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Unum Group
Form 10-Q
July 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 1-11294

Unum Group
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

62-1598430
(I.R.S. Employer Identification No.)

1 Fountain Square
Chattanooga, Tennessee 37402
(Address of principal executive offices)
423.294.1011

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

254,778,889 shares of the registrant's common stock were outstanding as of July 29, 2014.

TABLE OF CONTENTS

	<u>Cautionary Statement Regarding Forward-Looking Statements</u>	Page <u>1</u>
	<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>	<u>3</u>
	<u>Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u>	<u>3</u>
	<u>Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013</u>	<u>5</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2014 and 2013</u>	<u>6</u>
	<u>Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2014 and 2013</u>	<u>7</u>
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>	<u>8</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>47</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>77</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>77</u>
	<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>78</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>78</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>78</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>79</u>
	<u>Signatures</u>	<u>80</u>

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a "safe harbor" to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this Quarterly Report on Form 10-Q (including certain statements in the consolidated financial statements and related notes and Management's Discussion and Analysis), or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking statements within the meaning of the Act. Forward-looking statements are those not based on historical information, but rather relate to our outlook, future operations, strategies, financial results, or other developments. Forward-looking statements speak only as of the date made. We undertake no obligation to update these statements, even if made available on our website or otherwise. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, a practice which is known as "incorporation by reference." You can find many of these statements by looking for words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "plans," "assumes," "intends," "projects," "goals," "objectives," or similar expressions in this document or in documents incorporated herein.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond our control. We caution readers that the following factors, in addition to other factors mentioned from time to time, may cause actual results to differ materially from those contemplated by the forward-looking statements:

- Unfavorable economic or business conditions, both domestic and foreign.
- Sustained periods of low interest rates.
- Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality rates, and offsets due to, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of our claims operational processes, and changes in government programs.
- Legislative, regulatory, or tax changes, both domestic and foreign, including the effect of potential legislation and increased regulation in the current political environment.
- Investment results, including, but not limited to, changes in interest rates, defaults, changes in credit spreads, impairments, and the lack of appropriate investments in the market which can be acquired to match our liabilities.
- The failure of cyber or other information security systems, as well as the occurrence of events unanticipated in our disaster recovery systems.
- Ineffectiveness of our derivatives hedging programs due to changes in the economic environment, counterparty risk, ratings downgrades, capital market volatility, changes in interest rates, and/or regulation.
- Increased competition from other insurers and financial services companies due to industry consolidation, new entrants to our markets, or other factors.
- Changes in our financial strength and credit ratings.
 - Damage to our reputation due to, among other factors, regulatory investigations, legal proceedings, external events, and/or inadequate or failed internal controls and procedures.
- Actual experience that deviates from our assumptions used in pricing, underwriting, and reserving.
- Actual persistency and/or sales growth that is higher or lower than projected.
- Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, consumer confidence, and/or legislative and regulatory changes, including healthcare reform.
- Effectiveness of our risk management program.
- Contingencies and the level and results of litigation.
- Changes in accounting standards, practices, or policies.
- Fluctuation in foreign currency exchange rates.

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• Ability to generate sufficient internal liquidity and/or obtain external financing.

• Availability of reinsurance in the market and the ability of our reinsurers to meet their obligations to us.

• Recoverability and/or realization of the carrying value of our intangible assets, long-lived assets, and deferred tax assets.

• Terrorism, both within the U.S. and abroad, ongoing military actions, and heightened security measures in response to these types of threats.

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part 1, Item 1A of our annual report on Form 10-K for the year ended December 31, 2013.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Unum Group and Subsidiaries

	June 30 2014	December 31 2013
	(in millions of dollars)	
	(Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$38,884.8; \$38,289.6)	\$44,900.9	\$42,344.4
Mortgage Loans	1,823.8	1,815.1
Policy Loans	3,222.4	3,276.0
Other Long-term Investments	570.8	566.0
Short-term Investments	1,047.0	913.4
Total Investments	51,564.9	48,914.9
Other Assets		
Cash and Bank Deposits	112.0	94.1
Accounts and Premiums Receivable	1,641.8	1,647.8
Reinsurance Recoverable	4,854.2	4,806.5
Accrued Investment Income	796.2	700.2
Deferred Acquisition Costs	1,845.8	1,829.2
Goodwill	201.3	200.9
Property and Equipment	528.3	511.9
Income Tax Receivable	—	50.3
Other Assets	673.6	647.8
Total Assets	\$62,218.1	\$59,403.6

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - Continued

Unum Group and Subsidiaries

	June 30 2014	December 31 2013
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,564.0	\$1,511.0
Reserves for Future Policy and Contract Benefits	44,673.7	43,099.1
Unearned Premiums	521.5	413.8
Other Policyholders' Funds	1,685.9	1,658.4
Income Tax Payable	14.6	—
Deferred Income Tax	419.7	144.3
Short-term Debt	57.4	76.5
Long-term Debt	2,792.0	2,612.0
Other Liabilities	1,245.6	1,229.4
Total Liabilities	52,974.4	50,744.5
Commitments and Contingent Liabilities - Note 10		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 361,384,142 and 360,802,426 shares	36.1	36.1
Additional Paid-in Capital	2,646.2	2,634.1
Accumulated Other Comprehensive Income	631.9	255.0
Retained Earnings	8,478.9	8,083.2
Treasury Stock - at cost: 106,631,397 and 100,785,012 shares	(2,549.4) (2,349.3
Total Stockholders' Equity	9,243.7	8,659.1
Total Liabilities and Stockholders' Equity	\$62,218.1	\$59,403.6

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	(in millions of dollars, except share data)			
Revenue				
Premium Income	\$1,943.6	\$1,905.8	\$3,882.1	\$3,836.7
Net Investment Income	629.1	626.1	1,241.6	1,247.2
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	—	—	(0.8)
Net Realized Investment Gain, Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	25.9	13.3	32.2	24.4
Net Realized Investment Gain	25.9	13.3	32.2	23.6
Other Income	54.9	56.7	108.7	119.2
Total Revenue	2,653.5	2,601.9	5,264.6	5,226.7
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,653.4	1,661.8	3,284.7	3,310.3
Commissions	229.2	220.8	465.2	459.0
Interest and Debt Expense	52.7	37.3	90.6	74.4
Deferral of Acquisition Costs	(124.8)	(113.3)	(253.8)	(231.5)
Amortization of Deferred Acquisition Costs	106.4	101.3	225.0	225.1
Compensation Expense	200.0	194.9	401.0	392.5
Other Expenses	190.1	187.6	378.9	381.6
Total Benefits and Expenses	2,307.0	2,290.4	4,591.6	4,611.4
Income Before Income Tax	346.5	311.5	673.0	615.3
Income Tax (Benefit)				
Current	78.6	112.2	108.3	194.0
Deferred	25.4	(19.3)	93.3	(9.9)
Total Income Tax	104.0	92.9	201.6	184.1
Net Income	\$242.5	\$218.6	\$471.4	\$431.2
Net Income Per Common Share				
Basic	\$0.94	\$0.82	\$1.83	\$1.61
Assuming Dilution	\$0.94	\$0.82	\$1.82	\$1.61

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	(in millions of dollars)			
Net Income	\$242.5	\$218.6	\$471.4	\$431.2
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of \$304.7; \$(734.6); \$675.8; \$(894.0))	572.7	(1,425.1)	1,282.7	(1,703.6)
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of \$(211.7); \$500.4; \$(483.7); \$609.0)	(396.8)	928.3	(917.2)	1,125.7
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of \$(11.8); \$3.5; \$(10.8); \$3.3)	(28.5)	5.9	(26.8)	3.9
Change in Foreign Currency Translation Adjustment	30.2	0.9	37.8	(69.0)
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$-; \$118.9; \$0.3; \$124.4)	(0.1)	221.0	0.4	231.7
Total Other Comprehensive Income (Loss)	177.5	(269.0)	376.9	(411.3)
Comprehensive Income (Loss)	\$420.0	\$(50.4)	\$848.3	\$19.9

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2014	2013
	(in millions of dollars)	
Common Stock		
Balance at Beginning of Year and End of Period	\$36.1	\$36.0
Additional Paid-in Capital		
Balance at Beginning of Year	2,634.1	2,607.7
Common Stock Activity	12.1	12.0
Balance at End of Period	2,646.2	2,619.7
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	255.0	628.0
Other Comprehensive Income (Loss)	376.9	(411.3)
Balance at End of Period	631.9	216.7
Retained Earnings		
Balance at Beginning of Year	8,083.2	7,371.6
Net Income	471.4	431.2
Dividends to Stockholders (per common share: \$0.29; \$0.26)	(75.7)	(70.4)
Balance at End of Period	8,478.9	7,732.4
Treasury Stock		
Balance at Beginning of Year	(2,349.3)	(2,030.7)
Purchases of Treasury Stock	(200.1)	(193.5)
Balance at End of Period	(2,549.4)	(2,224.2)
Total Stockholders' Equity at End of Period	\$9,243.7	\$8,380.6

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2014	2013
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	\$471.4	\$431.2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	115.7	(95.0)
Change in Deferred Acquisition Costs	(28.8)	(6.4)
Change in Insurance Reserves and Liabilities	212.3	364.5
Change in Income Taxes	157.0	(64.9)
Change in Other Accrued Liabilities	(35.5)	(6.0)
Non-cash Adjustments to Net Investment Income	(183.6)	(194.8)
Net Realized Investment Gain	(32.2)	(23.6)
Depreciation	42.9	42.7
Other, Net	6.6	0.6
Net Cash Provided by Operating Activities	725.8	448.3
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	288.7	288.8
Proceeds from Maturities of Fixed Maturity Securities	1,011.4	972.7
Proceeds from Sales and Maturities of Other Investments	116.1	112.7
Purchase of Fixed Maturity Securities	(1,658.3)	(1,584.9)
Purchase of Other Investments	(134.9)	(149.4)
Net Sales (Purchases) of Short-term Investments	(126.6)	589.4
Other, Net	(58.4)	(54.5)
Net Cash Provided (Used) by Investing Activities	(562.0)	174.8
Cash Flows from Financing Activities		
Net Short-term Debt Repayments	(19.1)	(302.2)
Issuance of Long-term Debt	347.2	—
Long-term Debt Repayments	(175.0)	(86.2)
Cost Related to Early Retirement of Debt	(13.2)	—
Issuance of Common Stock	3.0	3.3
Repurchase of Common Stock	(202.7)	(197.4)
Dividends Paid to Stockholders	(75.7)	(70.4)
Other, Net	(10.4)	0.3
Net Cash Used by Financing Activities	(145.9)	(652.6)
Net Increase (Decrease) in Cash and Bank Deposits	17.9	(29.5)
Cash and Bank Deposits at Beginning of Year	94.1	77.3
Cash and Bank Deposits at End of Period	\$112.0	\$47.8

See notes to consolidated financial statements.

8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

June 30, 2014

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2013.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of full year performance.

Note 2 - Accounting Developments

Accounting Updates Outstanding:

Accounting Standards Codification (ASC) 323 "Investments - Equity Method and Joint Ventures"

In January 2014, the Financial Accounting Standards Board (FASB) issued an update to provide guidance on the accounting and reporting for investments in affordable housing projects that qualify for low-income housing tax credits. The guidance permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Additional disclosures concerning investments in qualified affordable housing projects will also be required. The guidance is effective for interim and annual periods beginning on or after December 15, 2014, with early adoption permitted, and is to be applied retrospectively. We have not yet finalized the effect on our financial position or results of operations. We will adopt this update effective January 1, 2015.

ASC 606 "Revenue from Contracts with Customers"

In May 2014, the FASB issued an update that will supersede virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of this update are insurance contracts, although our fee-based service products are included within the scope. The issuance of the new guidance completes the joint effort by the FASB and the International Accounting Standards Board to develop a common revenue standard for GAAP and International Financial Reporting Standards. The guidance is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and provide more useful information through improved disclosure requirements. The core principal of this guidance is that revenue recognition should depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance is effective for interim and annual periods beginning after December 15, 2016 and is to be applied retrospectively. The adoption of this update will not have a material effect on our financial position or results of operations.

ASC 718 "Compensation - Stock Compensation"

In June 2014, the FASB issued an update to clarify that a performance target that affects vesting of a share-based payment and can be achieved after the requisite service is to be treated as a performance condition and should not be reflected in the determination of the grant date fair value of the award. Compensation cost for such an award should be recognized over the required service period when the achievement of the performance condition becomes probable. The guidance is intended to address diversity in practice and is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, and may be applied either prospectively or retrospectively. The adoption of this update will not have a material effect on our financial position or results of operations. We will adopt this update effective January 1, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 2 - Accounting Developments - Continued

ASC 860 "Transfers and Servicing"

In June 2014, the FASB issued an update to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The update also requires disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. The guidance is effective for interim and annual periods beginning after December 15, 2014, with the exception of certain of the additional disclosures, which will be effective for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2015. The guidance is to be applied retrospectively for transactions outstanding on the effective date of the update. The adoption of this update will expand our disclosures but is expected to have no effect on our financial position or results of operations.

Note 3 - Fair Values of Financial Instruments

Presented as follows are the carrying amounts and fair values of financial instruments. The carrying values of financial instruments such as short-term investments, cash and bank deposits, accounts and premiums receivable, accrued investment income, and short-term debt approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the following chart.

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	\$44,900.9	\$44,900.9	\$42,344.4	\$42,344.4
Mortgage Loans	1,823.8	2,011.2	1,815.1	1,980.2
Policy Loans	3,222.4	3,311.3	3,276.0	3,339.6
Other Long-term Investments				
Derivatives	11.4	11.4	10.8	10.8
Equity Securities	15.4	15.4	16.4	16.4
Miscellaneous Long-term Investments	486.5	486.5	475.2	475.2
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	\$630.3	\$630.3	\$631.5	\$631.5
Supplementary Contracts without Life Contingencies	604.3	604.3	563.1	563.1
Long-term Debt	2,792.0	3,086.5	2,612.0	2,824.4
Other Liabilities				
Derivatives	133.2	133.2	135.6	135.6
Embedded Derivative in Modified Coinsurance Arrangement	32.3	32.3	53.2	53.2
Unfunded Commitments to Investment Partnerships	15.7	15.7	27.2	27.2

The methods and assumptions used to estimate fair values of financial instruments are discussed as follows.

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

Mortgage Loans: Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations. These financial instruments are assigned a Level 2 within the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 3 - Fair Values of Financial Instruments - Continued

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal \$2,987.8 million and \$3,043.7 million as of June 30, 2014 and December 31, 2013, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in power, energy, railcar leasing, infrastructure development, and mezzanine debt. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of June 30, 2014, we estimate that the underlying assets of the funds will be liquidated over the next one to ten years. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Policyholders' Funds: Policyholders' funds are comprised primarily of deferred annuity products and supplementary contracts without life contingencies and represent customer deposits plus interest credited at contract rates. Carrying amounts approximate fair value. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Fair values for insurance contracts other than investment contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in our overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have fair values of \$2,252.3 million and \$1,329.2 million as of June 30, 2014 and December 31, 2013, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of \$834.2 million and \$1,495.2 million as of June 30, 2014 and December 31, 2013, respectively, and are assigned a Level 2.

Unfunded Commitments to Investment Partnerships: Unfunded equity commitments represent legally binding amounts that we have committed to certain investment partnerships subject to the partnerships meeting specified conditions. When these conditions are met, we are obligated to invest these amounts in the partnerships. Carrying amounts approximate fair value. These financial instruments are assigned a Level 2 within the fair value hierarchy.

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and equity securities at fair value in our consolidated balance sheets. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted

prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 3 - Fair Values of Financial Instruments - Continued

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. The income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. The cost approach is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available that can be obtained without undue cost and effort. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2014, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2013.

We use observable and unobservable inputs in measuring the fair value of our financial instruments. Inputs that may be used include the following:

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads

Security credit ratings/maturity/capital structure/optionality
Corporate actions
Underlying collateral
Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning
Public covenants
Comparative bond analysis
Derivative spreads
Relevant reports issued by analysts and rating agencies
Audited financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 3 - Fair Values of Financial Instruments - Continued

The management of our investment portfolio includes establishing pricing policy and reviewing the reasonableness of sources and inputs used in developing pricing. We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. In the event we receive a vendor's market price that does not appear reasonable based on our market analysis, we may challenge the price and request further information about the assumptions and methodologies used by the vendor to price the security. We may change the vendor price based on a better data source such as an actual trade. We also review all price changes from the prior month which fall outside a predetermined corridor. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of the financial conditions and industry in which the issuer operates, certain features of the financial instrument require that an adjustment be made to the value originally obtained from our pricing sources. These features may include the complexity of the financial instrument, the market in which the financial instrument is traded, counterparty credit risk, credit structure, concentration, or liquidity. Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument. In the event an asset is sold, we test the validity of the fair value determined by our valuation techniques by comparing the selling price to the fair value determined for the asset in the immediately preceding month end reporting period.

The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

Fair values for derivatives other than embedded derivatives in modified coinsurance arrangements are based on market quotes or pricing models and represent the net amount of cash we would have paid or received if the contracts had been settled or closed as of the last day of the period. We analyze credit default swap spreads relative to the average credit spread embedded within the LIBOR-setting syndicate in determining the effect of credit risk on our derivatives' fair values. If net counterparty credit risk for a derivative asset is determined to be material and is not adequately reflected in the LIBOR-based fair value obtained from our pricing sources, we adjust the valuations obtained from our pricing sources. For purposes of valuing net counterparty risk, we measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. In regard to our own credit risk component, we adjust the valuation of derivative liabilities wherein the counterparty is exposed to our credit risk when the LIBOR-based valuation of our derivatives obtained from pricing sources does not effectively include an adequate credit component for our own credit risk.

Fair values for our embedded derivative in a modified coinsurance arrangement are estimated using internal pricing models and represent the hypothetical value of the duration mismatch of assets and liabilities, interest rate risk, and third party credit risk embedded in the modified coinsurance arrangement.

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities

include risk free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

At June 30, 2014, approximately 13.2 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 3 - Fair Values of Financial Instruments - Continued

The remaining 86.8 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 71.1 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Approximately 4.2 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.

Approximately 11.5 percent of our fixed maturity securities were valued based on prices of comparable securities, matrix pricing, market models, and/or internal models or were valued based on non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data. Level 3 is the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

We consider transactions in inactive or disorderly markets to be less representative of fair value. We use all available observable inputs when measuring fair value, but when significant other unobservable inputs and adjustments are necessary, we classify these assets or liabilities as Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2014

Note 3 - Fair Values of Financial Instruments - Continued

In the following charts, prior year amounts have been reclassified, where applicable, between public utilities and all other corporate bonds to conform to the current year categorization of certain securities.

Fair value measurements by input level for financial instruments carried at fair value are as follows.

	June 30, 2014			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions of dollars)			
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$120.6	\$1,068.1	\$—	\$1,188.7
States, Municipalities, and Political Subdivisions	—	1,882.2	131.5	2,013.7
Foreign Governments	—	1,312.4	81.2	1,393.6
Public Utilities	538.6	7,777.4	179.4	8,495.4
Mortgage/Asset-Backed Securities	—	2,564.6	—	2,564.6
All Other Corporate Bonds	5,277.3	22,757.7	1,159.7	29,194.7
Redeemable Preferred Stocks	—	25.4	24.8	50.2
Total Fixed Maturity Securities	5,936.5	37,387.8	1,576.6	44,900.9
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	8.0	—	8.0
Foreign Exchange Contracts	—	—	—	—