generally be expected to underperform the stock-only portfolio. For these purposes, the Investment Manager considers more strongly rising technology market conditions to exist whenever the current annual rate of return for U.S. common stocks of technology companies (as represented by the NASDAQ 100 Index) exceeds the long-term historical average of stock market returns as represented by the NASDAQ 100 Index. The Investment Manager considers moderately rising technology market conditions to exist whenever current annual returns on U.S. common stocks of technology companies are positive, but do not exceed their long-term historical average as represented by the NASDAQ 100 Index.

In addition, the Investment Manager believes that the flexible investment strategy of using options in a variety of circumstances (whether buying, selling or writing options on individual securities, indices or otherwise) will permit the Fund to take advantage of various market conditions. This may include purchasing put options when such options are considered to be inexpensive or

	writing call options when premiums are high. See The Fund s Investments and Risks.
Use of Leverage	The Fund does not currently anticipate issuing preferred stock of the Fund (Preferred Shares) or borrowing money in order to purchase additional portfolio securities. However, the Fund is authorized to issue Preferred Shares, so long as the asset coverage (as defined in the Investment Company Act) with respect to Preferred Shares is at least 200%. The Fund is also authorized to borrow money in amounts of up to 331/3% of the value of its Managed Assets (which includes amounts borrowed for investment purposes) at the time of such borrowings to purchase portfolio securities and for portfolio management purposes. These practices are known as leverage. See Borrowings and Preferred Shares. To the extent that the Fund uses leverage, it would seek to obtain a higher return for holders of Common Shares (the Common Stockholders) than if the Fund did not use leverage. Leveraging is a speculative technique and there are special risks involved. See Risks Leverage Risk.
The Investment Manager	The Fund s investment manager is RiverSource Investments, LLC, (RiverSource Investments or the Investment Manager) located at 50606 Ameriprise Financial Center, Minneapolis, Minnesota 55474. RiverSource Investments is the investment manager to the RiverSource, RiverSource Partners, Threadneedle and Seligman funds (the RiverSource Family of Funds), and is a wholly-owned subsidiary of Ameriprise Financial, Inc. (Ameriprise Financial), a financial planning and financial services company. In addition to managing investments for the RiverSource Family of Funds, RiverSource Investments manages investments for separate account clients, for itself and for its affiliates. For institutional clients, RiverSource Investments and its affiliates provide investment management and related services, such as separate account asset management, and institutional trust and custody, as well as other investment products. As of September 30, 2009, the Investment Manager had assets under management of approximately $145.76 billion. The Fund will pay RiverSource Investments a fee for managing its assets. Under the Investment Management Services Agreement (the Investment Management Agreement), the fee will be at the annual rate of 1.00% of the Fund s average daily Managed Assets. Managed Assets means the net asset value of the Fund s outstanding Common Shares plus any liquidation preference of any issued and outstanding Preferred Shares and the principal amount of any borrowings used for leverage.
Dividend Distributions on Common Shares	***Initial Distribution.*** The Fund s initial distribution is expected to be declared approximately 45 days after the completion of the offering, and paid approximately 45 days later, depending upon market conditions, and out of assets legally available therefor. Thereafter distributions are expected to be declared quarterly after the first full quarter of operations (i.e., June, September, December and March), depending on market conditions. Unless

you elect to receive distributions in cash, all of your distributions will be automatically reinvested in additional Common Shares under the Fund s Dividend Investment Plan. See Dividend Investment Plan. The Board may change the Fund s distribution policy and the amount or timing of the distributions, based on a number of factors, including, but not limited to, the amount of the Fund s undistributed net investment income and net short- and long-term capital gains and historical and projected net investment income and net short- and long-term capital gains.

Level Rate Distribution Policy. Commencing with the Fund s first distribution, the Fund intends to make quarterly cash distributions, and out of assets legally available therefor, to Common Stockholders at a rate that reflects the past and projected performance of the Fund. The Fund expects to receive all or some of its current income and gains from the following sources: (i) dividends received by the Fund that are paid on the equity and equity-related securities in its portfolio; and (ii) capital gains (short-term and long-term) from option premiums and the sale of portfolio securities. Distributions would be made only after paying dividends on Preferred Shares, if any have been issued, and interest and required principal payments on borrowings, if any. It is possible that the Fund s distributions will at times exceed the earnings and profits of the Fund and therefore all or a portion of such distributions may constitute a return of capital as described below. A return of capital is not taxable, but it reduces a stockholder s tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the stockholder of his or her shares. Distributions may be variable, and the Fund s distribution rate will depend on a number of factors, including the net earnings on the Fund s portfolio investments and the rate at which such net earnings change as a result of changes in the timing of, and rates at which, the Fund receives income from the sources described above. The net investment income of the Fund consists of all income (other than net short-term and long-term capital gains) less all expenses of the Fund. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund s distribution policy could change. Over time, the Fund will distribute all of its net investment income and net short-term capital gains. In addition, at least annually, the Fund intends to distribute any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss) or, alternatively, to retain all or a portion of the year s net capital gain and pay federal income tax on the retained gain. As provided under federal law, Common Stockholders of record as of the end of the Fund s taxable year will include their attributable share of the retained gain in their income for the year as a long-term capital gain and will be entitled to a tax credit or refund for the tax deemed paid on their behalf by the Fund. The Fund may treat the cash value of tax credits and amounts refunded in connection with retained capital gains as a substitute for equivalent cash distributions.

Table of Contents

The Investment Company Act currently limits the number of times the Fund may distribute long-term capital gains in any tax year (unless and until it receives an exemptive order as contemplated under Managed Distribution Policy below), which may increase the variability of the Fund s distributions and result in certain distributions being comprised to a larger degree of long-term capital gains eligible for more favorable income tax treatment than others. During periods in which the Fund s strategies do not generate enough income or result in net losses, a substantial portion of the Fund s dividends may be comprised of capital gains from the sale of securities held by the Fund, which would involve transaction costs and may also result in realization of taxable short-term capital gains taxed at ordinary income tax rates, particularly during the initial year of the Fund s operations when all of the Fund s portfolio securities will have been held for less than one year. The Board of the Fund reserves the right to change the dividend policy from time to time.

Managed Distribution Policy. The Investment Manager has applied to the Securities and Exchange Commission (the SEC) for an exemptive order under the Investment Company Act to permit funds managed by the Investment Manager, including the Fund, to include that fund s realized long-term capital gains as a part of its regular distributions to common stockholders more frequently than would otherwise be permitted by the Investment Company Act (generally once per taxable year). Under a managed distribution policy, the Fund would distribute to Common Stockholders a fixed quarterly amount, which may be adjusted from time to time. As with the level rate distribution policy, distributions would be made only after paying dividends on Preferred Shares, if any have been issued, and interest and required principal payments on borrowings, if any. Under a managed distribution policy, if, for any quarterly distribution, net investment company taxable income and net capital gain were less than the amount of the distribution, the difference would be distributed from the Fund s assets and result in a return of capital. A return of capital is a return of your original investment. Common Stockholders who periodically receive the payment of a dividend or other distribution consisting entirely or in part of a return of capital may be under the impression that they are receiving net profits when they are not. Common Stockholders should not assume that the source of a distribution from the Fund is net profit and should read any written disclosure accompanying distribution payments carefully. There can be no assurance that the SEC staff will process such application by the Investment Manager for an exemptive order on a timely basis or ever, or that the SEC will grant the requested relief or, if granted, that the Fund s Board will determine to implement or maintain a managed distribution policy. As a result, the Fund has no current expectation that it will be in a position to include long-term capital gains in Fund distributions more frequently than is currently permitted under the Investment Company Act (generally, once per tax year), thus leaving the Fund with the possibility of variability in

distributions (and their tax attributes) as discussed above. The Board of the Fund reserves the right to change the dividend policy from time to time.

Dividend Investment Plan

Pursuant to the Fund s Dividend Investment Plan (the Plan), unless a Common Stockholder elects otherwise, all cash dividends, capital gains distributions, and other distributions are automatically reinvested in additional Common Shares.

Common Stockholders who elect not to participate in the Plan (including those whose intermediaries do not permit participation in the Plan by their customers) will receive all dividends and distributions payable in cash directly to the Common Stockholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by American Stock Transfer & Trust Company, LLC (AST), as dividend paying agent. Common Stockholders may elect not to participate in the Plan and to receive all distributions of dividends and capital gains or other distributions in cash by sending written instructions to their broker or other nominee. Participation in the Plan may be terminated or resumed at any time without penalty by written notice if received by AST prior to the record date for the next distribution. Otherwise, such termination or resumption will be effective with respect to any subsequently declared distribution.

Under the Plan, Common Stockholders receive Common Shares in lieu of cash distributions unless they have elected otherwise as described in the preceding paragraph. Common Shares will be issued in lieu of cash by the Fund from authorized but unissued Common Shares. If the market price of a share on the ex-dividend date of such a distribution is at or above the Fund s net asset value per share on such date, the number of shares to be issued by the Fund to each Common Stockholder receiving shares in lieu of cash distributions will be determined by dividing the amount of the cash distribution to which such Common Stockholder would be entitled by the greater of the net asset value per share on such date or 95% of the market price of a share on such date. If the market price of a share on such an ex-dividend date is below the net asset value per share, the number of shares to be issued to such Common Stockholders will be determined by dividing such amount by the per share market price. See Dividend Investment Plan.

Closed-End Fund Structure

Closed-end funds differ from traditional open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the stockholder. By comparison, mutual funds issue securities that are redeemable at net asset value at the option of the stockholder and typically engage in a continuous offering of their shares.

Shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of this possibility and that such discount may not be in the interest of Common

9

Table of Contents

	Stockholders, the Board, in consultation with the Investment Manager, from time to time may review possible actions to reduce any discount. The Board might consider open market repurchases or tender offers for Common Shares at net asset value. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to net asset value per Common Share. The Board might also consider the conversion of the Fund to an open-end mutual fund. The Fund s organizational documents, policies and features, however, have been designed to suit a closed-end structure. Investors should assume, therefore, that it is highly unlikely that the Fund would convert to an open-end management investment company.
Tax Aspects	The Fund intends to elect to be treated as a regulated investment company (a RIC) for U.S. federal income tax purposes. To satisfy the distribution requirements applicable to RICs and to avoid corporate level income taxation, the Fund intends to make quarterly distributions so that it distributes all or substantially all of its net investment income and realized capital gains, if any, each year to its stockholders. Please refer to the Tax Matters section of this Prospectus for additional information on the potential U.S. federal income tax consequences of the acquisition, ownership and disposition of shares of the Fund. You should consult your own tax advisors regarding any potential state, local, non-U.S. or other tax consequences of an investment in the Fund.
Listing and Symbol	The Fund s Common Shares have been approved for listing on the New York Stock Exchange (NYSE), subject to notice of issuance, under the symbol STK. See Description of Common Shares Common Shares.
Administrative Services Agent	Under an Administrative Services Agreement (the Administrative Services Agreement), Ameriprise Financial provides, or compensates others to provide, the Fund with certain services, including administrative, accounting, treasury, and other services. The Fund will pay Ameriprise Financial a fee for providing such services. Under the Administrative Services Agreement, the fee will be at the annual rate of 0.06% of the Fund s average daily Managed Assets.
Custodian, Transfer Agent, Stockholder Service Agent and Dividend Paying Agent, and Board Services Corporation	JPMorgan Chase Bank, N.A. (JPMorgan) will serve as custodian of the Fund s assets. AST acts as the transfer agent, stockholder service agent and dividend paying agent for the Fund. See Custodian, Transfer Agent, Stockholder Service Agent and Dividend Paying Agent. The funds in the RiverSource Family of Funds, including the Fund, have an agreement with Board Services Corporation (Board Services) located at 901 Marquette Avenue South, Suite 2810, Minneapolis, MN 55402. This agreement sets forth

Table of Contents

the terms of Board Services responsibility to serve as an agent of the funds for purposes of administering the payment of compensation to each independent Board member, to provide office space for use by the funds and their boards, and to provide any other services to the boards or the independent members, as may be reasonably requested. See Board Services Corporation.

Special Risk Considerations

Newly Organized

The Fund is a newly organized, non-diversified, closed-end management investment company with no history of operations.

Investment Risk

Investing in the Fund involves certain risks and the Fund may not be able to achieve its investment objectives for a variety of reasons, including, among others, the possibility that the Fund may not be able to implement the Options Strategies as anticipated. Because the value of your investment in the Fund will fluctuate, there is a risk that you will lose money. Your investment will decline in value if the value of the Fund s investments decreases. The market price of a Common Share may decrease even though its net asset value increases. You cannot redeem your shares from the Fund at net asset value. The value of your shares also will be impacted by the Fund s ability to successfully implement its investment strategy, as well as by market, economic and other conditions. As with any security, complete loss of investment is possible. The Fund s Rules-based Option Strategy has not been applied in any technology or technology-related stock portfolio managed by the Investment Manager. Even if technology and technology-related stocks appreciate, the value of the Fund may not.

Equity Securities Risk

The Fund s portfolio will include equity securities. An equity security, or stock, represents a proportionate share of the ownership of a company. The value of an equity security is generally based on the success of the company s business, any income paid to stockholders, the value of its assets and general market conditions. Equity securities include common, preferred and convertible preferred stocks and securities with values that are tied to the price of stocks, such as rights, warrants and convertible debt securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. Also, the prices of common stocks are sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Fund has exposure. Common stock prices fluctuate for several reasons, including changes to investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting an issuer occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase. Even investments in high quality or blue chip equity securities or securities of established companies with large market capitalizations (which generally have strong financial characteristics) can be negatively impacted by poor overall market and economic conditions. Companies with

11

large market capitalizations may also have less growth potential than smaller companies and may be able to react less quickly to change in the marketplace.

Small-Cap and Mid-Cap Companies Risk

The Fund may invest all or a substantial portion of its assets in companies whose market capitalization is considered small- or mid-cap. These companies often are newer or less established companies than larger companies. Investments in these companies carry additional risks because earnings of these companies tend to be less predictable; they often have limited product lines, markets, distribution channels or financial resources; and the management of such companies may be dependent upon one or a few key people. The market movements of equity securities of small-cap and mid-cap companies may be more abrupt or erratic than the market movements of equity securities of larger, more established companies or the stock market in general. Historically, small-cap and mid-cap companies have sometimes gone through extended periods when they did not perform as well as larger companies. In addition, equity securities of these companies generally are less liquid than those of larger companies. This means that the Fund could have greater difficulty selling such securities at the time and price that the Fund would like.

Smaller-company stocks, as a whole, may experience larger price fluctuations than large-company stocks or other types of investments. During periods of investor uncertainty, investor sentiment may favor large, well-known companies over small, lesser-known companies. There may be less trading in a smaller company s stock, which means that buy and sell transactions in that stock could have a larger impact on the stock s price than is the case with larger company stocks.

Technology and Technology-Related Investment Risk

The Fund will invest a substantial portion of its assets in technology and technology-related companies. The market prices of technology and technology-related stocks tend to exhibit a greater degree of market risk and price volatility than other types of investments. These stocks may fall in and out of favor with investors rapidly, which may cause sudden selling and dramatically lower market prices. These stocks also may be affected adversely by changes in technology, consumer and business purchasing patterns, government regulation and/or obsolete products or services. In addition, a rising interest rate environment tends to negatively affect technology and technology-related companies. In such an environment, those companies with high market valuations may appear less attractive to investors, which may cause sharp decreases in the companies market prices. Further, those technology or technology-related companies seeking to finance their expansion would have increased borrowing costs, which may negatively impact their earnings. As a result, these factors may negatively affect the performance of the Fund. The Fund may also be susceptible to factors affecting the technology and technology-related industries, and the Fund s net asset value may

Table of Contents

fluctuate more than a fund that invests in a wider range of industries. Technology and technology-related companies are often smaller and less experienced companies and may be subject to greater risks than larger companies, such as limited product lines, markets and financial and managerial resources. These risks may be heightened for technology companies in foreign markets.

Writing Call Options Risk

A principal aspect of the Fund s investment strategy involves writing call options on the NASDAQ 100. This part of the Fund s strategy subjects the Fund to certain additional risks. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. The principal factors affecting the market value of an option include supply and demand, interest rates, the current market price of the underlying index or security in relation to the exercise price of the option, the actual or perceived volatility of the underlying index or security and the time remaining until the expiration date.

The Fund intends to write call options on the NASDAQ 100; however, it does not intend to have a portfolio of securities that mirrors the securities in the NASDAQ 100 Index. As a result, during a period when the Fund has outstanding call options written on the NASDAQ 100, the NASDAQ 100 may appreciate to a greater extent than the securities in the Fund s portfolio. If the call options are exercised in these circumstances, the Fund s loss on the options will be greater because it will be paying the option holder not only an amount effectively representing appreciation on securities in its own portfolio but also an amount representing the greater appreciation experienced by the securities in the NASDAQ 100 Index that the Fund does not own. If, at a time these call options may be exercised, the securities underlying these options have market values above the exercise price, then these call options will be exercised and the Fund will be obligated to deliver to the option holder either the securities underlying these options or to deliver the cash value of those securities, in exchange for which the option holder will pay the Fund the exercise price. In either case, the Fund will incur losses to the extent the market value of the underlying securities exceeds the sum of the premium the Fund received from writing the call options and the exercise price of the call options, which loss may be very substantial.

To the extent all or part of the Fund s call options are covered, the Fund forgoes, during the option s life, the opportunity to profit from increases in the market value of the security underlying the call option above the sum of the option premium received and the exercise price of the call, but has retained the risk of loss should the price of the underlying security decline below the exercise price minus the option premium received. The writer of an exchange-listed option on a security has no control over when during the exercise period of the option (which may be a single day or multiple days) it may be required to fulfill its

13

obligation as a writer of the option. Once an option writer has received an exercise notice, it would be obligated to deliver the underlying security at the exercise price. Thus, the writing of call options may require the Fund to sell portfolio securities at inopportune times or for prices other than current market values and will limit the amount of appreciation the Fund can realize above the exercise price of an option.

The Fund may be required to sell investments from its portfolio to effect cash settlement (or transfer ownership of a stock or other instrument to physically settle) on any written call options that are exercised. Such sales (or transfers) may occur at inopportune times, and the Fund may incur transaction costs that increase the expenses borne by Common Stockholders.

The Fund may sell written call options over an exchange or in the over-the-counter (OTC) market. The options in the OTC markets may not be as liquid as exchange-listed options. The Fund may be limited in the number of counterparties willing to take positions opposite the Fund or may find the terms of such counterparties to be less favorable than the terms available for listed options. The Fund cannot guarantee that its Options Strategies will be effective. Moreover, OTC options may provide less favorable tax treatment than listed options. See Risks Writing Call Options Risk.

Options Risk

The Fund intends to engage in transactions in options on securities, indices, exchange-traded funds and market baskets of securities on exchanges and in the OTC markets. In general, exchange-traded options have standardized exercise prices and expiration dates and require the parties to post margin against their obligations, and the performance of the parties obligations in connection with such options is guaranteed by the exchange or a related clearing corporation. OTC options have more flexible terms negotiated between the buyer and the seller, but generally do not require the parties to post margin and may be subject to greater credit risk. OTC options also involve greater liquidity risk.

In addition to writing call options as described above, the Fund may purchase put options. By buying a put option, the Fund will pay a premium to acquire a right to sell the securities or instruments underlying the put at the exercise price of the option. The Fund will lose money if the securities or instruments underlying the option do not decline in value below the exercise price of the option by an amount sufficient to offset the premium paid to acquire the option. To the extent the Fund purchases put options in the OTC market, the Fund will be subject to the credit risk of the seller of the option. The Fund also may write put options on the types of securities or instruments that may be held by the Fund, provided that such put options are secured by segregated, liquid instruments. The Fund will receive a premium for writing a put option, which increases the Fund s return. In exchange for the premium received, the Fund has the obligation to buy the securities or instruments underlying the option at an agreed upon price if the securities or instruments decrease below the

Table of Contents

exercise price of the option. The Fund will lose money if the securities or instruments decrease in value so that the amount the Fund is obligated to pay the counterparty to the option to purchase the securities underlying the option upon exercise of the option exceeds the value of those securities by an amount that is greater than the premium received by the Fund for writing the option.

The Fund may purchase call options on any of the types of securities or instruments in which it may invest. In exchange for paying the option premium, a purchased call option gives the Fund the right to buy, and obligates the seller to sell, the underlying security or instrument at the exercise price. The Fund will lose money if the securities or instruments underlying the option do not appreciate in value in an amount sufficient to offset the premium paid by the Fund to acquire the option.

General Risks Related to Derivatives

In addition to call options or other options strategies, the Fund may use other derivatives, such as, among others, total return and other types of swaps, forward contracts, futures and options on futures and swaps. The Fund s use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying these derivatives. Derivatives may be volatile and involve significant risk, such as, among other things, credit risk, currency risk, leverage risk and liquidity risk. They also involve the risk of mispricing or improper valuation and correlation risk (i.e., the risk that changes in the value of the derivative may not correlate perfectly, or to any degree, with the underlying asset, interest rate or index). Using derivatives can disproportionately increase losses and reduce opportunities for gains when security prices, indices, currency rates or interest rates are changing in unexpected ways. The Fund may suffer disproportionately heavy losses relative to the amount of its investments in derivative contracts.

Changes in the value of derivative contracts may not match or offset fully changes in the values of the underlying portfolio securities, indices or rates. The Fund s investments in derivatives could result in the Fund losing more than the principal amount invested. The use of derivatives may also increase the amount of taxes payable by Common Stockholders as well as accelerate the time for the payment of taxes. Also, suitable derivative transactions may not be available in all circumstances. In addition, derivatives can make the Fund s assets less liquid and harder to value, especially in declining markets.

Foreign Securities Risk

The Fund may invest up to 25% of its Managed Assets in securities of companies organized outside the United States. Investments in foreign securities involve certain risks not associated with investments in U.S. companies. Securities markets in certain foreign countries are not as developed, efficient or liquid as securities markets in the United States. Therefore, the prices of foreign securities are often volatile and trading costs are higher. Certain foreign countries may impose restrictions on the ability of the issuer of foreign securities to make payments of principal and interest to investors located

Table of Contents

outside the country, due to blockage of foreign currency exchanges or otherwise. Generally, there is less publicly available information about foreign companies due to less rigorous disclosure or accounting standards and regulatory practices. In addition, the Fund will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Fund to lose money on its investments in foreign securities.

The Fund may invest in securities of issuers located or doing substantial business in emerging markets (lesser developed countries). Because of the less developed markets and economics and, in some countries, less mature governments and governmental institutions, the risks of investing in foreign securities can be intensified in the case of investments in issuers domiciled or doing substantial business in emerging markets. These risks include a high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; political and social uncertainties; over-dependence on exports, especially with respect to primary commodities, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; and less reliable custodial services and settlement practices.

U.S. Government Debt Securities Risk

The Fund may invest up to 20% of its Managed Assets in debt securities, including U.S. government debt securities. U.S. government debt securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government debt securities are generally lower than the yields available from other securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund s net asset value. Since the magnitude of these fluctuations will generally be greater at times when the Fund s average maturity is longer, under certain market conditions the Fund may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

Debt Securities Risk

The Fund may invest up to 20% of its Managed Assets in debt securities, including U.S. government debt securities and below-investment grade securities (e.g., high-yield or junk bonds). Investments in debt securities are subject to the risk that the issuer of the security could default on its obligations, causing the Fund to sustain losses on those investments. A default could impact both interest and principal payments. High-yield fixed-income securities are considered speculative with respect to the issuer s capacity to pay interest and repay

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principal in accordance with the terms of the obligations. This means that, compared to issuers of higher rated securities, issuers of medium and lower rated securities are
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The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

3

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

	Three Months Ended	
	Mar 31, 2015	Mar 31, 2014
Net Income	$13.5	$35.1
Other Comprehensive Income Before Income Taxes:		
Unrealized Holding Gains	53.3	120.0
Foreign Currency Translation Adjustments	(0.9)	—
Amortization of Net Unrecognized Postretirement Benefit Costs	5.4	2.0
Other Comprehensive Income Before Income Taxes	57.8	122.0
Other Comprehensive Income Tax Expense	(20.2)	(43.1)
Other Comprehensive Income	37.6	78.9
Total Comprehensive Income	$51.1	$114.0

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

4

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

	Mar 31, 2015 (Unaudited)	Dec 31, 2014
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2015 - $4,317.2; 2014 - $4,341.7)	$4,803.1	$4,777.6
Equity Securities at Fair Value (Cost: 2015 - $555.5; 2014 - $561.5)	628.6	632.2
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	168.1	184.8
Fair Value Option Investments	54.2	53.3
Short-term Investments at Cost which Approximates Fair Value	357.3	342.2
Other Investments	450.1	449.6
Total Investments	6,461.4	6,439.7
Cash	87.7	76.1
Receivables from Policyholders	293.1	295.3
Other Receivables	197.0	187.0
Deferred Policy Acquisition Costs	305.6	303.3
Goodwill	311.8	311.8
Current Income Tax Assets	10.9	—
Other Assets	217.5	220.2
Total Assets	$7,885.0	$7,833.4
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	$3,299.5	$3,273.7
Property and Casualty	720.1	733.9
Total Insurance Reserves	4,019.6	4,007.6
Unearned Premiums	530.0	536.9
Liabilities for Income Taxes	58.2	36.5
Debt at Amortized Cost (Fair Value: 2015 - $804.1; 2014 - $804.4)	750.0	752.1
Accrued Expenses and Other Liabilities	417.3	409.6
Total Liabilities	5,775.1	5,742.7
Shareholders' Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 51,826,395 Shares Issued and Outstanding at March 31, 2015 and 52,418,246 Shares Issued and Outstanding at December 31, 2014	5.2	5.2
Paid-in Capital	655.1	660.1
Retained Earnings	1,189.3	1,202.7
Accumulated Other Comprehensive Income	260.3	222.7
Total Shareholders' Equity	2,109.9	2,090.7
Total Liabilities and Shareholders' Equity	$7,885.0	$7,833.4

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

5

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

	Three Months Ended	
	Mar 31, 2015	Mar 31, 2014
Operating Activities:		
Net Income	$13.5	$35.1
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease (Increase) in Deferred Policy Acquisition Costs	(2.3)	1.1
Amortization of Life Insurance in Force Acquired and Customer Relationships Acquired	1.6	1.8
Equity in Loss (Earnings) of Equity Method Limited Liability Investments	0.7	(3.5)
Distribution of Accumulated Earnings of Equity Method Limited Liability Investments	0.4	7.0
Increase in Value of Fair Value Option Investments Reported in Investment Income	(0.9)	—
Amortization of Investment Securities and Depreciation of Investment Real Estate	2.7	3.8
Net Realized Gains on Sales of Investments	(3.4)	(6.6)
Net Impairment Losses Recognized in Earnings	7.0	0.8
Loss from Early Extinguishment of Debt	9.1	—
Depreciation of Property and Equipment	3.2	4.3
Increase in Receivables	(8.4)	(13.6)
Increase in Insurance Reserves	11.5	6.0
Decrease in Unearned Premiums	(6.9)	(16.4)
Change in Income Taxes	(10.5)	10.1
Increase in Accrued Expenses and Other Liabilities	1.9	2.3
Other, Net	9.8	4.9
Net Cash Provided by Operating Activities	29.0	37.1
Investing Activities:		
Sales, Paydowns and Maturities of Fixed Maturities	121.7	188.8
Purchases of Fixed Maturities	(92.3)	(98.6)
Sales of Equity Securities	18.7	35.1
Purchases of Equity Securities	(11.7)	(67.0)
Return of Investment of Equity Method Limited Liability Investments	16.3	10.1
Acquisitions of Equity Method Limited Liability Investments	(4.7)	(7.5)
Increase in Short-term Investments	(15.2)	(224.8)
Improvements of Investment Real Estate	(0.6)	(0.8)
Sales of Investment Real Estate	—	0.9
Increase in Other Investments	(1.1)	(1.8)
Acquisition of Software	(2.9)	(3.0)
Disposition of Subsidiary, Net of Cash Disposed	—	8.9
Other, Net	(0.5)	(2.5)
Net Cash Provided (Used) by Investing Activities	27.7	(162.2)
Financing Activities:		
Net Proceeds from Issuances of Debt	267.8	144.2
Repayments of Debt	(279.3)	—
Common Stock Repurchases	(23.4)	(7.7)
Dividends and Dividend Equivalents Paid	(12.3)	(13.3)
Cash Exercise of Stock Options	1.6	—
Other, Net	0.5	0.4

Net Cash Provided (Used) by Financing Activities	(45.1)	123.6
Increase (Decrease) in Cash	11.6	(1.5)
Cash, Beginning of Year	76.1	66.5
Cash, End of Period	$87.7	$65.0

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

6

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 beginning with these interim condensed consolidated financial statements. 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 beginning with these interim condensed consolidated financial statements. The retrospective application had no impact on the Company’s previously issued financial statements.
All other recently issued accounting pronouncements with effective dates prior to April 1, 2015 have been adopted by the Company. There were no adoptions in 2014 or the three months ended March 31, 2015 that had a material impact on the Condensed Consolidated Financial Statements. All other recently issued accounting pronouncements with effective dates after March 31, 2015 are not expected to have a material impact on the Company’s financial statements.

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 March 31, 2015 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$307.0	$34.0	$(0.7)	$340.3
States and Political Subdivisions	1,355.9	134.7	(0.4)	1,490.2
Corporate Securities:				
Bonds and Notes	2,575.4	322.5	(7.0)	2,890.9
Redeemable Preferred Stocks	5.9	0.5	—	6.4
Collateralized Loan Obligations	69.1	0.9	(0.1)	69.9
Other Mortgage- and Asset-backed	3.9	1.5	—	5.4
Investments in Fixed Maturities	$4,317.2	$494.1	$(8.2)	$4,803.1

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	Gross Unrealized 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

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at March 31, 2015 by contractual maturity were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$44.1	$44.9
Due after One Year to Five Years	741.1	795.5
Due after Five Years to Ten Years	1,338.5	1,414.5
Due after Ten Years	1,994.3	2,336.5
Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date	199.2	211.7
Investments in Fixed Maturities	$4,317.2	$4,803.1

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 Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date at March 31, 2015 consisted of securities issued by the Government National Mortgage Association with a fair value of $127.4 million, securities issued by the Federal National Mortgage Association with a fair value of $8.7 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $0.3 million and securities of other non-governmental issuers with a fair value of $75.3 million.

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 March 31, 2015 or December 31, 2014. Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of $6.1 million at March 31, 2015, all of which settled in the following month. There were no unsettled purchases of Investments in Fixed Maturities at December 31, 2014.
Gross unrealized gains and gross unrealized losses on the Company’s Investments in Equity Securities at March 31, 2015 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$85.5	$5.8	$(0.8)	$90.5
Other Industries	16.3	3.6	(0.7)	19.2
Common Stocks:				
Manufacturing	41.2	15.0	—	56.2
Other Industries	52.2	16.3	(0.6)	67.9
Other Equity Interests:				
Exchange Traded Funds	195.3	10.4	(0.6)	205.1
Limited Liability Companies and Limited Partnerships	165.0	27.5	(2.8)	189.7
Investments in Equity Securities	$555.5	$78.6	$(5.5)	$628.6

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

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
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
Other Industries	60.8	16.2	(0.4)	76.6
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

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

Note 2 - Investments (continued)
An aging of unrealized losses on the Company’s Investments in Fixed Maturities and Equity Securities at March 31, 2015 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	$28.7	$(0.2)	$25.5	$(0.5)	$54.2	$(0.7)
States and Political Subdivisions	54.1	(0.4)	1.0	—	55.1	(0.4)
Corporate Securities:						
Bonds and Notes	221.1	(4.3)	93.3	(2.7)	314.4	(7.0)
Redeemable Preferred Stocks	1.7	—	—	—	1.7	—
Collateralized Loan Obligations	20.4	(0.1)	3.5	—	23.9	(0.1)
Other Mortgage- and Asset-backed	—	—	0.4	—	0.4	—
Total Fixed Maturities	326.0	(5.0)	123.7	(3.2)	449.7	(8.2)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	7.2	(0.4)	12.6	(0.4)	19.8	(0.8)
Other Industries	6.5	(0.7)	0.5	—	7.0	(0.7)
Common Stocks:						
Other Industries	2.0	(0.6)	—	—	2.0	(0.6)
Other Equity Interests:						
Exchange Traded Funds	—	—	14.5	(0.6)	14.5	(0.6)
Limited Liability Companies and Limited Partnerships	94.3	(2.2)	12.6	(0.6)	106.9	(2.8)
Total Equity Securities	110.0	(3.9)	40.2	(1.6)	150.2	(5.5)
Total	$436.0	$(8.9)	$163.9	$(4.8)	$599.9	$(13.7)

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 March 31, 2015, were $8.2 million, of which $3.2 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were $0.1 million unrealized losses at March 31, 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 $3.5 million, and below-investment-grade fixed maturity investments comprised $4.7 million of the unrealized losses on investments in fixed maturities at March 31, 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 March 31, 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 March 31, 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 to not 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 2 - Investments (continued)
For equity securities, the Company considers various factors when determining whether a decline in the fair value is other than temporary, including, but not limited to:
- The financial condition and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The volatility of the investment;
- Analyst recommendations and near term price targets;
- Opinions of the Company’s external investment managers;
- Market liquidity;
- Debt-like characteristics of perpetual preferred stocks and issuer ratings; and
- The Company’s intentions to sell or ability to hold the investments until recovery.

With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments in preferred and common stocks at March 31, 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 March 31, 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 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	$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)
Corporate Securities:						
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	—
Total Fixed Maturities	327.5	(6.5)	546.1	(13.2)	873.6	(19.7)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	7.5	(0.1)	12.1	(0.9)	19.6	(1.0)
Other Industries	—	—	0.5	—	0.5	—
Common Stocks:						
Manufacturing	15.1	(1.1)	—	—	15.1	(1.1)
Other Industries	4.2	(0.4)	1.0	—	5.2	(0.4)
Other Equity Interests:						
Exchange Traded Funds	14.9	(0.1)	14.4	(0.6)	29.3	(0.7)
Limited Liability Companies and Limited Partnerships	54.4	(1.5)	6.6	(0.3)	61.0	(1.8)

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)

11

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

Note 2 - 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 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.
With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments in preferred and common stocks at December 31, 2014 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 the Company’s evaluations, it concluded that the declines in the fair values of the Company’s investments in equity securities in the preceding table were temporary at December 31, 2014.
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 the portion of the OTTI loss related to factors other than credit has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2015	Mar 31, 2014
Balance at Beginning of Period	$5.3	$9.9
Increases to Previously Recognized OTTI Credit Losses	—	0.3
Balance at End of Period	$5.3	$10.2

12

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

Note 2 - Investments (continued)
Gross gains and losses on sales of investments in fixed maturities and equity securities for the three months ended March 31, 2015 and 2014 were:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2015	Mar 31, 2014
Fixed Maturities:		
Gains on Sales	$2.0	$4.4
Losses on Sales	(0.1)	—
Equity Securities:		
Gains on Sales	1.5	0.8
Losses on Sales	—	—

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 March 31, 2015 is limited to the total carrying value of $168.1 million. In addition, the Company had outstanding commitments totaling approximately $40.3 million to fund Equity Method Limited Liability Investments at March 31, 2015.
The carrying values of the Company’s Other Investments at March 31, 2015 and December 31, 2014 were:

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Loans to Policyholders at Unpaid Principal	$284.5	$283.4
Real Estate at Depreciated Cost	160.3	160.9
Trading Securities at Fair Value	4.9	4.9
Other	0.4	0.4
Total	$450.1	$449.6

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

Note 3 - Property and Casualty Insurance Reserves
Property and casualty insurance reserve activity for the three months ended March 31, 2015 and 2014 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 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
Incurred Losses and LAE Related to:		
Current Year:		
Continuing Operations	214.2	253.0
Prior Years:		
Continuing Operations	(7.4)	(15.2)
Discontinued Operations	—	0.2
Total Incurred Losses and LAE Related to Prior Years	(7.4)	(15.0)
Total Incurred Losses and LAE	206.8	238.0
Paid Losses and LAE Related to:		
Current Year:		
Continuing Operations	91.1	108.4
Prior Years:		
Continuing Operations	126.0	140.1
Discontinued Operations	1.8	2.2
Total Paid Losses and LAE Related to Prior Years	127.8	142.3
Total Paid Losses and LAE	218.9	250.7
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	666.9	767.4
Plus Reinsurance Recoverables at End of Period	53.2	62.2
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$720.1	$829.6

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

For the three months ended March 31, 2015, the Company reduced its property and casualty insurance reserves by $7.4 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $7.2 million, and commercial lines insurance losses and LAE reserves developed favorably by $0.2 million. Personal automobile insurance losses and LAE reserves developed favorably by $5.1 million, homeowners insurance losses and LAE reserves developed favorably by $2.6 million, and other personal lines losses and LAE reserves developed adversely by $0.5 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 2013 and 2012 accident years, partially offset by the emergence of worse than expected loss patterns for the 2014 accident year.

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

Note 3 - Property and Casualty Insurance Reserves (continued)
For the three months ended March 31, 2014, the Company reduced its property and casualty insurance reserves by $15.0 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $14.7 million, and commercial lines insurance losses and LAE reserves developed favorably by $0.3 million. The commercial lines insurance losses and LAE reserves included favorable development of $0.5 million from continuing operations and unfavorable development of $0.2 million from discontinued operations. Personal automobile insurance losses and LAE reserves developed favorably by $11.5 million, homeowners insurance losses and LAE reserves developed favorably by $2.8 million, and other personal lines losses and LAE reserves developed favorably by $0.4 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the three most recent accident years.
The 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 - Debt
The amortized cost of debt outstanding at March 31, 2015 and December 31, 2014 was:

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Senior Notes:		
6.00% Senior Notes due November 30, 2015	$—	$249.5
6.00% Senior Notes due May 15, 2017	358.6	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	$750.0	$752.1

Kemper has a four-year, $225.0 million, unsecured, revolving credit agreement, expiring March 7, 2016, with a group of financial institutions. The credit agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 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, Trinity Universal Insurance Company (“Trinity”) and United Insurance Company of America (“United Insurance”). Proceeds from advances under the credit agreement may be used for general corporate purposes, including repayment of existing indebtedness. There were no outstanding borrowings under the credit agreement at either March 31, 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 three months of 2015, Trinity borrowed and repaid $20.5 million under its agreement with the FHLB of Dallas. There were no advances from the FHLB of Dallas or Chicago outstanding at either March 31, 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 for the

three months ended March 31, 2015 from the early redemption of these senior notes.

15

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

Note 4 - Debt (Continued)
Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, for the three months ended March 31, 2015 and 2014 was:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2015	Mar 31, 2014
Notes Payable under Revolving Credit Agreement	$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	3.9
6.00% Senior Notes due May 15, 2017	5.6	5.5
4.35% Senior Notes due February 15, 2025	1.1	—
7.375% Subordinated Debentures due February 27, 2054	2.8	1.0
Interest Expense before Capitalization of Interest	13.4	10.6
Capitalization of Interest	(0.2)	(0.3)
Total Interest Expense	$13.2	$10.3

Interest paid, including facility fees, for the three months ended March 31, 2015 and 2014 was:

	Three Months Ended	
(Dollars in Millions)	Mar 31, 2015	Mar 31, 2014
Notes Payable under Revolving Credit Agreement	$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	4.8	—
6.00% Senior Notes due May 15, 2017	—	—
4.35% Senior Notes due February 15, 2025	—	—
7.375% Subordinated Debentures due February 27, 2054	2.8	—
Total Interest Paid	$7.8	$0.2

Note 5 - Long-term Equity-based Compensation Plans
As of March 31, 2015, there were 7,834,964 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 $2.2 million and $2.6 million for the three months ended March 31, 2015 and 2014, respectively. Total unamortized compensation expense related to nonvested awards at March 31, 2015 was $8.2 million, which is expected to be recognized over a weighted-average period of 2.1 years.
Outstanding equity-based compensation awards at March 31, 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.

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

Note 5 - 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 three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended									
	Mar 31, 2015					Mar 31, 2014				
Range of Valuation Assumptions										
Expected Volatility	22.49	%	-	41.65	%	25.76	%	-	44.43	%
Risk-free Interest Rate	1.08		-	1.63		1.07		-	2.14	
Expected Dividend Yield	2.62		-	2.62		2.60		-	2.60	
Weighted-Average Expected Life in Years										
Employee Grants	4		-	7		4		-	7	
Director Grants	5.5					NA				

Tandem Award activity for the three months ended March 31, 2015 is presented below.

	Shares Subject to Awards		Weighted-average Exercise Price Per Share ($)	Weighted-average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	2,265,711		$39.74		
Granted	265,750		36.17		
Exercised	(239,250	)	28.16		
Forfeited or Expired	(427,024	)	46.23		
Outstanding at March 31, 2015	1,865,187		$39.23	5.08	$5.5
Vested and Expected to Vest at March 31, 2015	1,821,284		$39.34	5.00	$5.3
Exercisable at March 31, 2015	1,295,183		$40.96	3.38	$3.4

The weighted-average grant-date fair values of Tandem Awards granted during the three months ended March 31, 2015 and 2014 were $8.06 per option and $10.18 per option, respectively. Total intrinsic value of Tandem Awards exercised was $2.3 million and $0.3 million for the three months ended March 31, 2015 and 2014, respectively. The total tax benefit realized for tax deductions from exercises of Tandem Awards was $0.8 million and $0.1 million for the three months ended March 31, 2015 and 2014, respectively. Total cash received from exercises of Tandem Awards was $1.6 million for the three months ended March 31, 2015 and insignificant for the same period in 2014.

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

Note 5 - Long-term Equity-based Compensation Plans (continued)
Information pertaining to Tandem Awards outstanding at March 31, 2015 is presented below.

Range of Exercise Prices Per Share ($)			Outstanding: Shares Subject to Awards	Outstanding: Weighted-average Exercise Price Per Share ($)	Outstanding: Weighted-average Remaining Contractual Life (in Years)	Exercisable: Shares Subject to Tandem Awards	Exercisable: Weighted-average Exercise Price Per Share ($)
$ 15.01	-	$ 20.00	8,000	$ 16.48	4.10	8,000	$ 16.48
20.01	-	25.00	21,500	23.26	4.81	21,500	23.26
25.01	-	30.00	187,125	29.12	6.43	141,123	28.97
30.01	-	35.00	210,000	33.13	7.83	118,000	32.89
35.01	-	40.00	821,125	36.67	7.02	389,123	37.10
40.01	-	45.00	—	—	—	—	—
45.01	-	50.00	616,045	48.61	1.21	616,045	48.61
50.01	-	55.00	1,392	50.04	0.10	1,392	50.04
15.01	-	55.00	1,865,187	39.23	5.09	1,295,183	40.96

The grant-date fair values of time-based restricted stock and time-based RSU awards are determined using the closing price of Kemper common stock on the date of grant. Activity related to nonvested time-based restricted stock and nonvested time-based RSUs for the three months ended March 31, 2015 was as follows:

	Time-based Restricted Stock Awards		Time-based RSU Awards	
	Number of Shares	Weighted-average Grant-date Fair Value Per Share	Number of RSUs	Weighted-average Grant-date Fair Value Per RSU
Nonvested Balance at Beginning of the Year	53,095	$ 32.42	30,024	$ 36.60
Granted	—	—	47,375	36.17
Vested	—	—	—	—
Forfeited	(3,651)	29.18	(800)	36.40
Nonvested Balance at End of Period	49,444	32.66	76,599	36.34

The grant-date fair values of the performance-based restricted stock and performance-based RSU awards are determined using the Monte Carlo simulation method. Activity related to nonvested performance-based restricted stock and nonvested performance-based RSUs for the three months ended March 31, 2015 was as follows:

	Performance-based Restricted Stock Awards		Performance-based RSU Awards	
	Number of Shares	Weighted-average Grant-date Fair Value Per Share	Number of RSUs	Weighted-average Grant-date Fair Value Per RSU
Nonvested Balance at Beginning of the Year	110,625	$ 39.28	61,875	$ 40.50
Granted	—	—	68,825	43.05

Vested	—	—	—	—
Forfeited	(59,225)	36.81	(1,800)	41.49
Nonvested Balance at End of Period	51,400	42.12	128,900	41.85

18

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

Note 5 - Long-term Equity-based Compensation Plans (continued)
The initial number of shares or RSUs awarded to each participant of a performance-based award represents the shares that would vest, or, in the case of a RSU, that would vest and would be issued, if the performance level attained were to be at the “target” performance level. For performance above the target level, each participant would receive a grant of additional shares of stock up to a maximum of 100% of the initial number of shares or RSUs awarded to the participant. The final payout of these awards, and any forfeitures of shares for performance below the “target” performance level, 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 awards for the 2015, 2014 and 2013 three-year performance periods was 68,125 common shares, 60,775 common shares and 51,400 common shares, respectively, at March 31, 2015. For the 2012 three-year performance period, the Company was below the minimum performance level, and all of the related 57,775 shares of performance-based restricted stock were forfeited on January 31, 2015, the three-year anniversary of their grant date.
The total fair value of the shares of restricted stock that vested during the three months ended March 31, 2014 and the additional shares that were issued in connection with the 2011 performance-based restricted stock awards was $2.4 million. The tax benefit for tax deductions realized from such shares was $0.8 million.
The grant-date fair values of DSU awards granted to Non-employee Directors are determined using the closing price of Kemper common stock on the date of grant. DSU awards granted to Non-employee Directors are fully vested on the date of grant. Activity related to DSU awards for the three months ended March 31, 2015 was as follows:

	Number of DSUs	Weighted-Average Grant-Date Fair Value Per DSU
Vested Balance at Beginning of the Year	8,000	$34.52
Granted and Vested	—	—
Vested Balance at End of Period	8,000	34.52

19

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

Note 6 - Income from Continuing Operations Per Unrestricted Share

The Company's awards of restricted stock contain rights to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. The Company's awards of RSUs and DSUs also contain rights to receive non-forfeitable dividend equivalents and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the three months ended March 31, 2015 and 2014 is as follows:

	Three Months Ended	
	Mar 31, 2015	Mar 31, 2014
(Dollars in Millions)		
Income from Continuing Operations	$13.5	$35.2
Less Income (Loss) from Continuing Operations Attributed to Participating Awards	(0.1)	0.2
Income from Continuing Operations Attributed to Unrestricted Shares	13.6	35.0
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$13.6	$35.0
(Number of Shares in Thousands)		
Weighted-average Unrestricted Shares Outstanding	51,872.8	55,312.9
Equity-based Compensation Equivalent Shares	96.5	130.2
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	51,969.3	55,443.1
(Per Unrestricted Share in Whole Dollars)		
Basic Income from Continuing Operations Per Unrestricted Share	$0.26	$0.63
Diluted Income from Continuing Operations Per Unrestricted Share	$0.26	$0.63

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 three months ended March 31, 2015 and 2014 because the exercise prices for the options exceeded the average market price is presented below.

	Three Months Ended	
(Number of Shares in Thousands)	Mar 31, 2015	Mar 31, 2014
Equity-based Compensation Equivalent Shares	1,244.1	1,250.1
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	1,244.1	1,250.1

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

Note 7 - Other Comprehensive Income and Accumulated Other Comprehensive Income
The components of Other Comprehensive Income Before Income Taxes for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Other Comprehensive Income (Loss) Before Income Taxes:		
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$49.7	$124.4
Reclassification Adjustment for Amounts Included in Net Income	3.6	(4.4)
Unrealized Holding Gains (Losses)	53.3	120.0
Foreign Currency Translation Adjustments	(0.9)	—
Amortization of Net Unrecognized Postretirement Benefit Costs	5.4	2.0
Other Comprehensive Income Before Income Taxes	$57.8	$122.0

The components of Other Comprehensive Income Tax Expense for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Other Comprehensive Income Tax Benefit (Expense):		
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	$(17.5)	$(43.9)
Reclassification Adjustment for Amounts Included in Net Income	(1.3)	1.5
Unrealized Holding Gains and Losses	(18.8)	(42.4)
Foreign Currency Translation Adjustment	0.3	—
Amortization of Net Unrecognized Postretirement Benefit Costs	(1.7)	(0.7)
Other Comprehensive Income Tax Expense	$(20.2)	$(43.1)

The components of Accumulated Other Comprehensive Income (“AOCI”) at March 31, 2015 and December 31, 2014 were:

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Net Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$2.1	$2.8
Other Net Unrealized Gains on Investments	360.0	324.8
Foreign Currency Translation Adjustments, Net of Income Taxes	(0.4)	0.2
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(101.4)	(105.1)
Accumulated Other Comprehensive Income	$260.3	$222.7

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

Note 7 - Other Comprehensive Income and Accumulated Other Comprehensive Income (continued)
Components of AOCI were reclassified to the following lines of the Condensed Consolidated Statements of Income for the three months ended March 31, 2015 and 2014:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Reclassification of AOCI from Net Unrealized Gains on Investments to:		
Net Realized Gains on Sales of Investments	$3.4	$5.2
Net Impairment Losses Recognized in Earnings	(7.0)	(0.8)
Total Before Income Taxes	(3.6)	4.4
Income Tax Benefit (Expense)	1.3	(1.5)
Reclassification from AOCI, Net of Income Taxes	(2.3)	2.9
Reclassification of AOCI from Amortization of Net Unrecognized Postretirement Benefit Costs to:		
Interest and Other Expenses	(5.4)	(2.0)
Income Tax Benefit	1.7	0.7
Reclassification from AOCI, Net of Income Taxes	(3.7)	(1.3)
Total Reclassification from AOCI to Net Income	$(6.0)	$1.6

Note 8 - Income Taxes
The components of Liabilities for Income Taxes at March 31, 2015 and December 31, 2014 were:

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Current Income Tax Liabilities	$—	$7.8
Deferred Income Tax Liabilities	51.1	21.5
Unrecognized Tax Benefits	7.1	7.2
Liabilities for Income Taxes	$58.2	$36.5

Income taxes paid were $14.6 million and $6.4 million for the three months ended March 31, 2015 and 2014, respectively.
During the first quarter of 2015, the Company extended the federal statute of limitations for the 2007 through 2011 tax years until December 31, 2015. The extension was requested by the Internal Revenue Service (“IRS”) to provide the Joint Committee on Taxation (“JCT”) additional time to complete a review required by statute. In April 2015, the Company received a letter dated April 3, 2015, indicating that the JCT had completed its review and had taken no exception to the IRS’s conclusion to accept the tax returns as filed, effectively settling the extended years. Accordingly, the Company will reduce its Liability for Unrecognized Tax Benefits by $3.5 million and recognize an income tax benefit of $2.3 million in the second quarter of 2015.

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

Note 9 - Pension Benefits and Postretirement Benefits Other Than Pensions
The components of Pension Expense for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Service Cost Earned	$2.6	$2.2
Interest Cost on Projected Benefit Obligation	6.4	6.2
Expected Return on Plan Assets	(8.8)	(8.7)
Amortization of Accumulated Net Unrecognized Pension Costs	5.8	2.3
Total Pension Expense Recognized	$6.0	$2.0

The components of Postretirement Benefits Other than Pensions Expense for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Service Cost on Benefits Earned	$—	$0.1
Interest Cost on Projected Benefit Obligation	0.3	0.3
Amortization of Accumulated Net Unrecognized Gain	(0.4)	(0.3)
Total Postretirement Benefits Other than Pensions Expense (Benefit)	$(0.1)	$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 two operating segments: Property & Casualty Insurance and Life & Health Insurance.
The Property & Casualty Insurance segment’s principal products are personal automobile insurance, both standard and nonstandard risk, homeowners insurance, other personal insurance and commercial automobile insurance. These products are primarily distributed through independent agents and brokers, employer-sponsored voluntary benefit programs and other affinity relationships. The Life & Health Insurance segment’s principal products are individual life, accident, health and property insurance. These products are distributed by career agents employed by the Company as well as exclusive and non-exclusive independent agents and brokers.
Earned Premiums by product line for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Personal Automobile	$189.8	$216.3
Homeowners	72.6	79.7
Other Personal Property and Casualty Insurance	30.6	32.1
Commercial Automobile	13.5	13.1
Life	88.0	97.6
Accident and Health	36.8	38.8
Total Earned Premiums	$431.3	$477.6

23

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

Note 10 - Business Segments (continued)
Segment Revenues, including a reconciliation to Total Revenues, for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Revenues:		
Property & Casualty Insurance:		
Earned Premiums	$287.6	$322.3
Net Investment Income	14.8	17.6
Other Income	0.3	0.1
Total Property & Casualty Insurance	302.7	340.0
Life & Health Insurance:		
Earned Premiums	143.7	155.3
Net Investment Income	50.4	50.2
Other Income	0.8	—
Total Life & Health Insurance	194.9	205.5
Total Segment Revenues	497.6	545.5
Net Realized Gains on Sales of Investments	3.4	6.6
Net Impairment Losses Recognized in Earnings	(7.0)	(0.8)
Other	5.2	3.3
Total Revenues	$499.2	$554.6

Segment Operating Profit, including a reconciliation to Income from Continuing Operations before Income Taxes, for the three months ended March 31, 2015 and 2014 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Segment Operating Profit:		
Property & Casualty Insurance	$18.0	$19.3
Life & Health Insurance	24.8	34.6
Total Segment Operating Profit	42.8	53.9
Corporate and Other Operating Loss	(12.3)	(7.8)
Total Operating Profit	30.5	46.1
Net Realized Gains on Sales of Investments	3.4	6.6
Net Impairment Losses Recognized in Earnings	(7.0)	(0.8)
Loss from Early Extinguishment of Debt	(9.1)	—
Income from Continuing Operations before Income Taxes	$17.8	$51.9

24

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

Note 10 - Business Segments (continued)
Segment Net Operating Income, including a reconciliation to Income from Continuing Operations, for the three months ended March 31, 2015 and 2014 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Segment Net Operating Income :		
Property & Casualty Insurance	$13.4	$14.4
Life & Health Insurance	16.1	22.1
Total Segment Net Operating Income	29.5	36.5
Corporate and Other Net Operating Loss	(7.7)	(5.0)
Consolidated Net Operating Income	21.8	31.5
Net Income (Loss) From:		
Net Realized Gains on Sales of Investments	2.2	4.2
Net Impairment Losses Recognized in Earnings	(4.6)	(0.5)
Loss from Early Extinguishment of Debt	(5.9)	—
Income from Continuing Operations	$13.5	$35.2

25

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

Note 11 - 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 has elected the fair value option method of accounting for investments in certain hedge funds and, accordingly, reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has no material liabilities that are measured and reported at fair value.
The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at March 31, 2015 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	$130.7	$209.6	$—	$340.3
States and Political Subdivisions	—	1,490.2	—	1,490.2
Corporate Securities:				
Bonds and Notes	—	2,516.1	374.8	2,890.9
Redeemable Preferred Stocks	—	—	6.4	6.4
Collateralized Loan Obligations	—	—	69.9	69.9
Other Mortgage- and Asset-backed	—	1.5	3.9	5.4
Total Investments in Fixed Maturities	130.7	4,217.4	455.0	4,803.1
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	85.8	4.7	90.5
Other Industries	—	7.1	12.1	19.2
Common Stocks:				
Manufacturing	49.5	5.9	0.8	56.2
Other Industries	51.5	0.8	15.6	67.9
Other Equity Interests:				
Exchange Traded Funds	205.1	—	—	205.1
Limited Liability Companies and Limited Partnerships	—	—	189.7	189.7
Total Investments in Equity Securities	306.1	99.6	222.9	628.6
Fair Value Option Investments:				
Limited Liability Companies and Limited Partnerships	—	—	54.2	54.2
Other Investments:				
Trading Securities	4.9	—	—	4.9
Total	$441.7	$4,317.0	$732.1	$5,490.8

At March 31, 2015, the Company had unfunded commitments to invest an additional $113.2 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests when funded.

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

Note 11 - Fair Value Measurements (continued)
The valuation of assets measured at fair value in the Company’s Condensed Consolidated Balance Sheet at December 31, 2014 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	$129.2	$216.3	$—	$345.5
States and Political Subdivisions	—	1,477.1	—	1,477.1
Corporate Securities:				
Bonds and Notes	—	2,517.9	360.6	2,878.5
Redeemable Preferred Stocks	—	—	6.7	6.7
Collateralized Loan Obligations	—	—	64.4	64.4
Other Mortgage- and Asset-backed	—	1.5	3.9	5.4
Total Investments in Fixed Maturities	129.2	4,212.8	435.6	4,777.6
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate	—	84.7	5.0	89.7
Other Industries	—	3.4	16.4	19.8
Common Stocks:				
Manufacturing	50.9	5.7	0.6	57.2
Other Industries	59.0	0.8	16.8	76.6
Other Equity Interests:				
Exchange Traded Funds	202.7	—	—	202.7
Limited Liability Companies and Limited Partnerships	—	—	186.2	186.2
Total Investments in Equity Securities	312.6	94.6	225.0	632.2
Fair Value Option Investments:				
Limited Liability Companies and Limited Partnerships	—	—	53.3	53.3
Other Investments:				
Trading Securities	4.9	—	—	4.9
Total	$446.7	$4,307.4	$713.9	$5,468.0

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, obligations of 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

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

Note 11 - Fair Value Measurements (continued)
information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions, 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.

The Company's Investments in Fixed Maturities that are classified as Level 3 in the two preceding tables primarily consist of privately placed securities not rated by a Nationally Recognized Statistical Rating Organization and are priced primarily using a market yield approach. A market yield approach uses a risk-free rate plus a credit spread depending on the underlying credit profile of the security. For floating rate securities, the risk-free rate used in the market yield is the contractual floating rate of the security. For each individual security, the Company or the Company's third party appraiser gathers information from market sources, relevant credit information, perceived market movements and sector news and determines an appropriate market yield for each security. The market yield selected is then used to discount the estimated future cash flows of the security to determine the fair value. The Company separately evaluates market yields based upon asset class to assess the reasonableness of the recorded fair value. For non-investment-grade 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 fixed maturity investments in corporate securities classified as Level 3 at March 31, 2015.

(Dollars in Millions)	Unobservable Input	Total Fair Value	Range of Unobservable Inputs	Weighted-average Yield
Investment-grade	Market Yield	$ 109.0	2.6 % - 6.9 %	3.6 %
Non-investment-grade:				
Senior Debt	Market Yield	93.3	3.6 - 14.5	9.9
Junior Debt	Market Yield	159.4	8.2 - 21.5	13.4
Collateralized Loan Obligations	Market Yield	69.9	2.5 - 7.7	4.9
Other	Various	23.4		
Total Fixed Maturity Investments in Corporate Securities		$ 455.0		

28

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

Note 11 - Fair Value Measurements (continued)
The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for fixed maturity investments in corporate securities classified as Level 3 at December 31, 2014.

(Dollars in Millions)	Unobservable Input	Total Fair Value	Range of Unobservable Inputs	Weighted-average Yield
Investment-grade	Market Yield	$ 107.0	2.8 % - 6.9 %	3.9 %
Non-investment-grade:				
Senior Debt	Market Yield	92.7	3.8 - 14.5	10.6
Junior Debt	Market Yield	149.9	8.2 - 21.0	13.4
Collateralized Loan Obligations	Market Yield	64.4	2.7 - 8.1	5.2
Other Debt	Various	21.6		
Total Fixed Maturity Investments in Corporate Securities		$ 435.6		

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, unless callable at a premium, if the security is currently callable.
The Company’s other investments that are classified as Level 3 primarily consist of Limited Liability Companies and Limited Partnerships, but also certain Preferred Stocks and Common Stocks. The Company either uses valuations provided by third party fund managers or third party appraisers, or that are generated internally. These valuations typically employ various valuation techniques commonly used in the industry, including earnings multiples based on comparable public securities, industry-specific non-earnings based multiples, market yields based on comparable public securities and discounted cash flow models.
Information by security type pertaining to the changes in the fair value of the Company’s investments classified as Level 3 for the three months ended March 31, 2015 is presented below.

	Fixed Maturities				Equity Securities			
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage- and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Fair Value Option	Total
Balance at Beginning of Period	$ 360.6	$ 6.7	$ 64.4	$ 3.9	$ 38.8	$ 186.2	$ 53.3	$ 713.9
Total Gains (Losses):								
Included in Condensed Consolidated Statement of Income	(2.3)	—	0.1	—	(0.8)	(1.0)	0.9	(3.1)
Included in Other Comprehensive Income	2.4	(0.3)	1.3	—	(0.7)	(1.2)	—	1.5
Purchases	36.2	—	4.1	—	0.4	11.2	—	51.9
Settlements	(4.2)	—	—	—	—	(9.6)	—	(13.8)
Sales	(17.9)	—	—	—	(0.7)	—	—	(18.6)
	—	—	—	—	—	4.1	—	4.1

Transfers into Level 3								
Transfers out of Level 3	—	—	—	—	(3.8)	—	—	(3.8)
Balance at End of Period	$374.8	$ 6.4	$ 69.9	$3.9	$33.2	$189.7	$54.2	$732.1

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 three months ended March 31, 2015. The transfers out of Level 3 for the three months ended March 31, 2015 were due to changes in the availability of market observable inputs. The $4.1 million transfers into Level 3 for the three months ended March 31, 2015 relates to an investment that changed from an Equity Method Limited Liability investment to Other Equity Interest at Fair Value.

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

Note 11 - Fair Value Measurements (continued)
Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the three months ended March 31, 2014 is presented below.

	Fixed Maturities				Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage- and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$364.1	$7.4	$ 44.7	$4.5	$32.1	$173.9	$626.7
Total Gains (Losses):							
Included in Condensed Consolidated Statement of Income	0.1	—	—	0.1	—	0.2	0.4
Included in Other Comprehensive Income	2.5	0.2	0.3	—	3.4	6.9	13.3
Purchases	48.3	—	—	—	2.6	12.3	63.2
Settlements	(24.8)	(0.1)	—	(0.8)	—	(5.3)	(31.0)
Sales	(10.2)	—	—	—	—	(0.7)	(10.9)
Transfers out of Level 3	(0.6)	—	—	—	—	—	(0.6)
Balance at End of Period	$379.4	$7.5	$ 45.0	$3.8	$38.1	$187.3	$661.1

There were no transfers between Levels 1 and 2 or Levels 1 and 3 for the three months ended March 31, 2014.
Transfers out of Level 3 for the three months ended March 31, 2014 were due to changes in the availability of market observable inputs.
The fair value of Debt is estimated using quoted prices for similar liabilities in markets that are not active. The inputs used in the valuation are considered Level 2 measurements. The fair value of Short-term Investments is estimated using inputs that are considered either Level 1 or Level 2 measurements.

Note 12 - Contingencies
In the ordinary course of its businesses, the Company is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries. Except with regard to the matters discussed below, based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company's condensed consolidated financial statements.
Over the last several years, certain state insurance regulators, legislators, treasurers/controllers, and their respective agents have pursued an array of initiatives that seek, in various ways, to impose new duties on life insurance companies to proactively search for deaths of their insureds and contact the insureds' beneficiaries even though such beneficiaries may not have submitted claims, including due proof of death, as required under the terms of state-approved life insurance policy forms. These initiatives together comprise a set of circumstances involving potential changes in the law or changes in the interpretation of existing laws that could have the effect of altering the terms of Kemper's life insurance subsidiaries' (the "Life Companies") existing life insurance contracts by imposing new requirements that did not exist and were not contemplated at the time the Life Companies entered into such contracts.
Legislation. One type of initiative involves legislation (the "DMF Statutes"). DMF Statutes have been enacted in Idaho, Iowa, Kentucky, Maryland, Montana, Nevada, New York, North Dakota, Rhode Island and Vermont, with varying effective dates, that requires life insurance companies to compare on a regular basis their records for all in-force policies (including those policies issued prior to the effective dates of the DMF Statute) against the database of

reported deaths maintained by the Social Security Administration or a comparable database (a “Death Master File”). In contrast, New Mexico, Tennessee and Utah have enacted DMF Statutes that also require such comparisons, but exempt life insurance companies, like the Life Companies, that have not previously utilized a Death Master File, and instead only require that such companies conduct Death Master File comparisons for life insurance policies issued and delivered in each of those states after the DMF Statute’s effective date. Likewise, Alabama, Arkansas, Georgia, Indiana and Mississippi have enacted DMF Statutes that require such comparisons, but only with respect to policies issued on or after their respective effective dates, without regard to prior Death Master File use. With respect

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

Note 12 - Contingencies (continued)
to those DMF Statutes that apply retroactively and which would likely have an adverse effect on the Company's operations and financial position, the Life Companies have filed declaratory judgment actions in state courts challenging the application of such statutes to policies issued prior to the subject DMF Statute's effective date:

- In November 2012, certain of the Life Companies filed a declaratory judgment action in Kentucky state court, asking the court to construe the Kentucky DMF Statute to apply only prospectively, i.e., only to life insurance policies issued in Kentucky on or after the effective date of the Kentucky DMF Statute, consistent with what the Life Companies believe are the requirements of applicable Kentucky statutory law, the Kentucky Constitution and the Contract Clause of the United States Constitution. In April 2013, the trial court held that the Kentucky DMF Statute does apply to life insurance policies issued before the statute's January 1, 2013 effective date. The subject Life Companies appealed this decision and in August 2014, in a unanimous opinion, the Kentucky Court of Appeals reversed the trial court and held that the Kentucky DMF statute fell within Kentucky's statutory presumption against retroactive laws. Therefore, the Court ruled, the Kentucky DMF Statute can only apply to policies issued on or after January 1, 2013. In September 2014, the Kentucky Department of Insurance asked the Kentucky Supreme Court to undertake a discretionary review of the Court of Appeal's ruling. A decision by the Kentucky Supreme Court on whether to review the Court of Appeals' decision is expected by the third quarter of 2015.
- In July 2013, certain of the Life Companies filed a declaratory judgment action in state court in Maryland, asking the court to construe the Maryland DMF Statute to apply only prospectively, consistent with what the Life Companies believe are the requirements of Maryland's common law presumption against retroactive application of new laws, the Maryland Constitution and the Contract Clause of the United States Constitution. The Maryland Insurance Administration filed a motion to dismiss, contending that the subject Life Companies were required to exhaust their administrative remedies before filing their action in the trial court. In March 2014, the trial court granted the Maryland Insurance Administration's motion. The Life Companies appealed the trial court's ruling. The Maryland appellate courts declined to stay enforcement of the Maryland DMF Statute pending the appeal, and the Life Companies are complying with the Maryland DMF Statute while they pursue their appeal. The Life Companies' appeal was heard by the Maryland Court of Special Appeals in December 2014, and the parties expect the court to render a decision by the fourth quarter of 2015.
- In August 2014, certain of the Life Companies filed a declaratory judgment action in Indiana state court, asking the court to construe the Indiana DMF Statute to apply only prospectively, consistent with what the Life Companies believe are the requirements of Indiana's common law presumption against retroactive application of new laws, the Indiana Constitution and the Contract Clause of the United States Constitution. On May 6, 2015, legislation was enacted amending the Indiana DMF Statute so that it applies only prospectively. In light of this development, the subject Life Companies intend to dismiss their declaratory judgment action.

Unclaimed property compliance audits/litigation. A second type of initiative involves an unclaimed property compliance audit of the Life Companies (the "Treasurers' Audit") being conducted by a private audit firm retained by the treasurers/controllers of 38 states (the "Audit Firm") and related litigation. In July 2013, the California State Controller (the "CA Controller") filed a complaint for injunctive relief against the Life Companies in state court in California, seeking an order requiring the Life Companies to produce all of their in-force policy records to the Audit Firm to enable the firm to perform a comparison of such records against a Death Master File and to ascertain whether any of the insureds under such policies may be deceased. In December 2013, the CA Controller filed a motion for preliminary injunction seeking the same injunctive relief. A hearing on that motion has been continued until the California Court of Appeal rules on a preliminary injunction order issued in a similar case involving an unaffiliated life insurance company, entitled Chiang v. American National Insurance Company (the "ANICO Appeal"). In July 2014, the court granted a motion by the CA Controller to stay the litigation against the Life Companies in its entirety, including discovery, pending a decision in the ANICO Appeal. As described below, the Life Companies have filed a counterclaim in this case against the CA Controller. In March, 2015, the California Court of Appeal reversed the order granting the preliminary injunction to the CA Controller in the ANICO case. The CA Controller has indicated that it will not appeal this decision, and, accordingly, the stay of the litigation has been lifted and activity has resumed. Pending the outcome of this litigation, the Life Companies have not produced their in-force policy records to the CA Controller.

Examinations/enforcement actions by regulators. A third type of initiative involves examinations and other actions by state insurance regulators. The Life Companies are the subject of a multi-state market conduct examination by five state insurance

31

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

Note 12 - Contingencies (continued)
regulators that is focused on the Life Companies' claim settlement and policy administration practices, and specifically their compliance with state unclaimed property statutes (the "Multi-State Exam"). The Multi-State Exam originated in June 2012 as a single-state examination by the Illinois Department of Insurance. Insurance regulators from five additional states - California, Florida, New Hampshire North Dakota and Pennsylvania - joined the examination in May 2013. In August 2014, New Hampshire withdrew from participation in the Multi-State Exam. In July 2013, the Life Companies received requests from the Illinois Department of Insurance, as the managing lead state for the Multi-State Exam, for a significant volume of information beyond that which the Life Companies had already produced, including the records of all in-force policies and other information of the type previously requested by the Audit Firm as part of the Treasurers' Audit and which is the subject of the CA Controller's litigation. This request prompted the Illinois litigation noted below. The Multi-State Exam remains ongoing.
Pending related litigation. In September 2013, certain of the Life Companies filed declaratory judgment actions against the insurance regulators in the states of California, Florida, Illinois and Pennsylvania, asking the courts in those states to declare that applicable law does not require life insurers to search a Death Master File to ascertain whether insureds are deceased. The subject Life Companies are also asking the courts to declare that regulators in those states do not have the legal authority to (i) obtain life insurers' policy records for the purpose of comparing those records against a Death Master File, and/or (ii) impose payment obligations on life insurers before a claim and due proof of death have been submitted by policy beneficiaries. The declaratory judgment action in California referenced above was filed as a cross-complaint to the CA Controller's complaint, joining the California Insurance Commissioner and the Audit Firm as parties to the cross-complaint. The CA Controller has filed a motion to dismiss the Life Companies' cross-complaint, contending that the Life Companies' request for a declaratory judgment is premature and not ripe for adjudication. A hearing on that motion is scheduled in May 2015.
In response to the Illinois declaratory judgment action, the Illinois Department of Insurance and its Director (collectively, the "IDOI") filed a motion to dismiss, and in July 2014, the court in Illinois denied, in part, such motion. Specifically, the court denied the IDOI's motion to dismiss the Life Companies' claim seeking a declaration that the IDOI cannot compel the Life Companies to provide their policy records to the IDOI or persons acting on the IDOI's behalf so as to permit a comparison against a Death Master File for purposes of identifying deceased insureds, as well as the Life Companies' associated claim for injunctive relief. The court dismissed with prejudice the other counts in the complaint. In August 2014, the IDOI filed its answer to the remaining counts, and in October 2014, the Life Companies filed a motion for summary judgment with respect to those counts. The IDOI filed a cross motion for summary judgment in December 2014. The parties are engaged in discovery and a briefing schedule and hearing date on the summary judgment motions are expected to be set at a May 2015 status conference. The actions against the insurance regulators in the states of Florida and Pennsylvania remain stayed by agreement of the parties pending the outcome of the Illinois action.
Conclusion. The results of the aforementioned legislative actions, Treasurers' Audit, Multi-State Exam and the related litigation cannot currently be predicted. The Life Companies continue to maintain that states lack the legal authority to establish new requirements that could have the effect of changing the terms of existing life insurance contracts with regard to basic claims handling obligations and processes. If state officials are able to impose such new requirements retroactively upon the Life Companies' existing life insurance policies, it will fundamentally alter the nature and timing of their responsibilities under such policies by effectively eliminating contractual terms that condition claim settlement and payment on the receipt of a claim, including "due proof of death" of an insured. The outcomes of the various state initiatives and related litigation could result in changes in the law that could have the effect of altering the terms of the Life Companies' existing life insurance contracts by imposing new requirements that have a significant effect on, including acceleration of, the Life Companies' payment and/or escheatment of policy benefits, and significantly increase their claims handling costs. Any attempt to predict the ultimate outcomes (including any

estimate of the resulting effect on claim liabilities and reserves for future policy benefits) of these various efforts to change the law would entail predicting on a state-by-state-basis the ultimate outcomes of numerous uncertainties including, but not limited to: how many states might eventually enact laws or interpret existing laws to require the use of a Death Master File or may exact such usage through regulation, examinations or audits; the matching criteria to be used in comparing records of the Life Companies against a Death Master File; the universe of policies affected; whether and to what extent any such laws would be applied retroactively; and the results of unclaimed property audits, examinations and other actions by state insurance regulators and litigation, including challenges to the constitutionality of laws purporting to have retroactive application. Due to the complexity and multi-jurisdictional nature of this issue, as well as the indeterminate number of potential outcomes and their uncertain effects on the Life Companies' business, Kemper cannot reasonably estimate the amount of loss that it would recognize if the Life Companies were subjected to requirements of the types described in this Note on a retroactive basis.

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

Note 13 - Related Parties

Mr. Christopher B. Sarofim, a director of Kemper, is Vice Chairman and a member of the board of directors of Fayez Sarofim & Co. (“FS&C”), a registered investment advisory firm. Kemper’s subsidiary, Trinity, had $85.0 million in assets managed by FS&C at March 31, 2015 under an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of Trinity. Investment expenses incurred in connection with such agreement were $0.1 million for each of the three month periods ended March 31, 2015 and 2014.

FS&C also provides investment management services with respect to certain funds of the Company’s defined benefit pension plan. The Company’s defined benefit pension plan had $158.9 million in assets managed by FS&C at March 31, 2015 under an agreement with FS&C whereby FS&C provides investment management services. Investment expenses incurred in connection with such agreement were $0.1 million for each of the three month periods ended March 31, 2015 and 2014.

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

Note 14 - Subsequent Events - Acquisition of Alliance United Group

On April 30, 2015, Kemper completed its acquisition of Alliance United Group and its wholly-owned subsidiaries, Alliance United Insurance Company and Alliance United Insurance Services (individually and collectively “Alliance United”), in a cash transaction for a total purchase price of $70.3 million, subject to certain post-closing adjustments. The Company has not yet allocated the purchase price to the fair value of the assets acquired and liabilities assumed. After completing the transaction, Kemper contributed $75.0 million to support the book of business acquired. The results of Alliance United will be included in the Condensed Consolidated Financial Statements from the date of acquisition and will be reported in the Company’s Property & Casualty Insurance segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Summary of Results
Net Income
Net Income was $13.5 million ($0.26 per unrestricted common share) for the three months ended March 31, 2015, compared to $35.1 million ($0.63 per unrestricted common share) for the same period in 2014.
Income from Continuing Operations was $13.5 million ($0.26 per unrestricted common share) for the three months ended March 31, 2015, compared to $35.2 million ($0.63 per unrestricted common share) for the same period in 2014.
A reconciliation of Segment Net Operating Income to Consolidated Net Operating Income (a Non-GAAP financial measure) and to Net Income for the three months ended March 31, 2015 and 2014 is presented below.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014	Increase (Decrease)
Segment Net Operating Income (Loss):			
Property & Casualty Insurance	$13.4	$14.4	$(1.0)
Life & Health Insurance	16.1	22.1	(6.0)
Total Segment Net Operating Income	29.5	36.5	(7.0)
Corporate and Other Net Operating Loss	(7.7)	(5.0)	(2.7)
Consolidated Net Operating Income	21.8	31.5	(9.7)
Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	2.2	4.2	(2.0)
Net Impairment Losses Recognized in Earnings	(4.6)	(0.5)	(4.1)
Loss from Early Extinguishment of Debt	(5.9)	—	(5.9)
Income from Continuing Operations	13.5	35.2	(21.7)
Loss from Discontinued Operations	—	(0.1)	0.1
Net Income	$13.5	$35.1	$(21.6)

Revenues
Earned Premiums were $431.3 million for the three months ended March 31, 2015, compared to $477.6 million for the same period in 2014, a decrease of $46.3 million. Earned Premiums for the three months ended March 31, 2015 decreased by $34.7 million and $11.6 million in the Property & Casualty Insurance and Life & Health Insurance segments, respectively.
Net Investment Income decreased by $0.5 million for the three months ended March 31, 2015, compared to the same period in 2014. Net investment income from Equity Method Limited Liability Investments decreased by $4.2 million for the three months ended March 31, 2015, compared to the same period in 2014. Net investment income from Fixed Maturities and Fair Value Option Investments increased by $2.5 million and $0.9 million, respectively, for the three months ended March 31, 2015, compared to the same period in 2014.
Net Realized Gains on Sales of Investments were $3.4 million for the three months ended March 31, 2015, compared to $6.6 million for the same period in 2014. Net Impairment Losses Recognized in Earnings were $7.0 million for the three months ended March 31, 2015, compared to $0.8 million for the same period in 2014. The Company cannot predict if or when similar investment gains or losses may occur in the future.
Non-GAAP Financial Measures
Underlying Losses and LAE and Underlying Combined Ratio
The following discussion for the Property & Casualty Insurance segment uses the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as "Current Year Non-catastrophe Losses and LAE") exclude the impact of catastrophe losses, and loss and LAE reserve development from prior years from the Company's Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Insurance Expense Ratio. The most directly comparable GAAP financial measure is the combined

ratio, which uses total incurred losses and LAE, including the impact of catastrophe losses, and loss and LAE reserve development from prior years.

The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and are used by management to reveal the trends in the Company's Property & Casualty Insurance segment that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company's loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on incurred losses and LAE and the combined ratio. Prior-year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier periods, it has no bearing on the performance of the Company's insurance products in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company's underwriting performance.

Consolidated Net Operating Income

Consolidated Net Operating Income is an after-tax, non-GAAP financial measure and is computed by excluding from Income from Continuing Operations the after-tax impact of:

(i) Net Realized Gains on Sales of Investments;
(ii) Net Impairment Losses Recognized in Earnings related to investments;
(iii) Loss from Early Extinguishment of Debt; and
(iv) Significant non-recurring or infrequent items that may not be indicative of ongoing operations.

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations. There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income for the three months ended March 31, 2015 or 2014.

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

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

Property & Casualty Insurance

Selected financial information for the Property & Casualty Insurance segment follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Net Premiums Written	$279.7	$304.3
Earned Premiums	$287.6	$322.3
Net Investment Income	14.8	17.6
Other Income	0.3	0.1
Total Revenues	302.7	340.0
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	198.5	230.4
Catastrophe Losses and LAE	10.3	16.0
Prior Years:		
Non-catastrophe Losses and LAE	(5.0)	(12.7)
Catastrophe Losses and LAE	(2.2)	(2.7)
Total Incurred Losses and LAE	201.6	231.0
Insurance Expenses	83.1	89.7
Operating Profit	18.0	19.3
Income Tax Expense	(4.6)	(4.9)
Segment Net Operating Income	$13.4	$14.4
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	69.0 %	71.4 %
Current Year Catastrophe Losses and LAE Ratio	3.6	5.0
Prior Years Non-catastrophe Losses and LAE Ratio	(1.7)	(3.9)
Prior Years Catastrophe Losses and LAE Ratio	(0.8)	(0.8)
Total Incurred Loss and LAE Ratio	70.1	71.7
Insurance Expense Ratio	28.9	27.8
Combined Ratio	99.0 %	99.5 %
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	69.0 %	71.4 %
Insurance Expense Ratio	28.9	27.8
Underlying Combined Ratio	97.9 %	99.2 %
Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	97.9 %	99.2 %
Current Year Catastrophe Losses and LAE Ratio	3.6	5.0
Prior Years Non-catastrophe Losses and LAE Ratio	(1.7)	(3.9)
Prior Years Catastrophe Losses and LAE Ratio	(0.8)	(0.8)
Combined Ratio as Reported	99.0 %	99.5 %

Property & Casualty Insurance (continued)
Catastrophe Frequency and Severity

(Dollars in Millions)	Three Months Ended Mar 31, 2015 Number of Events	Mar 31, 2015 Losses and LAE	Mar 31, 2014 Number of Events	Mar 31, 2014 Losses and LAE
Range of Losses and LAE Per Event:				
Below $5	9	$10.3	6	$9.1
$5 - $10	—	—	1	6.9
Total	9	$10.3	7	$16.0

Insurance Reserves

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Insurance Reserves:		
Automobile	$483.4	$501.4
Homeowners	108.1	102.4
Other	48.5	47.3
Insurance Reserves	$640.0	$651.1
Insurance Reserves:		
Loss Reserves:		
Case	$426.8	$423.6
Incurred But Not Reported	124.1	135.8
Total Loss Reserves	550.9	559.4
LAE Reserves	89.1	91.7
Insurance Reserves	$640.0	$651.1

See MD&A, “Critical Accounting Estimates,” of the 2014 Annual Report for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE from prior accident years, also referred to as “reserve development” in the discussion of segment results, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

Overall

Three Months Ended March 31, 2015 Compared to the Same Period in 2014

Earned Premiums in the Property & Casualty Insurance segment decreased by $34.7 million, as lower volume accounted for a decrease of $43.7 million, while higher average earned premium accounted for an increase of $9.0 million. The lower volume was driven primarily by personal automobile insurance and homeowners insurance, which had volume decreases of $33.8 million and $8.2 million, respectively. The increase in average earned premium was driven primarily by personal automobile insurance and homeowners insurance, which had increases of $7.3 million and $1.1 million, respectively. The Company’s rate and resegmentation efforts in the past few years have increased average premium per exposure but have also led to a decrease in premium volume, as new business and retention levels trended lower along with exposures per policy. However, as profitability in the book of business has improved, the Company has undertaken various actions to improve its retention and new business production, including moderating rate increases in its more recent rate filings. While new business growth and policy retention increased in the three months ended March 31, 2015, moderating the declining premium trend, further improvement is necessary to stabilize and then grow premium.

Property & Casualty Insurance (continued)

Net Investment Income in the Property & Casualty Insurance segment decreased by $2.8 million for the three months ended March 31, 2015, compared to the same period in 2014, due primarily to lower investment income from Equity Method Limited Liability Investments, lower dividends on equity securities and lower levels of allocated investments resulting from a decline in the level of capital needed to support the business, partially offset by higher yields on fixed income securities. The Property & Casualty Insurance segment reported net investment income from Equity Method Limited Liability Investments of $0.2 million in 2015, compared to $2.5 million in 2014.

The Property & Casualty Insurance segment reported Segment Net Operating Income of $13.4 million for the three months ended March 31, 2015, compared to $14.4 million for the same period in 2014. Segment net operating results decreased by $1.0 million due primarily to a lower level of favorable loss and LAE reserve development, higher insurance expenses as a percentage of earned premiums and lower net investment income, partially offset by lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 69.0% in 2015, a decrease of 2.4 percentage points compared to 2014, as personal automobile insurance, homeowners insurance and commercial automobile insurance improved, while other personal insurance deteriorated. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were $10.3 million in 2015, compared to $16.0 million in 2014, a decrease of $5.7 million due primarily to one catastrophe event in 2014 that exceeded $5.0 million of losses and LAE, compared to no such events in 2015. Favorable loss and LAE reserve development (including catastrophe reserve development) was $7.2 million in 2015, compared to $15.4 million in 2014. Insurance expenses decreased by $6.6 million in 2015, compared to 2014, due primarily to reduced commission expenses of $3.0 million and various cost-cutting measures implemented by the Company. However, insurance expenses as a percentage of earned premiums increased from 27.8% in 2014 to 28.9% in 2015 due primarily to the reduction in earned premiums outpacing the reduction in fixed costs. The Property & Casualty Insurance segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $5.1 million in 2015, compared to $5.5 million in 2014.

Personal Automobile Insurance

Selected financial information for the personal automobile insurance product line follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Net Premiums Written	$192.1	$207.7
Earned Premiums	$189.8	$216.3
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	$141.1	$163.1
Catastrophe Losses and LAE	0.4	0.9
Prior Years:		
Non-catastrophe Losses and LAE	(5.0)	(11.3)
Catastrophe Losses and LAE	(0.1)	(0.2)
Total Incurred Losses and LAE	$136.4	$152.5
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	74.4%	75.4%
Current Year Catastrophe Losses and LAE Ratio	0.2	0.4
Prior Years Non-catastrophe Losses and LAE Ratio	(2.6)	(5.2)
Prior Years Catastrophe Losses and LAE Ratio	(0.1)	(0.1)

Total Incurred Loss and LAE Ratio	71.9	%	70.5	%

38

Property & Casualty Insurance (continued)
Three Months Ended March 31, 2015 Compared to the Same Period in 2014
Earned premiums on personal automobile insurance decreased by $26.5 million as lower volume accounted for a decrease of $33.8 million, while higher average earned premium accounted for an increase of $7.3 million. The run-off of the direct-to-consumer business accounted for approximately 20% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were $136.4 million, or 71.9% of earned premiums, in 2015, compared to $152.5 million, or 70.5% of earned premiums, in 2014. Incurred losses and LAE as a percentage of earned premiums increased due to a lower level of favorable loss and LAE reserve development, partially offset by lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 74.4% in 2015, compared to 75.4% in 2014, which is an improvement of 1.0 percentage points due primarily to the impact of rate actions taken by the Company on average premium, lower severity of bodily injury losses, and lower frequency of claims in the preferred/standard book of business on most coverages (excluding bodily injury), partially offset by higher frequency of claims on all coverages in the nonstandard book of business. Catastrophe losses and LAE (excluding reserve development) were $0.4 million in 2015, compared to $0.9 million in 2014. Favorable loss and LAE reserve development was $5.1 million in 2015, compared to $11.5 million in 2014.

Homeowners Insurance
Selected financial information for the homeowners insurance product line follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015		Mar 31, 2014	
Net Premiums Written	$63.1		$70.9	
Earned Premiums	$72.6		$79.7	
Incurred Losses and LAE related to:				
Current Year:				
Non-catastrophe Losses and LAE	$39.8		$49.1	
Catastrophe Losses and LAE	9.6		14.3	
Prior Years:				
Non-catastrophe Losses and LAE	(0.4	)	(0.7	)
Catastrophe Losses and LAE	(2.2	)	(2.1	)
Total Incurred Losses and LAE	$46.8		$60.6	
Ratios Based On Earned Premiums				
Current Year Non-catastrophe Losses and LAE Ratio	54.9	%	61.6	%
Current Year Catastrophe Losses and LAE Ratio	13.2		17.9	
Prior Years Non-catastrophe Losses and LAE Ratio	(0.6	)	(0.9	)
Prior Years Catastrophe Losses and LAE Ratio	(3.0	)	(2.6	)
Total Incurred Loss and LAE Ratio	64.5	%	76.0	%

Three Months Ended March 31, 2015 Compared to the Same Period in 2014
Earned premiums in homeowners insurance decreased by $7.1 million as lower volume accounted for a decrease of $8.2 million, while higher average earned premium accounted for an increase of $1.1 million. Incurred losses and LAE were $46.8 million, or 64.5% of earned premiums, in 2015, compared to $60.6 million, or 76.0% of earned premiums, in 2014. Incurred losses and LAE as a percentage of earned premiums decreased due to lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 54.9% in 2015, compared to 61.6% in 2014, which is an improvement of 6.7 percentage points due primarily to lower frequency of claims and the favorable impact of rate actions taken by the Company on average premium, partially offset by higher

severity of losses. Catastrophe losses and LAE (excluding reserve development) were $9.6 million in 2015, compared to $14.3 million in 2014. Favorable loss and LAE reserve development was $2.6 million in 2015, compared to $2.8 million in 2014.

Property & Casualty Insurance (continued)
Commercial Automobile Insurance
Selected financial information for the commercial automobile insurance product line follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Net Premiums Written	$14.0	$14.3
Earned Premiums	$13.5	$13.1
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	$10.8	$11.1
Catastrophe Losses and LAE	—	—
Prior Years:		
Non-catastrophe Losses and LAE	(0.2)	(0.5)
Catastrophe Losses and LAE	—	—
Total Incurred Losses and LAE	$10.6	$10.6
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	80.0 %	84.7 %
Current Year Catastrophe Losses and LAE Ratio	—	—
Prior Years Non-catastrophe Losses and LAE Ratio	(1.5)	(3.8)
Prior Years Catastrophe Losses and LAE Ratio	—	—
Total Incurred Loss and LAE Ratio	78.5 %	80.9 %

Three Months Ended March 31, 2015 Compared to the Same Period in 2014
Earned premiums in commercial automobile insurance increased by $0.4 million as higher average earned premium accounted for an increase of $0.3 million and higher volume accounted for an increase of $0.1 million. Incurred losses and LAE were $10.6 million, or 78.5% of earned premiums, in 2015, compared to $10.6 million, or 80.9% of earned premiums, in 2014. Incurred losses and LAE as a percentage of earned premiums decreased due to lower underlying losses and LAE as a percentage of earned premiums, partially offset by a lower level of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 80.0% in 2015, compared to 84.7% in 2014, which is an improvement of 4.7 percentage points due primarily to lower severity of bodily injury losses, partially offset by higher frequency of claims on liability coverages. Favorable loss and LAE reserve development was $0.2 million in 2015, compared to $0.5 million in 2014.

40

Property & Casualty Insurance (continued)

Other Personal Insurance

Other personal insurance products include umbrella, dwelling fire, inland marine, earthquake, boatowners and other liability coverages. Selected financial information for other personal insurance product lines follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Three Months Ended Mar 31, 2014
Net Premiums Written	$10.5	$11.4
Earned Premiums	$11.7	$13.2
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	$6.8	$7.1
Catastrophe Losses and LAE	0.3	0.8
Prior Years:		
Non-catastrophe Losses and LAE	0.6	(0.2)
Catastrophe Losses and LAE	0.1	(0.4)
Total Incurred Losses and LAE	$7.8	$7.3
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	58.1 %	53.7 %
Current Year Catastrophe Losses and LAE Ratio	2.6	6.1
Prior Years Non-catastrophe Losses and LAE Ratio	5.1	(1.5)
Prior Years Catastrophe Losses and LAE Ratio	0.9	(3.0)
Total Incurred Loss and LAE Ratio	66.7 %	55.3 %

Three Months Ended March 31, 2015 Compared to the Same Period in 2014

Earned premiums in other personal insurance decreased by $1.5 million as lower volume accounted for a decrease of $1.8 million, while higher average earned premium accounted for an increase of $0.3 million. Incurred losses and LAE were $7.8 million, or 66.7% of earned premiums, in 2015, compared to $7.3 million, or 55.3% of earned premiums, in 2014. Incurred losses and LAE as a percentage of earned premiums increased due to adverse loss and LAE reserve development in 2015, compared to favorable development in 2014, and higher underlying losses and LAE as a percentage of earned premiums, partially offset by lower catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 58.1% in 2015, compared to 53.7% in 2014, which is an increase of 4.4 percentage points due primarily to higher severity of losses, partially offset by lower frequency of claims. Catastrophe losses and LAE (excluding reserve development) were $0.3 million in 2015, compared to $0.8 million in 2014. Adverse loss and LAE reserve development was $0.7 million in 2015, compared to favorable development of $0.6 million in 2014.

Life & Health Insurance

Selected financial information for the Life & Health Insurance segment follows.

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Earned Premiums:		
Life	$88.0	$97.6
Accident and Health	36.8	38.8
Property	18.9	18.9
Total Earned Premiums	143.7	155.3
Net Investment Income	50.4	50.2
Other Income	0.8	—
Total Revenues	194.9	205.5
Policyholders' Benefits and Incurred Losses and LAE	96.1	97.0
Insurance Expenses	74.0	73.9
Operating Profit	24.8	34.6
Income Tax Expense	(8.7)	(12.5)
Segment Net Operating Income	$16.1	$22.1

Insurance Reserves

(Dollars in Millions)	Mar 31, 2015	Dec 31, 2014
Insurance Reserves:		
Future Policyholder Benefits	$3,238.9	$3,214.7
Incurred Losses and LAE Reserves:		
Life	40.2	38.8
Accident and Health	20.4	20.2
Property	3.7	4.5
Total Incurred Losses and LAE Reserves	64.3	63.5
Insurance Reserves	$3,303.2	$3,278.2

Three Months Ended March 31, 2015 Compared to the Same Period in 2014

Earned Premiums in the Life & Health Insurance segment decreased by $11.6 million for the three months ended March 31, 2015, compared to the same period in 2014. Earned premiums on life insurance decreased by $9.6 million in 2015, compared to 2014, due primarily to an adjustment of $7.6 million to correct deferred premium reserves on certain limited pay life insurance policies. Excluding the adjustment, earned premiums on life insurance decreased by $2.0 million as a decrease of $2.9 million from life insurance products offered by the Kemper Home Service Companies ("KHSC") was partially offset by an increase of $0.9 million from life insurance products offered by Reserve National Insurance Company ("Reserve National"). Earned premiums on accident and health insurance decreased by $2.0 million in 2015, compared to 2014, due primarily to lower volume of insurance resulting from the non-renewal and run-off of certain health insurance products largely due to the impact of the Health Care Acts, partially offset by higher volume of supplemental health insurance products.

Net Investment Income increased by $0.2 million for the three months ended March 31, 2015, compared to the same period in 2014, due primarily to higher investment income from Other Equity Interests and higher investment income from fixed maturities, partially offset by lower investment income from Equity Method Limited Liability Investments. Investment Income from Other Equity Interests was $1.2 million in 2015, compared to $0.1 million in 2014. Net investment loss from Equity Method Limited Liability Investments was $1.0 million in 2015, compared to net investment income of $0.7 million in 2014.

Life & Health Insurance (continued)

Operating Profit in the Life & Health Insurance segment was $24.8 million before income taxes for the three months ended March 31, 2015, compared to $34.6 million for the same period in 2014. Policyholders' Benefits and Incurred Losses and LAE decreased by $0.9 million in 2015 due primarily to lower incurred accident and health insurance losses and lower underlying losses on property insurance, partially offset by higher policyholders' benefits on life insurance. Incurred accident and health insurance losses were $19.1 million, or 51.9% of accident and health insurance earned premiums, in 2015, compared to $22.1 million, or 57.0% of accident and health insurance earned premiums, in 2014 and decreased due primarily to a change in business mix due, in part, to the non-renewal and run-off of certain health insurance products with higher loss ratios and the issuance of supplemental insurance products with lower loss ratios. Incurred losses and LAE on property insurance were $5.2 million, or 27.5% of property insurance earned premiums, in 2015, compared to $6.8 million, or 36.0% of property insurance earned premiums, in 2014. Underlying losses and LAE on property insurance were $5.3 million, or 28.0% of property insurance earned premiums, in 2015, compared to $6.3 million, or 33.3% of property insurance earned premiums, in 2014 and decreased due primarily to lower frequency and severity of insurance losses. Catastrophe losses and LAE (excluding development) decreased by $0.3 million in 2015. Favorable loss and LAE reserve development was $0.2 million in 2015, compared to unfavorable loss and LAE reserve development of $0.2 million in 2014. Policyholders' benefits on life insurance were $71.8 million in 2015, compared to $68.1 million in 2014, an increase of $3.7 million. Policyholders' benefits on life insurance increased due primarily to higher death claims related to insurance policies issued by KHSC and higher volume of insurance from policies issued by Reserve National, partially offset by a lower provision for future policyholders' benefits related to insurance policies issued by KHSC. Insurance Expenses in the Life & Health Insurance segment were flat. Segment Net Operating Income in the Life & Health Insurance segment was $16.1 million for the three months ended March 31, 2015, compared to $22.1 million in 2014.

Unclaimed Property

Certain state insurance regulators, legislators and treasurers/controllers are involved in an array of initiatives that could result in significant changes to the application of unclaimed property laws and related claims handling practices with respect to life insurance policies. These initiatives seek, in various ways, to impose a new duty on the part of life insurers to proactively search for deaths of their insureds. It is the Company's position that state officials lack the legal authority to impose new requirements where such requirements have the effect of changing the terms of existing life insurance contracts. See the Unclaimed Property Risk Factor in Item 1A., "Risk Factors," of Part II of this Quarterly Report on Form 10-Q, Note 12, "Contingencies," to the Condensed Consolidated Financial Statements and MD&A, "Liquidity and Capital Resources" for additional information about these matters.

Investment Results

Investment Income

Net Investment Income for the three months ended March 31, 2015 and 2014 was:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Investment Income (Loss):		
Interest and Dividends on Fixed Maturities	$59.5	$57.0
Dividends on Equity Securities	7.7	7.3
Short-term Investments	—	0.2
Loans to Policyholders	5.3	5.1
Real Estate	2.9	3.2
Equity Method Limited Liability Investments	(0.7)	3.5
Fair Value Option Investments	0.9	—
Total Investment Income	75.6	76.3
Investment Expenses:		
Real Estate	2.7	2.8
Other Investment Expenses	2.3	2.4
Total Investment Expenses	5.0	5.2
Net Investment Income	$70.6	$71.1

Net Investment Income was $70.6 million and $71.1 million for the three months ended March 31, 2015 and 2014, respectively. Net Investment Income decreased by $0.5 million in 2015 due primarily to lower net investment income from Equity Method Limited Liability Investments, partially offset by higher Interest and Dividends on Fixed Maturities, higher income from Fair Value Option Investments and higher net investment income from Dividends on Equity Securities. Investment income from Equity Method Limited Liability Investments decreased by $4.2 million due to lower investment returns and a lower level of investments. Interest and Dividends on Fixed Maturities increased by $2.5 million due primarily to higher yields. Income from Fair Value Option Investments increased by $0.9 million due to higher levels of investments. Dividends on Equity Securities increased by $0.4 million due primarily to higher distributions from investments in limited liability companies and limited partnerships classified as Other Equity Interests, partially offset by lower dividends from investments in common stocks.

Total Comprehensive Investment Gains

The components of Total Comprehensive Investment Gains for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	$3.5	$5.2
Losses on Sales	(0.1)	(0.2)
Net Impairment Losses Recognized in Earnings	(7.0)	(0.8)
Gain on Sale of Subsidiary	—	1.6
Net Gain (Loss) Recognized in Condensed Consolidated Statements of Income	(3.6)	5.8
Recognized in Other Comprehensive Income	52.4	120.0
Total Comprehensive Investment Gains	$48.8	$125.8

Investment Results (continued)

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the three months ended March 31, 2015 and 2014 were:

(Dollars in Millions)	Three Months Ended Mar 31, 2015	Mar 31, 2014
Fixed Maturities:		
Gains on Sales	$2.0	$4.4
Losses on Sales	(0.1)	—
Equity Securities:		
Gains on Sales	1.5	0.8
Real Estate:		
Losses on Sales	—	(0.2)
Other:		
Gain on Sale of Subsidiary	—	1.6
Net Realized Gains on Sales of Investments	$3.4	$6.6
Gross Gains on Sales	$3.5	$6.8
Gross Losses on Sales	(0.1)	(0.2)
Net Realized Gains on Sales of Investments	$3.4	$6.6

Net Impairment Losses Recognized in Earnings

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. Losses arising from other-than-temporary declines in fair values are reported in the Condensed Consolidated Statements of Income in the period that the declines are determined to be other-than-temporary. The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the three months ended March 31, 2015 and 2014 were:

	Three Months Ended Mar 31, 2015		Mar 31, 2014	
(Dollars in Millions)	Amount	Number of Issuers	Amount	Number of Issuers
Fixed Maturities	$(2.4)	4	$(0.3)	1
Equity Securities	(4.6)	13	(0.5)	6
Net Impairment Losses Recognized in Earnings	$(7.0)	17	$(0.8)	7

45

Investment Quality and Concentrations

The Company's fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At March 31, 2015, 92% of the Company's fixed maturity investment portfolio was rated investment-grade, which is defined as a security having a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); a rating of Aaa, Aa, A or Baa from Moody's Investors Service ("Moody's"); a rating of AAA, AA, A or BBB from Fitch Ratings ("Fitch"); or a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2.

The following table summarizes the credit quality of the Company's fixed maturity investment portfolio at March 31, 2015 and December 31, 2014:

		Mar 31, 2015			Dec 31, 2014		
NAIC Rating	S&P Equivalent Rating	Fair Value in Millions	Percentage of Total		Fair Value in Millions	Percentage of Total	
1	AAA, AA, A	$3,240.7	67.5	%	$3,249.3	68.0	%
2	BBB	1,157.2	24.1		1,156.4	24.2	
3-4	BB, B	197.1	4.1		166.7	3.5	
5-6	CCC or Lower	208.1	4.3		205.2	4.3	
Total Investments in Fixed Maturities		$4,803.1	100.0	%	$4,777.6	100.0	%

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were $4.7 million and $5.6 million at March 31, 2015 and December 31, 2014, respectively.

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at March 31, 2015 and December 31, 2014:

	Mar 31, 2015			Dec 31, 2014		
(Dollars in Millions)	Fair Value	Percentage of Total Investments		Fair Value	Percentage of Total Investments	
U.S. Government and Government Agencies and Authorities	$340.3	5.3	%	$345.5	5.4	%
States and Political Subdivisions:						
Pre-refunded with U.S. Government and Government Agencies and Authorities Held in Trust	101.2	1.6		85.4	1.3	
States	608.0	9.4		644.6	10.0	
Political Subdivisions	151.0	2.3		141.1	2.2	
Revenue Bonds	630.0	9.8		606.0	9.4	
Total Investments in Governmental Fixed Maturities	$1,830.5	28.4	%	$1,822.6	28.3	%

The Company's short-term investments primarily consist of overnight repurchase agreements, money market funds and U.S. Treasuries. At March 31, 2015, the Company had $210.0 million invested in overnight repurchase agreements primarily collateralized by securities issued by the U.S. government and government agencies and authorities and $106.7 million invested in money market funds which primarily invest in U.S. Treasury securities. At the time of borrowing, the repurchase agreements generally require the borrower to provide collateral to the Company at least equal to the amount borrowed from the Company. The Company bears some investment risk in the event that a borrower defaults and the value of collateral falls below the amount borrowed.

46

Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at March 31, 2015 and December 31, 2014:

(Dollars in Millions)	Mar 31, 2015 Fair Value	Mar 31, 2015 Percentage of Total Investments	Dec 31, 2014 Fair Value	Dec 31, 2014 Percentage of Total Investments
Manufacturing	$1,247.2	19.3 %	$1,247.4	19.4 %
Finance, Insurance and Real Estate	764.1	11.8	785.6	12.2
Transportation, Communication and Utilities	325.4	5.0	312.9	4.9
Services	320.4	5.0	305.0	4.7
Mining	142.7	2.2	139.7	2.2
Wholesale Trade	76.9	1.2	69.7	1.1
Retail Trade	75.4	1.2	74.5	1.2
Agriculture, Forestry and Fishing	15.6	0.2	15.3	0.2
Other	4.9	0.1	4.9	0.1
Total Investments in Non-governmental Fixed Maturities	$2,972.6	46.0 %	$2,955.0	46.0 %

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by range of amount invested at March 31, 2015.

(Dollars in Millions)	Number of Issuers	Aggregate Fair Value
Below $5	296	$711.2
$5 -$10	122	808.0
$10 - $20	68	948.8
$20 - $30	15	365.3
Greater Than $30	4	139.3
Total	505	$2,972.6

The following table summarizes the fair value of the Company's ten largest investment exposures, excluding investments in U.S. Government and Government Agencies and Authorities, pre-refunded municipal bonds and Short-term Investments, at March 31, 2015:

(Dollars in Millions)	Fair Value	Percentage of Total Investments
Fixed Maturities:		
States and Political Subdivisions:		
Texas	$81.7	1.3 %
Ohio	76.9	1.2
Michigan	69.4	1.1
Georgia	66.1	1.0
Colorado	65.4	1.0
Florida	65.3	1.0
Wisconsin	60.2	0.9
Arkansas	53.2	0.8
Equity Securities—Other Equity Interests:		
Vanguard Total Stock Market ETF	71.1	1.1
iShares® Core S&P 500 ETF	53.6	0.8
Total	$662.9	10.2 %

47

Investments in Limited Liability Companies and Limited Partnerships
The Company owns investments in various limited liability investment companies and limited partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. The Company's investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments, Other Equity Interests and included in Equity Securities, or Fair Value Option Investments depending on the accounting method used to report the investment. Additional information pertaining to these investments at March 31, 2015 and December 31, 2014 is presented below.

Asset Class	Unfunded Commitment Mar 31, 2015	Reported Value Mar 31, 2015	Reported Value Dec 31, 2014
Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:			
Distressed Debt	$—	$80.2	$93.0
Secondary Transactions	18.0	45.8	48.9
Mezzanine Debt	15.0	25.4	27.0
Senior Debt	7.2	5.1	5.0
Leveraged Buyout	0.1	5.1	3.9
Growth Equity	—	4.8	5.3
Other	—	1.7	1.7
Total Equity Method Limited Liability Investments	40.3	168.1	184.8
Reported as Other Equity Interests at Fair Value:			
Mezzanine Debt	63.5	70.8	69.7
Senior Debt	27.5	25.4	21.4
Distressed Debt	6.6	17.5	18.2
Secondary Transactions	12.0	14.9	15.6
Hedge Fund	—	9.2	9.1
Leveraged Buyout	2.0	8.3	8.0
Other	1.6	43.6	44.2
Total Reported as Other Equity Interests at Fair Value	113.2	189.7	186.2
Reported as Fair Value Option Investments:			
Hedge Fund	—	54.2	53.3
Total Investments in Limited Liability Companies and Limited Partnerships	$153.5	$412.0	$424.3

The Company expects that it will be required to fund its commitments over the next several years. The Company expects that the proceeds from distributions from these investments will be the primary source of funding of such commitments.

Interest and Other Expenses
Interest and Other Expenses was $29.7 million for the three months ended March 31, 2015, compared to $22.7 million for the same period in 2014. Interest expense increased by $2.9 million in 2015 due primarily to a higher level of debt outstanding during the first quarter of 2015, compared to the first quarter of 2014. See MD&A, "Liquidity and Capital Resources," and Note 4, "Debt," to the Condensed Consolidated Financial Statements for additional discussion of debt activity. Other expense increased by $4.1 million in 2015 due primarily to higher amortization of accumulated unrecognized actuarial losses related to the Company's defined benefit pension plan.

Income Taxes
The Company's effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to the effects of tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $6.7 million for the three months ended March 31, 2015, compared to $6.3 million for the same period in 2014.

Recently Issued Accounting Pronouncements

All recently issued accounting pronouncements with effective dates prior to April 1, 2015 have been adopted by the Company. The impact of adoption was not material. Refer to Note 1, “Basis of Presentation,” to the Condensed Consolidated Financial Statements for additional discussion of recently adopted accounting pronouncements. All other recently issued accounting pronouncements with effective dates after March 31, 2015 are not expected to have a material impact on the Company.

Liquidity and Capital Resources

Debt

Kemper has a four-year, $225.0 million, unsecured, revolving credit agreement, expiring March 7, 2016. The credit agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The credit agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Kemper’s largest insurance subsidiaries, United Insurance and Trinity. Proceeds from advances under the credit agreement may be used for general corporate purposes, including repayment of existing indebtedness. There were no outstanding borrowings at March 31, 2015 or December 31, 2014 under the credit agreement.

Trinity and United Insurance are members of the 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 three months of 2015, Trinity borrowed and repaid $20.5 million under its agreement with the FHLB of Dallas. There were no advances from the FHLB of Dallas or Chicago outstanding at either March 31, 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 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 for the three months ended March 31, 2015 from the early redemption of these senior notes.

On February 27, 2014, Kemper issued $150.0 million of its 7.375% subordinated debentures due February 27, 2054. Kemper issued the 2054 Subordinated Debentures for proceeds of $144.0 million, net of transaction costs, for an effective yield of 7.69%. See Note 4, “Debt,” to the Condensed Consolidated Financial Statements.

Subsidiary Dividends

Various state insurance laws restrict the ability of Kemper’s insurance subsidiaries to pay dividends without regulatory approval. Such insurance laws generally restrict the amount of dividends paid in an annual period to the greater of statutory net income from the previous year or 10% of statutory capital and surplus. Kemper’s direct insurance subsidiaries did not pay dividends to Kemper during the first three months of 2015. On April 9, 2015, Trinity received approval from its state insurance regulator to pay an extraordinary dividend to Kemper. On May 7, 2015, Trinity paid the extraordinary dividend of $192 million in cash to Kemper. As a result, Trinity would not be able to pay any additional dividends for the remainder of 2015 without prior regulatory approval. On April 14, 2015, United Insurance paid a $43 million ordinary cash dividend to Kemper. Kemper estimates that United Insurance would be able to pay approximately an additional $80 million in dividends to Kemper during the remainder of 2015 without prior regulatory approval.

Common Stock Repurchases and Dividends to Shareholders

On August 6, 2014, the Board of Directors approved a common stock repurchase program under which Kemper is authorized to repurchase up to $300 million worth of its common stock. During the first three months of 2015, Kemper repurchased 0.6 million shares of its common stock at an aggregate cost of $21.9 million in open market transactions.

Kemper paid a quarterly dividend to shareholders of $0.24 per common share for the first quarter of 2015. Dividends and dividend equivalents paid were $12.3 million for the three months ended March 31, 2015.

Liquidity and Capital Resources (continued)
Sources of Funds
Kemper directly held cash and investments totaling $290.2 million at March 31, 2015, compared to $330.3 million at December 31, 2014. On April 30, 2015, Kemper completed its acquisition of Alliance United in a cash transaction for a total purchase price of $70.3 million, subject to certain post-closing adjustments. After completing the transaction, Kemper contributed $75.0 million to support the book of business acquired.
Sources available for the repayment of indebtedness, repurchases of common stock, future shareholder dividend payments and the payment of interest on Kemper’s senior notes and subordinated debentures include cash and investments directly held by Kemper, receipt of dividends from Kemper’s insurance subsidiaries and borrowings under the credit agreement.
The primary sources of funds for Kemper’s insurance subsidiaries are premiums, investment income and proceeds from the sales and maturity of investments. The primary uses of funds are the payment of policyholder benefits under life insurance contracts, claims under property and casualty insurance contracts and accident and health insurance contracts, the payment of commissions and general expenses and the purchase of investments. Generally, there is a time lag between when premiums are collected and when policyholder benefits and insurance claims are paid. Changes in the legal environment relative to application of state unclaimed property laws and related insurance claims handling practices could result in changes in the manner in which Kemper’s life insurance companies administer life insurance death benefits and escheat unclaimed benefits to the states, and could have a significant effect on, including decreasing such time lag due to an acceleration of, the payment and/or remittance of such benefits to the states under their unclaimed property laws relative to what is currently contemplated by Kemper. See the Company’s Risk Factor set forth in Item 1A. of Part II of this Quarterly Report on Form 10-Q, Note 12, “Contingencies,” to the Condensed Consolidated Financial Statements and the section of this MD&A entitled “Life & Health Insurance” for additional information on these matters. During periods of growth, insurance companies typically experience positive operating cash flows and are able to invest a portion of their operating cash flows to fund future policyholder benefits and claims. During periods in which premium revenues decline, insurance companies may experience negative cash flows from operations and may need to sell investments to fund payments to policyholders and claimants. In addition, if the Company’s property and casualty insurance subsidiaries experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments, which could result in either investment gains or losses. Management believes that its property and casualty insurance subsidiaries maintain adequate levels of liquidity in the event that they were to experience several future catastrophic events over a relatively short period of time.
Net Cash Provided by Operating Activities was $29.0 million for the three months ended March 31, 2015, compared to $37.1 million for the same period in 2014.
Net Cash Used by Financing Activities was $45.1 million for the three months ended March 31, 2015, compared to Net Cash Provided by Financing Activities of $123.6 million for the same period in 2014. Kemper used $279.3 million of cash to repay debt for the three months ended March 31, 2015, of which $258.8 million was used to redeem the 2015 Senior Notes and $20.5 million to repay the FHLB Advances. Net proceeds from the issuance of debt provided $267.8 million for the three months ended March 31, 2015, of which $247.3 million was related to the issuance of the 2025 Senior Notes and $20.5 million from FHLB Advances, compared to net proceeds of $144.2 million related to the issuance of the 2054 Subordinated Debentures in the same period of 2014. Kemper used $23.4 million of cash during the first three months of 2015 to repurchase shares of its common stock, compared to $7.7 million of cash used to repurchase shares of its common stock in the same period of 2014. Kemper used $12.3 million of cash to pay dividends for the three months ended March 31, 2015, compared to $13.3 million of cash used to pay dividends in the same period of 2014. The quarterly dividend rate was $0.24 per common share for the first quarter of 2015 and each quarter of 2014.
Cash available for investment activities in total is dependent on cash flow from Operating Activities and Financing Activities and the level of cash the Company elects to maintain. Net Cash Provided by Investing Activities was $27.7 million for the three months ended March 31, 2015, compared to Net Cash Used by Investing Activities of $162.2 million for the same period in 2014. Net cash used by acquisitions of short-term investments was $15.2 million for the

three months ended March 31, 2015, compared $224.8 million for the same period in 2014. Sales of Fixed Maturities exceeded Purchases of Fixed Maturities by $29.4 million for the three months ended March 31, 2015, compared to $90.2 million for the same period in 2014. Sales of Equity Securities exceeded Purchases of Equity Securities by $7.0 million for the three months ended March 31, 2015. Purchases of Equity Securities exceeded Sales of Equity Securities by $31.9 million for the same period in 2014. Sales of and Return of Investment of Equity Method Limited Liability Investments exceeded Acquisitions of Equity Method Limited Liability Investments by $11.6 million for the three months ended March 31, 2015, compared to $2.6 million for the same period in 2014. There was no cash provided by the Sales of Investment Real Estate for the three months ended March 31, 2015, compared to $0.9 million for the same period in 2014.

Critical Accounting Estimates

Kemper's subsidiaries conduct their operations in two industries: property and casualty insurance and life and health insurance. Accordingly, the Company is subject to several industry-specific accounting principles under GAAP. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process of estimation is inherently uncertain. Accordingly, actual results could ultimately differ materially from the estimated amounts reported in a company's financial statements. Different assumptions are likely to result in different estimates of reported amounts.

The Company's critical accounting policies most sensitive to estimates include the valuation of investments, the valuation of reserves for property and casualty insurance incurred losses and LAE, the assessment of recoverability of goodwill, the valuation of pension benefit obligations and the valuation of postretirement benefit obligations other than pensions. The Company's critical accounting policies are described in the MD&A included in the 2014 Annual Report. There has been no material change, subsequent to December 31, 2014, to the information previously disclosed in the 2014 Annual Report with respect to these critical accounting estimates and the Company's critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Quantitative Information About Market Risk

Financial instruments subject to material market risk disclosures required by the SEC were reported on the following lines of the Company's Condensed Consolidated Balance Sheets:

1) Investments in Fixed Maturities;
2) Investments in Equity Securities;
3) Fair Value Option Investments; and
4) Debt.

Investments in Fixed Maturities and Debt are subject to material interest rate risk. The Company's Investments in Equity Securities include common and preferred stocks and, accordingly, are subject to material equity price risk and interest rate risk, respectively. The Company's Fair Value Option Investments include hedge funds that are subject to material equity price risk.

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

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

For the interest rate sensitivity analysis presented below, the Company assumed an adverse and instantaneous increase of 100 basis points in the yield curve at both March 31, 2015 and December 31, 2014 for Investments in Fixed Maturities. Such 100 basis point increase in the yield curve may not necessarily result in a corresponding 100 basis point increase in the interest rate for all investments in fixed maturities. For example, a 100 basis point increase in the yield curve for risk-free, taxable investments in fixed maturities may not result in a 100 basis point increase for tax-exempt investments in fixed maturities. For Investments in Fixed Maturities, the Company also anticipated changes in cash flows due to changes in the likelihood that investments would be called or pre-paid prior to their contractual maturity. All other variables were held constant. For preferred stock equity securities, the Company assumed an adverse and instantaneous increase of 100 basis points in market interest rates from their levels at both March 31, 2015 and December 31, 2014. All other variables were held constant. For Debt, the Company assumed an adverse and instantaneous decrease of 100 basis points in market interest rates from their levels at both March 31, 2015 and December 31, 2014. All other variables were held constant.

Quantitative Information About Market Risk (continued)

The Company measured equity price sensitivity assuming an adverse and instantaneous 30% decrease in the Standard and Poor's Stock Index (the "S&P 500") from its levels at March 31, 2015 and December 31, 2014, respectively, with all other variables held constant. The Company's investments in common stock equity securities were correlated with the S&P 500 using the common stock portfolio's weighted-average beta of 0.99 and 1.00 at March 31, 2015 and December 31, 2014, respectively. Beta measures a stock's relative volatility in relation to the rest of the stock market, with the S&P 500 having a beta coefficient of 1.00. The common stock portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended March 31, 2015 and December 31, 2014, respectively, and weighted on the fair value of such securities at March 31, 2015 and December 31, 2014, respectively. For equity securities without observable market inputs, the Company assumed a beta of 1.00 at March 31, 2015 and December 31, 2014. The Company's Fair Value Option Investments were correlated with the S&P 500 using such portfolio's weighted-average beta of 0.16 and 0.16 at March 31, 2015 and December 31, 2014, respectively, which was calculated for each hedge fund in the portfolio and weighted on the fair value of the hedge funds.

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

(Dollars in Millions)	Fair Value	Pro Forma Increase (Decrease) Interest Rate Risk	Equity Price Risk	Total Market Risk
March 31, 2015				
Assets:				
Investments in Fixed Maturities	$4,803.1	$(317.9)	$—	$ (317.9)
Investments in Equity Securities	628.6	(8.8)	(150.0)	(158.8)
Fair Value Option Investments	54.2	—	(2.6)	(2.6)
Liabilities:				
Debt	$804.1	$39.7	$—	$ 39.7
December 31, 2014				
Assets:				
Investments in Fixed Maturities	$4,777.6	$(317.5)	$—	$ (317.5)
Investments in Equity Securities	632.2	(9.1)	(153.4)	(162.5)
Fair Value Option Investments	53.3	—	(2.6)	(2.6)
Liabilities:				
Debt	$804.4	$22.8	$—	$ 22.8

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

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

Qualitative Information About Market Risk

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

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

PART II - OTHER INFORMATION

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

Item 1. Legal Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 12, "Contingencies," to the Condensed Consolidated Financial Statements (Unaudited) in Part I of this Form 10-Q.

Item 1A. Risk Factors

There were no significant changes in the risk factors included in Item 1A. of Part I of the 2014 Annual Report, except for the following risk factor, which is amended and restated in its entirety as follows:

Changes in the application of state unclaimed property laws and related insurance claims handling practices, particularly attempts by state officials to apply such changes retroactively to existing insurance policies through new laws and regulations, examinations and audits, could result in new requirements that would have a significant effect on (including an acceleration of) the payment and/or escheatment of life insurance death benefits and significantly increase claims handling costs relative to what is currently contemplated by Kemper. If attempts by state officials to impose such new requirements on existing insurance policies are successful on a wide scale, there is a potential for their collective effects to be materially adverse to the Company's profitability, financial position and cash flows (the "Unclaimed Property Risk Factor").

In recent years, many states have begun to aggressively expand the application of their unclaimed property laws as they relate to life insurance proceeds. The treasurers or controllers (collectively, "Treasurers") of a large majority of states have engaged private audit firms to examine the practices and procedures of life insurance companies with respect to the reporting and remittance of proceeds associated with life insurance policies, annuity contracts and retained asset accounts under state unclaimed property laws. Certain related measures are also being taken or considered by state insurance regulators, both individually and collectively through the auspices of the NAIC. Some state insurance regulators have initiated market conduct examinations focused on claims handling and escheatment practices of life insurance companies.

As a result of these audits and examinations, a number of large life insurance companies have agreed to alter historic practices that were previously considered to be lawful and appropriate relative to claims handling and the reporting and remittance of life insurance policy proceeds to the states under state unclaimed property laws. Based on published reports, at least eighteen life insurance companies have entered into settlement agreements with state insurance regulators and twenty-two with Treasurers. Under the terms of these agreements, the settling insurance companies typically have agreed to establish a practice of periodically searching for deceased insureds, even prior to the receipt of a death claim, by comparing their in-force policy records against a database of reported deaths maintained by the Social Security Administration or a comparable database (collectively, a "Death Master File" or "DMF"). The settlements typically apply to policies that were in force at any time since January 1, 1992. In conducting these data comparisons against a Death Master File, the insurers are required to use complex "fuzzy" matching criteria which in many cases result in numerous potential matches for any given insured. In such cases, the insurer must either assume a costly and administratively burdensome process of disproving any such ambiguous matches which may, in some cases, necessitate a review of older records that are not in electronic form, or accept such matches as valid and escheat the related policy benefits to the states if the beneficiaries cannot be found. All settlements to date with insurance regulators have involved payment of monetary penalties (involving amounts ranging from about $1.2 million up to $40 million), while settlements with Treasurers have required payment of interest on sums remitted to the Treasurers dating from the date of death of the insured (rather than from a more recent date linked to the insurer's first awareness of death) and extending as far back as January 1, 1995. As hereafter described, Kemper's life insurance subsidiaries (the "Life Companies") have thus far resisted attempts by certain state officials and their agents to mandate changes to the Life Companies' claims handling and escheatment practices of the sort embodied in the foregoing settlements and have challenged through legal proceedings the authority of such officials to require such changes. There can be no assurances that the Life Companies will ultimately be successful in resisting such attempts or any that may arise in the future.

Separately, the National Conference of Insurance Legislators ("NCOIL") has adopted model legislation which, if enacted by states as proposed, would require life insurance companies to compare their in-force life insurance policy records against a Death Master File for the purpose of proactively identifying potentially deceased insureds for whom the subject life insurance company has not yet received a claim, including due proof of death. Eighteen states have adopted versions of the NCOIL model legislation (the "DMF Statutes"). Ten of such states have enacted DMF Statutes, with varying effective dates, that apply to in-force life insurance policies. Such statutes, if construed to apply to life insurance policies in force on each respective statute's effective date, could have a significant effect on, including an acceleration of, the payment of life insurance benefits to beneficiaries or, in instances where beneficiaries could not be located, the remittance of such benefits to the states under their unclaimed property laws. In contrast, New Mexico, Tennessee and Utah have enacted a version of the DMF Statute that applies only prospectively to life insurance companies, like Kemper's Life Companies, that have not previously used a Death Master File. Similarly, Alabama, Arkansas, Georgia, Indiana and Mississippi have enacted DMF Statutes that apply only to policies issued on or after their respective effective dates, without regard to prior Death Master File use. Kemper cannot presently predict whether any other states will enact similar legislation or, if enacted, exactly what form such legislation will take.

In November 2012, certain of the Life Companies filed a declaratory judgment action in Kentucky state court challenging the Kentucky DMF Statute on statutory and constitutional grounds, insofar as it purports to impose new requirements with respect to existing, previously issued life insurance policies. The trial court in that case denied the subject Life Companies' motion for summary judgment and held that the requirements of the Kentucky DMF Statute apply to life insurance policies issued before the Kentucky DMF Statute's January 1, 2013 effective date. The Life Companies appealed the trial court decision to the Kentucky Court of Appeals, and in August 2014, in a unanimous opinion, the Kentucky Court of Appeals reversed the trial court and held that the Kentucky DMF statute fell within Kentucky's statutory presumption against retroactivity. As a result, the Court ruled, the Kentucky DMF Statute can only apply to policies issued on or after January 1, 2013. In September 2014, the Kentucky Department of Insurance filed a motion asking for the Kentucky Supreme Court to undertake a discretionary review of the Court of Appeals' ruling. A decision by the Kentucky Supreme Court on whether to review the Court of Appeals' decision is expected by the third quarter of 2015.

In July 2013, certain of the Life Companies filed a declaratory judgment action, similar to the Kentucky action, in Maryland state court asking the court to construe the Maryland DMF Statute to apply only prospectively, consistent with what the Life Companies believe are the requirements of Maryland's common law presumption against retroactive application of new laws, the Maryland Constitution and the Contract Clause of the United States Constitution. The Maryland Insurance Administration filed a motion to dismiss the action on jurisdictional grounds, contending that the Life Companies failed to first exhaust their administrative remedies before filing their action in the trial court. In March 2014, the trial court granted the Maryland Insurance Administration's motion. The Life Companies appealed the trial court's ruling to the Maryland Court of Special Appeals. The Maryland appellate courts have declined to stay enforcement of the Maryland DMF Statute pending the appeal, and the Life Companies are complying with the Maryland DMF Statute while they continue to pursue their appeal. The Life Companies' appeal was heard by the Maryland Court of Special Appeals in December 2014. The parties expect the court to render a decision by the fourth quarter of 2015.

In August 2014, certain of the Life Companies filed a declaratory judgment action in Indiana state court, asking the court to construe the Indiana DMF Statute to apply only prospectively, consistent with what the Life Companies believe are the requirements of Indiana's common law presumption against retroactive application of new laws, the Indiana Constitution and the Contract Clause of the United States Constitution. On May 6, 2015, legislation was enacted amending the Indiana DMF Statute so that it applies only prospectively. In light of this development, the subject Life Companies intend to dismiss their declaratory judgment action.

The Life Companies are the subject of an unclaimed property compliance audit (the "Treasurers' Audit") by a private audit firm retained by the Treasurers of 38 states (the "Audit Firm"). In July 2013, the California State Controller (the "CA Controller") filed a complaint for injunctive relief against the Life Companies in state court in California, seeking an order requiring the Life Companies to produce all of their in-force insurance policy records to the Audit Firm to enable the firm to perform a comparison of such records against a Death Master File and to ascertain whether any of the insureds under such policies may be deceased. In December 2013, the CA Controller filed a motion for preliminary injunction seeking the same injunctive relief. A hearing on that motion has been continued until the California Court of Appeals rules on a preliminary injunction order issued in a similar case involving an unaffiliated life insurance company, entitled Chiang v. American National Insurance Company (the "ANICO Appeal"). The Life Companies have filed a cross-complaint in their case against the CA Controller, seeking a declaration that there is no obligation under California's unclaimed property law to perform a Death Master File comparison and that the Audit Firm cannot obtain the Life Companies' records for the purpose of performing such a comparison. The CA Controller has filed a motion to dismiss the Life Companies' cross-complaint, contending that the Life Companies' request for a declaratory judgment of their rights and obligations under California's unclaimed property law is premature and not ripe for adjudication. A hearing on that motion is scheduled in May 2015. In July 2014, the court granted a motion by the CA Controller to stay the litigation in its entirety, including all discovery, pending a decision by the Court of Appeal in the ANICO Appeal. In March, 2015, the California Court of Appeal reversed the order granting the preliminary injunction to the CA Controller in the ANICO case. The CA Controller has indicated that it will not appeal this decision, and, accordingly, the stay of the litigation has been lifted and activity has resumed. Pending the outcome of this litigation, the Life Companies have not produced their in-force policy records to the CA Controller.

The Life Companies are the subject of a multi-state market conduct examination by five state insurance regulators, which examination is focused on the Life Companies' claim settlement and policy administration practices, and specifically their compliance with state unclaimed property statutes (the "Multi-State Exam"). In July 2013, the Life Companies received requests from the Illinois Department of Insurance, as the managing lead state for the Multi-State Exam, for a significant volume of information beyond that which the Life Companies had already produced, including all of the subject Life Companies' records of in-force policies and other information of the type requested by the Audit Firm as part of the Treasurers' Audit and which is the subject of the CA Controller's complaint. This request prompted the Illinois litigation noted below. The Multi-State Exam remains ongoing.

In September 2013, certain of the Life Companies filed declaratory judgment actions against the insurance regulators in four states participating in the Multi-State Exam (Illinois, California, Pennsylvania and Florida), asking the courts in those states to declare that applicable insurance laws do not require life insurers to search a Death Master File to ascertain whether insureds are deceased, and to further declare that the regulators in those states do not have legal authority to (i) obtain life insurers' policy records for the purpose of comparing data from those records against a Death Master File, and/or (ii) impose payment obligations on life insurers before a claim and due proof of death have been submitted by policy beneficiaries. In response to the Illinois declaratory judgment action, the Illinois Department of Insurance and its Director (collectively, the "IDOI") filed a motion to dismiss, and in July 2014, the court in Illinois denied, in part, such motion. Specifically, the court allowed to stand the count in the Life Companies' complaint that the IDOI cannot compel the Life Companies to provide their policy records to the IDOI or persons acting on the IDOI's behalf so as to permit a comparison against the DMF for purposes of identifying deceased insureds, as well as the associated claim for injunctive relief. The court dismissed with prejudice the other counts in the complaint. In August 2014, the IDOI filed its answer to the counts of the complaint that the Illinois court allowed to stand, and in October 2014, the Life Companies filed a motion for summary judgment with respect to those remaining counts. The IDOI filed cross motions for summary judgment in December 2014. The parties are engaged in discovery. A formal briefing schedule and hearing date on the summary judgment motions are expected to be set by the court at a May 2015 status conference. The Life Companies' actions against regulators in Pennsylvania and Florida are currently

stayed by agreement of the parties pending the outcome of the Illinois action.
Should these various efforts by state officials succeed in retroactively imposing new claims handling and escheatment requirements with regard to previously issued life insurance policies, such requirements could have a material adverse effect on the Company's profitability, financial position and cash flows. The Company's stance in opposition to the aforementioned actions by state legislators, Treasurers and insurance regulators, including the Life Company's initiation of the litigation described above, also creates a risk of reputational damage to the Company among various constituencies (including its principal insurance regulators, rating agencies, investors, insurance agents and policyholders), particularly if the Company's position is not ultimately vindicated.

See Note 12, “Contingencies,” to the Consolidated Financial Statements and the sections of the MD&A entitled “Life & Health Insurance” and “Liquidity and Capital Resources” for additional information on the legal proceedings, including lawsuits, regulatory examinations and inquiries, and other matters described above.

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

Information pertaining to purchases of Kemper common stock for the three months ended March 31, 2015 follows.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions) (1)
January 1 - January 31	429,530	$35.26	429,530	$275.9
February 1 - February 28	144,169	$36.57	144,169	$270.6
March 1 - March 31	41,410	$36.96	41,410	$269.1

(1) On August 6, 2014, the Kemper’s Board of Directors authorized to repurchase up to $300 million worth of Kemper’s common stock. See MD&A, “Liquidity and Capital Resources.”

Item 6. Exhibits

An Exhibit Index has been filed as part of this report on page E-1. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K.

Signatures

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

	Kemper Corporation
Date: May 7, 2015	/S/ DONALD G. SOUTHWELL Donald G. Southwell Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: May 7, 2015	/S/ FRANK J. SODARO Frank J. Sodaro Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: May 7, 2015	/S/ RICHARD ROESKE Richard Roeske Vice President and Chief Accounting Officer (Principal Accounting Officer)

57

Exhibit Index

The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers followed by an asterisk (*) indicate exhibits that are management contracts or compensatory plans or arrangements.

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
4.1	Indenture, dated as of February 27, 2014, between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee	8-K	001-18298	4.1	February 27, 2014	
4.2	Second Supplemental Indenture, dated as of February 24, 2015, to the Indenture, dated as of February 27, 2014, between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (including the form of 4.350% Senior Notes due 2025)	8-K	001-18298	4.2	February 24, 2015	
10.1	Amendment No. 2 to Credit Agreement, dated as of February 24, 2015, by and among Kemper Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent	8-K	001-18298	10.1	February 24, 2015	
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)					X
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)					X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)					X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)					X
101.1	XBRL Instance					X
101.2	XBRL Taxonomy Extension Schema Document					X
101.3	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.4	XBRL Taxonomy Extension Label Linkbase Document					X
101.5	XBRL Taxonomy Extension Presentation Linkbase Document					X

101.6	XBRL Taxonomy Extension Definition Linkbase Document	X

E-1