

Source: Unitrin, Inc.

Unitrin, Inc. Reports Second Quarter Results

Monday, August 4, 2008

CHICAGO – (Business Wire)—August 4, 2008 – Unitrin, Inc. (NYSE: UTR – News) reported today income from continuing operations of \$4.5 million (\$0.07 per common share) for the second quarter of 2008, compared to \$58.7 million (\$0.89 per common share) for the second quarter of 2007. Unitrin reported a net loss, including discontinued operations, of \$2.9 million (\$0.05 per common share) for the second quarter of 2008, compared to net income of \$62.2 million (\$0.94 per common share) for the second quarter of 2007.

Don Southwell, Unitrin’s President and Chief Executive Officer, commented, “Our operating results declined largely due to higher catastrophe losses, lower net investment results, and an addition to Fireside Bank’s loan loss reserve. Catastrophe losses from continuing operations were \$49.4 million before tax for the second quarter of 2008, compared to \$18.4 million for the second quarter of 2007. Net investment income declined by \$18.0 million before tax due primarily to losses from certain investments in limited liability investment companies that are accounted for under the equity method of accounting.”

Mr. Southwell further explained, “We strengthened Fireside Bank’s loan loss reserve during the second quarter, adding \$21.7 million to the reserve for loans made in earlier periods. The addition to the reserve was largely the result of lower resale prices for repossessed collateral – most notably SUVs and other large vehicles. The loan loss reserve now stands at 11.3% of Net Automobile Loan Receivables. We have taken a number of steps to improve Fireside’s business model, including the elimination of certain now unprofitable segments of business, tightening up lending criteria for SUVs and other large vehicles and the reduction of ongoing operating costs. Loan originations have declined from \$420.5 million for the first six months of 2007, to \$364.9 million for the first six months of 2008.”

Mr. Southwell also noted, “Effective June 1, 2008, we completed the sale of Unitrin Business Insurance (UBI) to AmTrust. We reported a loss of \$7.4 million from discontinued operations for the second quarter largely due to catastrophe losses incurred by UBI.”

Total Revenue

Total revenue was \$726.5 million for the second quarter of 2008, compared to \$733.5 million for the second quarter of 2007. Total revenue decreased due primarily to the lower net investment income and lower net realized investment gains, partially offset by higher earned premiums.

Earned premiums were \$596.3 million and \$570.2 million for the second quarters of 2008 and 2007, respectively, an increase of \$26.1 million. Earned premiums increased in the Unitrin Direct segment, the Unitrin Specialty segment and the Life and Health Insurance segment, partially offset by decreased earned premiums in the Kemper segment. Automobile finance revenues in the Fireside Bank segment decreased by \$2.8 million for the second quarter of 2008, compared to the same period in 2007.

Net investment income decreased by \$18.0 million for the second quarter of 2008, compared to the same period in 2007, due primarily to lower net investment income from certain investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting. The Company reported a net investment loss of \$19.8 million from its investments in limited liability investment companies and limited partnerships for the second quarter of 2008, compared to net investment income of \$4.0 million for the same period in 2007. Each of the Company's insurance segments reported lower net investment income as a result of these investments.

Net realized investment gains were \$5.0 million for the second quarter of 2008, compared to \$17.0 million for the same period in 2007. Net realized investment gains for the second quarters of 2008 and 2007 included gains of \$1.8 million and \$7.7 million, respectively, from sales of a portion of the Company's investment in Northrop common stock. Net realized investment gains for the second quarters of 2008 and 2007 include pretax losses of \$18.3 million and \$0.2 million, respectively, resulting from other than temporary declines in the fair values of investments. The Company cannot anticipate when or if similar net investment gains and losses may occur in the future.

Quarterly Segment Results

Unitrin is engaged, through its subsidiaries, in the property and casualty insurance, life and health insurance and automobile finance businesses. The Company conducts its continuing operations through five operating segments: Kemper, Unitrin Specialty, Unitrin Direct, Life and Health Insurance and Fireside Bank.

NOTE: The Company uses the registered trademark, "Kemper," under license, for personal lines insurance only, from Lumbermens Mutual Casualty Company ("Lumbermens"), which is not affiliated with the Company. Lumbermens continues to use the name, "Kemper Insurance Companies," in connection with its operations, which are distinct from, and not to be confused with, Unitrin's Kemper business segment.

Kemper

Earned premiums in the Kemper segment decreased by \$2.2 million for the second quarter of 2008, compared to the same period in 2007, due primarily to lower volume of automobile insurance, partially offset by higher average premium rates on homeowners insurance and higher volume of other personal lines insurance.

Kemper reported an operating loss of \$2.6 million for the second quarter of 2008, compared to operating profit of \$13.2 million for the same period in 2007. Operating results decreased due primarily to higher incurred losses and Loss Adjustment Expenses (LAE) and to a lesser extent lower net investment income. Incurred losses and LAE increased due primarily to higher catastrophe losses and LAE, partially offset by lower non-catastrophe losses and LAE and higher favorable loss and LAE reserve development.

Unitrin Specialty

Earned premiums in the Unitrin Specialty segment increased by \$8.3 million for the second quarter of 2008, compared to the same period in 2007, due primarily to higher volume of personal automobile insurance, partially offset by lower volume of commercial automobile insurance. Operating profit in the Unitrin Specialty segment decreased by \$5.6 million for the second quarter of 2008, compared to the same period in 2007, due primarily to higher incurred losses and LAE and lower net investment income.

Unitrin Direct

Earned premiums in the Unitrin Direct segment increased by \$15.1 million for the second quarter of 2008, compared to the same period in 2007, due primarily to the acquisition of Merastar Insurance Company. Merastar was acquired at the end of the second quarter of 2007 and its results of operations are included in the Company's results of operations from the date of acquisition. Earned premiums from Merastar were \$11.6 million for the second quarter of 2008.

The Unitrin Direct segment reported an operating loss of \$14.0 million, for the second quarter of 2008, compared to an operating loss of \$8.7 million for the same period in 2007. Unitrin Direct's operating loss increased due primarily to higher incurred losses and LAE.

Life and Health Insurance

Earned premiums in the Life and Health Insurance segment increased by \$4.8 million for the second quarter of 2008, compared to the same period in 2007. Earned premiums included \$12.6 million resulting from the acquisition of Primesco, Inc. Primesco was acquired on April 1, 2008 and its results of operations are included in the Company's results of operations from the date of acquisition. Excluding the impact of the Primesco acquisition, earned premiums decreased by \$7.8 million for the second quarter of 2008, compared to the same period in 2007, due primarily to lower volume, partially offset by higher average premium rates on accident and health insurance products.

Operating profit in the Life and Health Insurance segment decreased by \$19.4 million for the second quarter of 2008, compared to the same period in 2007, due primarily to higher catastrophe and non-catastrophe storm losses on the property insurance sold by the Life and Health Insurance segment's career agents and lower net investment income, partially offset by \$2.1 million of operating profit from Primesco.

Fireside Bank

Automobile finance revenues for the second quarter of 2008 decreased by \$2.8 million, compared to the same period in 2007, due primarily to lower yields on loans outstanding, partially offset by higher average levels of loans outstanding. Automobile loan originations were \$186.7 million for the second quarter of 2008, compared to \$210.6 million for the second quarter of 2007. Fireside Bank does not make loans secured by real estate; it derives its interest income solely from automobile loans.

Fireside Bank reported an operating loss of \$21.5 million for the second quarter of 2008, compared to an operating profit of \$8.0 million for the same period in 2007. Fireside Bank's operating results decreased due primarily to a higher provision for loan losses.

Consolidated results for the three and six months ended June 30, 2008 and 2007 are as follows:

(Dollars and Shares in Millions, Except Per Share Amounts)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues:				
Earned Premiums	\$ 596.3	\$ 570.2	\$ 1,172.2	\$ 1,132.7
Automobile Finance Revenues	62.1	64.9	125.5	127.9
Net Investment Income	62.2	80.2	118.1	158.8
Other Income	0.9	1.2	1.4	2.2
Net Realized Investment Gains	5.0	17.0	11.2	39.5
Total Revenues	<u>726.5</u>	<u>733.5</u>	<u>1,428.4</u>	<u>1,461.1</u>
Expenses:				
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	448.2	397.2	858.9	784.4
Insurance Expenses	182.8	174.2	355.1	345.8
Automobile Finance Expenses	69.6	43.7	123.5	85.8
Interest Expense on Certificates of Deposit	15.0	14.2	30.7	27.8
Interest and Other Expenses	15.0	20.0	31.7	36.1
Total Expenses	<u>730.6</u>	<u>649.3</u>	<u>1,399.9</u>	<u>1,279.9</u>
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income of Investee	(4.1)	84.2	28.5	181.2
Income Tax Benefit (Expense)	7.5	(24.9)	(0.1)	(54.9)
Income from Continuing Operations before Equity in Net Income (Loss) of Investee	3.4	59.3	28.4	126.3
Equity in Net Income (Loss) of Investee	1.1	(0.6)	3.3	(0.2)
Income from Continuing Operations	<u>4.5</u>	<u>58.7</u>	<u>31.7</u>	<u>126.1</u>
Discontinued Operations:				
Income (Loss) from Discontinued Operations Before Income Taxes	(3.9)	3.7	(12.8)	9.5
Income Tax Benefit (Expense)	(3.5)	(0.2)	0.7	(1.0)
Income (Loss) from Discontinued Operations	<u>(7.4)</u>	<u>3.5</u>	<u>(12.1)</u>	<u>8.5</u>
Net Income (Loss)	<u>\$ (2.9)</u>	<u>\$ 62.2</u>	<u>\$ 19.6</u>	<u>\$ 134.6</u>
Income Per Share from Continuing Operations	\$ 0.07	\$ 0.89	\$ 0.50	\$ 1.90
Income (Loss) Per Share from Discontinued Operations	(0.12)	0.05	(0.19)	0.13
Net Income (Loss) Per Share	<u>\$ (0.05)</u>	<u>\$ 0.94</u>	<u>\$ 0.31</u>	<u>\$ 2.03</u>
Income Per Share from Continuing Operations Assuming Dilution	\$ 0.07	\$ 0.89	\$ 0.50	\$ 1.88
Income (Loss) Per Share from Discontinued Operations Assuming Dilution	(0.12)	0.05	(0.19)	0.13
Net Income (Loss) Per Share Assuming Dilution	<u>\$ (0.05)</u>	<u>\$ 0.94</u>	<u>\$ 0.31</u>	<u>\$ 2.01</u>
Weighted Average Common Shares Outstanding	<u>62.5</u>	<u>65.9</u>	<u>63.1</u>	<u>66.4</u>
Weighted Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	<u>62.7</u>	<u>66.3</u>	<u>63.3</u>	<u>66.8</u>
Dividends Paid Per Share	<u>\$ 0.470</u>	<u>\$ 0.455</u>	<u>\$ 0.940</u>	<u>\$ 0.910</u>

Business segment revenues for the three and six months ended June 30, 2008 and 2007 are as follows:

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues:				
Segment Revenues:				
Kemper:				
Earned Premiums	\$ 229.4	\$ 231.6	\$ 459.0	\$ 461.1
Net Investment Income	6.0	11.0	13.4	23.3
Other Income	0.1	0.1	0.2	0.2
Total Kemper	<u>235.5</u>	<u>242.7</u>	<u>472.6</u>	<u>484.6</u>
Unitrin Specialty:				
Earned Premiums	122.4	114.1	237.2	224.5
Net Investment Income	2.7	4.8	6.0	10.3
Other Income	0.1	0.1	0.1	0.1
Total Unitrin Specialty	<u>125.2</u>	<u>119.0</u>	<u>243.3</u>	<u>234.9</u>
Unitrin Direct:				
Earned Premiums	73.8	58.7	145.9	114.8
Net Investment Income	1.4	2.0	3.1	4.2
Other Income	0.1	0.1	0.2	0.2
Total Unitrin Direct	<u>75.3</u>	<u>60.8</u>	<u>149.2</u>	<u>119.2</u>
Life and Health Insurance:				
Earned Premiums	170.7	165.9	330.1	332.3
Net Investment Income	46.6	52.2	84.9	100.8
Other Income	0.5	0.2	0.7	0.5
Total Life and Health Insurance	<u>217.8</u>	<u>218.3</u>	<u>415.7</u>	<u>433.6</u>
Fireside Bank:				
Automobile Finance Revenues	62.1	64.9	125.5	127.9
Net Investment Income	1.0	1.0	2.8	2.0
Total Fireside Bank	<u>63.1</u>	<u>65.9</u>	<u>128.3</u>	<u>129.9</u>
Total Segment Revenues	716.9	706.7	1,409.1	1,402.2
Unallocated Dividend Income	3.5	5.6	6.8	14.4
Net Realized Investment Gains	5.0	17.0	11.2	39.5
Other	1.1	4.2	1.3	5.0
Total Revenues	<u>\$ 726.5</u>	<u>\$ 733.5</u>	<u>\$ 1,428.4</u>	<u>\$ 1,461.1</u>

Business segment operating profit (loss) for the three and six months ended June 30, 2008 and 2007 is as follows:

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Segment Operating Profit (Loss):				
Kemper	\$ (2.6)	\$ 13.2	\$ 8.7	\$ 36.4
Unitrin Specialty	5.1	10.7	9.2	20.3
Unitrin Direct	(14.0)	(8.7)	(23.3)	(17.7)
Life and Health Insurance	26.5	45.9	56.6	86.7
Fireside Bank	(21.5)	8.0	(25.9)	16.3
Total Segment Operating Profit	(6.5)	69.1	25.3	142.0
Unallocated Dividend Income	3.5	5.6	6.8	14.4
Net Realized Investment Gains	5.0	17.0	11.2	39.5
Other Expense, Net	(6.1)	(7.5)	(14.8)	(14.7)
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income of Investee	\$ (4.1)	\$ 84.2	\$ 28.5	\$ 181.2

Business segment net income for the three and six months ended June 30, 2008 and 2007 is as follows:

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Segment Net Income (Loss):				
Kemper	\$ 0.5	\$ 10.6	\$ 10.0	\$ 27.9
Unitrin Specialty	4.3	7.9	7.9	15.1
Unitrin Direct	(8.6)	(5.3)	(14.1)	(10.8)
Life and Health Insurance	17.2	29.9	35.9	56.5
Fireside Bank	(12.6)	4.7	(15.2)	9.5
Total Segment Net Income	0.8	47.8	24.5	98.2
Net Income (Loss) From:				
Unallocated Dividend Income	3.0	4.9	5.9	12.7
Net Realized Investment Gains	3.3	11.0	7.3	25.6
Other Expense, Net	(3.7)	(4.4)	(9.3)	(10.2)
Income from Continuing Operations				
Before Equity in Net Income (Loss) of Investee	3.4	59.3	28.4	126.3
Equity in Net Income (Loss) of Investee	1.1	(0.6)	3.3	(0.2)
Income from Continuing Operations	\$ 4.5	\$ 58.7	\$ 31.7	\$ 126.1

* * * * *

This press release may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “believe(s),” “goal(s),” “target(s),” “estimate(s),” “anticipate(s),” “forecast(s),” “project(s),” “plan(s),” “intend(s),” “expect(s),” “might,” “may” and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this press release. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company’s actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements.

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

- ◆ Changes in general economic conditions, including performance of financial markets, interest rates, unemployment rates and fluctuating values of particular investments held by the Company and its subsidiaries;
- ◆ Heightened competition, including, with respect to pricing, entry of new competitors and the development of new products by new and existing competitors;
- ◆ The number and severity of insurance claims (including those associated with catastrophe losses) and their impact on the adequacy of loss reserves;
- ◆ The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- ◆ Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;
- ◆ Changes in the pricing or availability of reinsurance;
- ◆ Changes in the financial condition of reinsurers and amounts recoverable therefrom;
- ◆ Changes in industry trends and significant industry developments;
- ◆ Regulatory approval of insurance rates, policy forms, license applications and similar matters;

- ◆ Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence insurance policy coverage issues arising with respect to losses incurred in connection with hurricanes and other catastrophes;
- ◆ Governmental actions, including new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;
- ◆ Adverse outcomes in litigation or other legal or regulatory proceedings involving the Company or its subsidiaries;
- ◆ Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services;
- ◆ The impact of residual market assessments and assessments for insurance industry insolvencies;
- ◆ Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;
- ◆ Changes in ratings by credit rating agencies, including A.M. Best Co., Inc.;
- ◆ Changes in laws or regulations governing or affecting the regulatory status of industrial banks, such as Fireside Bank, and their parent companies, including restrictions on the non-financial activities and equity investments of companies that acquire control of industrial banks;
- ◆ Changes in the estimated rates of automobile loan receivables net charge-off, including, but not limited to, the impact of changes in the fair value of collateral held, used to estimate Fireside Bank's reserve for loan losses;
- ◆ The level of success and costs expended in realizing economies of scale and implementing significant business consolidations and technology initiatives;
- ◆ Increased costs and risks related to data security;
- ◆ Absolute and relative performance of the Company's products or services; and
- ◆ Other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission ("SEC").

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

Unitrin is a financial services company focused on creating shareholder value by providing through its subsidiaries a diverse array of insurance and automobile finance products and services for individuals, families and small businesses.

Among the brands in Unitrin's Property and Casualty Insurance businesses are Kemper and Unitrin Specialty which sell personal and commercial insurance through networks of independent agents, and Unitrin Direct, which sells automobile and homeowners insurance directly to consumers or through employer-sponsored voluntary benefit programs. Unitrin's Life and Health Insurance businesses bring a high-level of personalized service to their customers. Unitrin's automobile finance subsidiary, Fireside Bank, specializes in automobile loans for the purchase of pre-owned vehicles. Additional information about Unitrin is available by visiting its website (www.unitrin.com).

CONTACT:

Unitrin, Inc.

David F. Bengston at (312) 661-4930 or via e-mail at investor.relations@unitrin.com

KEYWORD: ILLINOIS

INDUSTRY KEYWORD: INSURANCE BANKING EARNINGS