

Edgar Filing: Unum Group - Form 10-Q

Unum Group  
Form 10-Q  
May 02, 2018

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 March 31, 2018

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 62-1598430  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1 FOUNTAIN SQUARE  
CHATTANOOGA, TENNESSEE 37402  
(Address of principal executive offices) (Zip Code)

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

---

Edgar Filing: Unum Group - Form 10-Q

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

(Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

221,194,578 shares of the registrant's common stock were outstanding as of April 30, 2018.

---

TABLE OF CONTENTS

	Page
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>1</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	<u>3</u>
<u>Consolidated Balance Sheets at March 31, 2018 and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Income for the three months ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2018 and 2017</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>59</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>90</u>
<u>Item 4. Controls and Procedures</u>	<u>90</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>91</u>
<u>Item 1A. Risk Factors</u>	<u>91</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>91</u>
<u>Item 6. Exhibits</u>	<u>92</u>
<u>Signatures</u>	<u>93</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:

• Sustained periods of low interest rates.

• Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality and morbidity rates, and policy benefit 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 governmental programs.

• Unfavorable economic or business conditions, both domestic and foreign, that may result in decreases in sales, premiums, or persistency, as well as unfavorable claims activity.

• 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.

• A cyber attack or other security breach could result in the unauthorized acquisition of confidential data.

• The failure of our business recovery and incident management processes to resume our business operations in the event of a natural catastrophe, cyber attack, or other event.

• Execution risk related to our technology needs.

• 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 in the broad array of our products that deviates from our assumptions used in pricing, underwriting, and reserving.

• Changes in accounting standards, practices, or policies.

• Effectiveness of our risk management program.

• Contingencies and the level and results of litigation.

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

•

## Edgar Filing: Unum Group - Form 10-Q

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.

• Fluctuation in foreign currency exchange rates.

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

• 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, 2017.

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

	March 31 2018	December 31 2017
	(in millions of dollars) (Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$40,151.9; \$39,780.5)	\$44,500.1	\$45,457.8
Mortgage Loans	2,200.8	2,213.2
Policy Loans	3,573.3	3,571.1
Other Long-term Investments	706.5	646.8
Short-term Investments	712.6	1,155.1
Total Investments	51,693.3	53,044.0
Other Assets		
Cash and Bank Deposits	308.9	77.4
Accounts and Premiums Receivable	1,736.7	1,665.7
Reinsurance Recoverable	4,815.5	4,879.2
Accrued Investment Income	745.8	690.1
Deferred Acquisition Costs	2,213.4	2,184.6
Goodwill	348.9	338.6
Property and Equipment	508.4	504.8
Other Assets	641.4	628.7
Total Assets	\$63,012.3	\$64,013.1

See notes to consolidated financial statements.



## CONSOLIDATED BALANCE SHEETS - Continued

## Unum Group and Subsidiaries

	March 31 2018	December 31 2017
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,623.1	\$1,605.2
Reserves for Future Policy and Contract Benefits	44,668.5	45,601.6
Unearned Premiums	432.8	373.1
Other Policyholders' Funds	1,635.6	1,595.0
Income Tax Payable	61.3	2.9
Deferred Income Tax	128.9	199.0
Short-term Debt	200.0	199.9
Long-term Debt	2,721.9	2,738.4
Payables for Collateral on Investments	382.2	396.2
Other Liabilities	1,658.5	1,726.9
Total Liabilities	53,512.8	54,438.2
Commitments and Contingent Liabilities - Note 11		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 304,951,984 and 304,448,032 shares	30.5	30.5
Additional Paid-in Capital	2,302.4	2,303.3
Accumulated Other Comprehensive Income (Loss)	(82.4	) 127.5
Retained Earnings	9,777.8	9,542.2
Treasury Stock - at cost: 83,783,327 and 81,900,950 shares	(2,528.8	) (2,428.6 )
Total Stockholders' Equity	9,499.5	9,574.9
Total Liabilities and Stockholders' Equity	\$63,012.3	\$64,013.1

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars, except share data)	
		As Adjusted
Revenue		
Premium Income	\$2,250.0	\$2,142.9
Net Investment Income	602.3	602.4
Realized Investment Gain (Loss)		
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(1.0	) —
Net Realized Investment Gain (Loss), Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(1.2	) 11.0
Net Realized Investment Gain (Loss)	(2.2	) 11.0
Other Income	49.5	50.2
Total Revenue	2,899.6	2,806.5
Benefits and Expenses		
Benefits and Change in Reserves for Future Benefits	1,807.9	1,749.0
Commissions	282.3	270.2
Interest and Debt Expense	40.2	39.8
Deferral of Acquisition Costs	(169.3	) (162.1
Amortization of Deferred Acquisition Costs	151.5	141.5
Compensation Expense	221.7	209.0
Other Expenses	224.2	228.8
Total Benefits and Expenses	2,558.5	2,476.2
Income Before Income Tax	341.1	330.3
Income Tax (Benefit)		
Current	89.4	56.6
Deferred	(21.8	) 43.8
Total Income Tax	67.6	100.4
Net Income	\$273.5	\$229.9
Net Income Per Common Share		
Basic	\$1.23	\$1.00
Assuming Dilution	\$1.23	\$1.00

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
Net Income	\$273.5	\$229.9
Other Comprehensive Income (Loss)		
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of \$(274.9); \$89.0)	(1,042.1)	176.9
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of \$212.1; \$(67.3))	807.9	(134.5 )
Change in Net Gain on Hedges (net of tax benefit of \$2.3; \$6.0)	(8.8 )	(10.7 )
Change in Foreign Currency Translation Adjustment	47.5	17.1
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$0.7; \$1.5)	3.1	2.6
Total Other Comprehensive Income (Loss)	(192.4 )	51.4
Comprehensive Income	\$81.1	\$281.3

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
<b>Common Stock</b>		
Balance at Beginning of Year and End of Period	\$30.5	\$30.4
<b>Additional Paid-in Capital</b>		
Balance at Beginning of Year	2,303.3	2,272.8
Common Stock Activity	(0.9	) 4.6
Balance at End of Period	2,302.4	2,277.4
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance at Beginning of Year	127.5	(51.0 )
Adjustment to Adopt Accounting Standard Update - Note 2	(17.5	) —
Balance at Beginning of Year, as Adjusted	110.0	(51.0 )
Other Comprehensive Income (Loss)	(192.4	) 51.4
Balance at End of Period	(82.4	) 0.4
<b>Retained Earnings</b>		
Balance at Beginning of Year	9,542.2	8,744.0
Adjustment to Adopt Accounting Standard Update - Note 2	14.5	—
Balance at Beginning of Year, as Adjusted	9,556.7	8,744.0
Net Income	273.5	229.9
Dividends to Stockholders (per common share: \$0.23; \$0.20)	(52.4	) (46.5 )
Balance at End of Period	9,777.8	8,927.4
<b>Treasury Stock</b>		
Balance at Beginning of Year	(2,428.6 )	(2,028.2 )
Purchases of Treasury Stock	(100.2 )	(100.0 )
Balance at End of Period	(2,528.8 )	(2,128.2 )
<b>Total Stockholders' Equity at End of Period</b>	<b>\$9,499.5</b>	<b>\$9,107.4</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
	As	Adjusted
Cash Flows from Operating Activities		
Net Income	\$273.5	\$ 229.9
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	(29.4 )	(18.2 )
Change in Deferred Acquisition Costs	(17.8 )	(20.6 )
Change in Insurance Reserves and Liabilities	183.8	128.7
Change in Income Taxes	56.4	92.5
Change in Other Accrued Liabilities	(110.4 )	(18.3 )
Non-cash Components of Net Investment Income	(95.2 )	(103.7 )
Net Realized Investment (Gain) Loss	2.2	(11.0 )
Depreciation	24.6	26.5
Other, Net	12.2	4.4
Net Cash Provided by Operating Activities	299.9	310.2
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	84.8	154.3
Proceeds from Maturities of Fixed Maturity Securities	469.8	568.3
Proceeds from Sales and Maturities of Other Investments	82.3	46.5
Purchases of Fixed Maturity Securities	(835.4 )	(774.7 )
Purchases of Other Investments	(90.0 )	(95.7 )
Net Sales of Short-term Investments	450.9	10.4
Net Decrease in Payables for Collateral on Investments	(14.0 )	(8.4 )
Net Purchases of Property and Equipment	(29.1 )	(27.3 )
Net Cash Provided (Used) by Investing Activities	119.3	(126.6 )
Cash Flows from Financing Activities		
Long-term Debt Repayments	(15.0 )	(15.2 )
Issuance of Common Stock	1.3	1.0
Repurchase of Common Stock	(105.7 )	(106.9 )
Dividends Paid to Stockholders	(52.4 )	(46.5 )
Other, Net	(15.9 )	(9.4 )
Net Cash Used by Financing Activities	(187.7 )	(177.0 )
Net Increase in Cash and Bank Deposits	231.5	6.6
Cash and Bank Deposits at Beginning of Year	77.4	100.4
Cash and Bank Deposits at End of Period	\$308.9	\$ 107.0

See notes to consolidated financial statements.

8

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

March 31, 2018

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, 2017.

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 Adopted in 2018:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 230 "Statement of Cash Flows"	This update provided clarifying guidance intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addressed eight specific cash flow issues that relate to various types of transactions. The guidance is to be applied retrospectively.	January 1, 2018	The adoption of this update resulted in the reclassification of certain cash inflows from investing activities to cash inflows from operating activities within our consolidated statements of cash flows. This reclassification related to cash distributions from equity method investees and the bifurcation of those distributions as either returns on investment or returns of investment. The adoption of this update had no effect on our financial position or results of operations. See the summary table below for the financial statement impacts of this retrospective adoption.
ASC 606 "Revenue from Contracts with Customers"	These updates superseded virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of these updates are insurance contracts, although our fee-based service products are included within the scope. Our fee-based service products, which are	January 1, 2018	The adoption of these updates did not have an impact on our financial position or results of operations and did not result in expanded disclosures due to the immaterial nature of our fee-based service



primarily sold in our Unum US segment, are reported in other income within our consolidated statements of income and represent less than one percent of our total revenue. The core principle 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. Accordingly, we continue to recognize revenue for these fee-based service products as services are rendered. The guidance is to be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption.

products relative to our overall business.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 715 "Compensation - Retirement Benefits"	This update required the service cost component of net periodic pension and postretirement benefit costs to be included as a component of compensation costs in an entity's statement of income. Other components of net periodic pension and postretirement benefit costs are required to be presented separately from the service cost along with a disclosure identifying the line items in which these costs are presented in the statement of income. The amendments in this update are to be applied retrospectively or prospectively depending on the specific requirement of the update.	January 1, 2018	The adoption of this update resulted in the reclassification of service cost from the other expenses line item to the compensation expense line item on our consolidated statements of income but had no effect on our financial position or results of operations. We elected to use the practical expedient for the retrospective application of this update. See the summary table below for the financial statement impacts of this retrospective adoption.
ASC 740 "Income Taxes"	This update eliminated the exception that required the tax effect of intra-entity asset transfers other than inventory to be deferred until the transferred asset is sold to a third party or otherwise recovered through use. It required recognition of tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The guidance is to be applied retrospectively.	January 1, 2018	The adoption of this update did not have an impact on our financial position or results of operations.
ASC 815 "Derivatives and Hedge Accounting"	This update provided targeted improvements to accounting for hedging activities for both nonfinancial and financial risk components, aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements, eases certain documentation and effectiveness assessment requirements, and enhances transparency through expanded disclosures. For cash flow and net investment hedges existing at the date of adoption, the guidance is to be applied using a modified retrospective approach through a cumulative-effect adjustment to accumulated other comprehensive income with a	January 1, 2018	We elected to early adopt this update. The adoption of this update did not have an impact on our financial position or results of operations; however, it expanded our disclosures. This update will also simplify hedge documentation requirements and expand available hedging strategies.

corresponding adjustment to retained earnings as of the beginning of the fiscal year the guidance is adopted. The amended presentation and disclosure guidance is required prospectively. Early adoption is permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 825 "Financial Instruments - Overall"	<p>This update changed the accounting and disclosure requirements for certain financial instruments. These changes include a requirement to measure equity investments, other than those that result in consolidation or are accounted for under the equity method, at fair value through net income unless the investment qualifies for certain practicability exceptions. In addition, the update clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale fixed maturity securities. Changes also included the modification of certain disclosures around the fair value of financial instruments, including the requirement for separate presentation of financial assets and liabilities by measurement category, as well as the elimination of certain disclosures around methods and significant assumptions used to estimate fair value. The guidance is to be applied using a modified retrospective approach through a cumulative-effect adjustment to accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year the guidance is adopted.</p>	January 1, 2018	<p>See the summary table below for the financial statement impacts of this modified retrospective adoption on our financial statement line items at January 1, 2018.</p>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 2 - Accounting Developments - Continued

## Summary of Financial Statement Impacts of Accounting Updates Adopted in 2018:

For the Three Months  
Ended March 31, 2017  
Historical Accounting Method  
As Adjusted  
Effect of Change  
(in millions of dollars)

Adjustments due to ASC 230			
Consolidated Statements of Cash Flow			
Cash Flows from Operating Activities			
Other, Net	\$2.2	\$ 4.4	\$ 2.2
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Other Investments	48.7	46.5	(2.2 )

## Adjustments due to ASC 715

Consolidated Statements of Income

Compensation Expense	207.0	209.0	2.0
Other Expenses	230.8	228.8	(2.0 )

Balance at December 31, 2017  
Balance at January 1, 2018  
Effect of Change  
(in millions of dollars)

Adjustments due to ASC 825			
Consolidated Balance Sheets			
Assets			
Other Long-term Investments	\$646.8	\$ 643.0	\$ (3.8 )
Liabilities			
Deferred Income Tax	199.0	198.2	(0.8 )
Stockholders' Equity			
Accumulated Other Comprehensive Income (Loss)	127.5	110.0	(17.5 )
Retained Earnings	9,542.2	9,556.7	14.5

For the adoption of these updates, certain reclassifications have been made to prior year amounts in order to conform to current year presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 220 "Income Statement - Reporting Comprehensive Income"	<p>This update allows entities to make an accounting policy election to reclassify the stranded tax effects arising as a result of the recognition of the enactment of the tax bill, H.R.1, An Act to Provide Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, more commonly known as the Tax Cuts and Jobs Act (TCJA) from accumulated other comprehensive income to retained earnings. Tax effects that are stranded in accumulated other comprehensive income for reasons other than the TCJA may not be reclassified. This update requires additional disclosures on whether an entity elects to reclassify the stranded tax effects and its policy for releasing tax effects from accumulated other comprehensive income. This guidance may be applied in the period of adoption or retrospectively to each period in which the effect of the change in federal income tax rate in the TCJA is recognized. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018; however, early adoption is permitted.</p>	January 1, 2019	<p>We intended to early adopt this update effective January 1, 2018, but have chosen to now continue our evaluation of this potential adoption. If we elect to adopt this update, we will reclassify stranded tax effects resulting from the enactment of the TCJA from accumulated other comprehensive income to retained earnings and will apply the amendments as of January 1 in the year the election is made. In addition, we will be required to expand our disclosures.</p>
ASC 310 "Receivables - Nonrefundable Fees and Other Costs"	<p>This update shortens the amortization period to the earliest call date for certain callable debt securities held at a premium. This update does not impact securities held at a discount. The guidance is to be applied using a modified retrospective approach, with early adoption permitted.</p>	January 1, 2019	<p>We have not yet determined the expected impact on our financial position or results of operations.</p>
ASC 842 "Leases"			

This update changes the accounting for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is also recorded. Expense recognition for lessees will remain similar to current accounting requirements for capital and operating leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period presented and early adoption is permitted.

January 1,  
2019

We have not yet determined the expected impact on our financial position or results of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 326 "Financial Instruments - Credit Losses"	<p>This update amends the guidance on the impairment of financial instruments. The update adds an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses and will generally result in earlier recognition of allowances for losses. The current expected credit loss model applies to financial instruments such as mortgage loans, fixed maturity securities classified as held-to-maturity, and certain receivables. The update also modifies the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit losses are recognized as an allowance rather than as a reduction in the amortized cost of the security. The reversal of previously recognized credit losses on available-for-sale fixed maturity securities is allowed under specified circumstances. Additional disclosures will also be required, including information used to develop the allowance for losses. The guidance is to be applied to most instruments in scope using a modified retrospective approach at the beginning of the earliest comparative period presented with early adoption permitted. For available-for-sale fixed maturity securities, the update is applied prospectively. Other-than-temporary impairment losses recognized on available-for-sale fixed maturity securities prior to adoption of the update cannot be reversed.</p>	January 1, 2020	We have not yet determined the expected impact on our financial position or results of operations.
ASC 350 "Intangibles - Goodwill and Other"	<p>This update eliminates the requirement to calculate the implied fair value of goodwill (the second step in the current two-step test) to measure a goodwill impairment charge. Instead, entities should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of the carrying amount over the fair value, with the loss not to exceed the total amount of goodwill allocated to that reporting unit. The guidance is to be applied prospectively, with early adoption permitted for goodwill impairment tests performed on testing dates after January 1, 2017.</p>	January 1, 2020	The adoption of this update is not expected to have a material effect on our financial position or results of operations.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, which are classified as available-for-sale securities, derivative financial instruments, and unrestricted equity securities at fair value in our consolidated balance sheets. We report our investments in private equity partnerships at our share of the partnerships' net asset value (NAV) as a practical expedient for fair value.

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.

We classify financial instruments in accordance with a fair value hierarchy consisting of three levels based on the observability of valuation inputs:

Level 1 - the highest category of the fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - 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.

Level 3 - 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.

Valuation Methodologies of Financial Instruments Measured at Fair Value

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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

## Note 3 - Fair Values of Financial Instruments - Continued

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 2018, we have applied valuation approaches and techniques on a consistent basis to similar assets and liabilities and consistent with those approaches and techniques used at year end 2017.

## Fixed Maturity and Equity Securities

We use observable and unobservable inputs in measuring the fair value of our fixed maturity and equity securities. For securities categorized as Level 1, fair values equal active Trade Reporting and Compliance Engine (TRACE) pricing or unadjusted broker market maker prices. For securities categorized as Level 2 or Level 3, inputs that may be used in valuing each class of securities at any given time period are presented as follows. Actual inputs used to determine fair values will vary for each reporting period depending on the availability of inputs which may, at times, be affected by the lack of market liquidity.

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
United States Government and Government Agencies and Authorities		
Valuation Method	Principally the market approach	Not applicable
Valuation Techniques / Inputs	Prices obtained from external pricing services	
States, Municipalities, and Political Subdivisions		
Valuation Method	Principally the market approach	Principally the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services Relevant reports issued by analysts and rating agencies Audited financial statements	Analysis of similar bonds, adjusted for comparability Non-binding broker quotes Security and issuer level spreads
Foreign Governments		
Valuation Method	Principally the market approach	Principally the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services	Analysis of similar bonds, adjusted for comparability

Edgar Filing: Unum Group - Form 10-Q

Non-binding broker quotes  
Call provisions

Non-binding broker quotes  
Security and issuer level spreads

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Public Utilities		
Valuation Method	Principally the market and income approaches	Principally the market and income approaches
Valuation Techniques / Inputs	<p>TRACE pricing</p> <p>Prices obtained from external pricing services</p> <p>Non-binding broker quotes</p> <p>Benchmark yields</p> <p>Transactional data for new issuances and secondary trades</p> <p>Security cash flows and structures</p> <p>Recent issuance / supply</p> <p>Matrix pricing</p> <p>Security and issuer level spreads</p> <p>Security creditor ratings/maturity/capital structure/optionality</p> <p>Public covenants</p> <p>Comparative bond analysis</p> <p>Relevant reports issued by analysts and rating agencies</p> <p>Audited financial statements</p>	<p>Change in benchmark reference</p> <p>Analysis of similar bonds, adjusted for comparability</p> <p>Discount for size - illiquidity</p> <p>Non-binding broker quotes</p> <p>Lack of marketability</p> <p>Security and issuer level spreads</p> <p>Volatility of credit</p> <p>Matrix pricing</p>
Mortgage/Asset-Backed Securities		
Valuation Method	Principally the market and income approaches	Principally the market approach
Valuation Techniques / Inputs	<p>Prices obtained from external pricing services</p> <p>Non-binding broker quotes</p> <p>Security cash flows and structures</p> <p>Underlying collateral</p> <p>Prepayment speeds/loan performance/delinquencies</p> <p>Relevant reports issued by analysts and rating agencies</p> <p>Audited financial statements</p>	<p>Analysis of similar bonds, adjusted for comparability</p> <p>Non-binding broker quotes</p> <p>Security and issuer level spreads</p>

Edgar Filing: Unum Group - Form 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
All Other Corporate Bonds		
Valuation Method	Principally the market and income approaches	Principally the market and income approaches
Valuation Techniques / Inputs	TRACE pricing  Prices obtained from external pricing services  Non-binding broker quotes Benchmark yields Transactional data for new issuances and secondary trades Security cash flows and structures Recent issuance / supply Matrix pricing Security and issuer level spreads Security creditor ratings/maturity/capital structure/optionality Public covenants Comparative bond analysis Relevant reports issued by analysts and rating agencies Audited financial statements	Change in benchmark reference  Analysis of similar bonds, adjusted for comparability Discount for size - illiquidity Non-binding broker quotes  Lack of marketability  Security and issuer level spreads Volatility of credit Matrix pricing
Redeemable Preferred Stocks		
Valuation Method	Principally the market approach	Principally the market approach
Valuation Techniques / Inputs	Non-binding broker quotes  Benchmark yields Comparative bond analysis Call provisions Relevant reports issued by analysts and rating agencies Audited financial statements	Non-binding broker quotes
Equity Securities		
Valuation Method	Principally the market approach	Principally the market and income approaches
	Prices obtained from external pricing services	Financial statement analysis

Valuation Techniques /  
Inputs

Non-binding broker quotes

Non-binding broker quotes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

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.

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.

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.

At March 31, 2018, 20.7 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 remaining 79.3 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below:

66.0 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.

2.4 percent of our fixed maturity securities were valued based on one or more non-binding broker quotes, 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.

10.9 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.

Derivatives



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

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.

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

## Private Equity Partnerships

Our private equity partnerships represent funds that are primarily invested in private credit, private equity and real assets, as described below. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. There is generally not a public market for these investments.

The following table presents additional information about our private equity partnerships as of March 31, 2018, including commitments for additional investments which may or may not be funded:

Investment Category	Fair Value (in millions of dollars)	Redemption Term / Redemption Notice	Unfunded Commitments (in millions of dollars)
Private Credit	(a) \$ 165.5	Not redeemable	\$ 116.1
	22.4	Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	2.0
Total Private Credit	187.9		118.1
Private Equity	(b) 101.3	Not redeemable	106.2
Real Assets	(c) 93.9	Not redeemable	83.0
	30.2	Quarterly / 90 days notice	—
Total Real Assets	124.1		83.0
Total Partnerships	\$ 413.3		\$ 307.3

(a) Private Credit - The limited partnerships described in this category employ various investment strategies, generally providing direct lending or other forms of debt financing including first-lien, second-lien, mezzanine, and subordinated loans. The limited partnerships have credit exposure to corporates, physical assets, and/or financial

## Edgar Filing: Unum Group - Form 10-Q

assets within variety of industries (including manufacturing, healthcare, energy, business services, technology, materials, and retail) in North America and, to a lesser extent, outside of North America. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemptions. As of March 31, 2018, the estimated remaining life of the investments that do not allow for redemptions is approximately 30 percent in the next 3 years, 42 percent during the period from 3 to 5 years, 23 percent during the period from 5 to 10 years, and 5 percent during the period from 10 to 15 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Private Equity - The limited partnerships described in this category employ various strategies generally investing in controlling or minority control equity positions directly in companies and/or assets across various industries (including manufacturing, healthcare, energy, business services, technology, materials, and retail), primarily in private markets within North America and, to a lesser extent, outside of North America. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemptions. As of March 31, 2018, the estimated remaining life of the investments that do not allow for redemptions is approximately 39 percent in the next 3 years, 31 percent during the period from 3 to 5 years, 28 percent during the period from 5 to 10 years, and 2 percent during the period from 10 to 15 years.

Real Assets - The limited partnerships described in this category employ various strategies, which include investing in the equity and/or debt financing of physical assets, including infrastructure (energy, power, water/wastewater, communications), transportation (including airports, ports, toll roads, aircraft, railcars) and real estate in North America, Europe, South America, and Asia. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemption. As of March 31, 2018, the estimated remaining life of the investments that do not allow for redemptions is approximately 3 percent in the next 3 years, 95 percent during the period from 5 to 10 years, and 2 percent during the period from 10 to 15 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

The following tables present information about assets and liabilities measured at fair value on a recurring basis by fair value level, based on the observability of the inputs used:

	March 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total
	(in millions of dollars)				
<b>Assets</b>					
<b>Fixed Maturity Securities</b>					
United States Government and Government Agencies and Authorities	\$495.3	\$1,051.0	\$—	\$—	\$1,546.3
States, Municipalities, and Political Subdivisions	—	2,321.6	35.7	—	2,357.3
Foreign Governments	—	841.4	32.3	—	873.7
Public Utilities	574.1	7,123.4	284.2	—	7,981.7
Mortgage/Asset-Backed Securities	—	1,842.3	0.5	—	1,842.8
All Other Corporate Bonds	8,127.2	20,742.6	987.2	—	29,857.0
Redeemable Preferred Stocks	—	19.1	22.2	—	41.3
<b>Total Fixed Maturity Securities</b>	<b>9,196.6</b>	<b>33,941.4</b>	<b>1,362.1</b>	<b>—</b>	<b>44,500.1</b>
<b>Other Long-term Investments</b>					
<b>Derivatives</b>					
Foreign Exchange Contracts	—	21.5	—	—	21.5
Equity Securities	24.9	46.4	1.1	—	72.4
Private Equity Partnerships	—	—	—	413.3	413.3
<b>Total Other Long-term Investments</b>	<b>24.9</b>	<b>67.9</b>	<b>1.1</b>	<b>413.3</b>	<b>507.2</b>
<b>Total Recurring Fair Value Measurements Assets</b>	<b>\$9,221.5</b>	<b>\$34,009.3</b>	<b>\$1,363.2</b>	<b>\$413.3</b>	<b>\$45,007.3</b>
<b>Liabilities</b>					
<b>Other Liabilities</b>					
<b>Derivatives</b>					
Interest Rate Swaps	\$—	\$7.2	\$—	\$—	\$7.2
Foreign Exchange Contracts	—	44.2	—	—	44.2
Embedded Derivative in Modified Coinsurance Arrangement	—	—	17.6	—	17.6
<b>Total Derivatives</b>	<b>—</b>	<b>51.4</b>	<b>17.6</b>	<b>—</b>	<b>69.0</b>
<b>Total Recurring Fair Value Measurements Liabilities</b>	<b>\$—</b>	<b>\$51.4</b>	<b>\$17.6</b>	<b>\$—</b>	<b>\$69.0</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2017				Total
	Level 1	Level 2	Level 3	NAV	
(in millions of dollars)					
Assets					
Fixed Maturity Securities					
United States Government and Government Agencies and Authorities	\$460.1	\$1,022.4	\$—	\$—	\$1,482.5
States, Municipalities, and Political Subdivisions	—	2,336.9	—	—	2,336.9
Foreign Governments	—	863.9	—	—	863.9
Public Utilities	154.2	7,874.6	207.7	—	8,236.5
Mortgage/Asset-Backed Securities	—	1,973.6	—	—	1,973.6
All Other Corporate Bonds	3,556.1	25,816.2	1,150.1	—	30,522.4
Redeemable Preferred Stocks	—	19.2	22.8	—	42.0
Total Fixed Maturity Securities	4,170.4	39,906.8	1,380.6	—	45,457.8
Other Long-term Investments					
Derivatives					
Foreign Exchange Contracts	—	19.5	—	—	19.5
Equity Securities	0.2	10.4	1.1	—	11.7
Private Equity Partnerships	—	—	—	407.2	407.2
Total Other Long-term Investments	0.2	29.9	1.1	407.2	438.4
Total Recurring Fair Value Measurements Assets	\$4,170.6	\$39,936.7	\$1,381.7	\$407.2	\$45,896.2
Liabilities					
Other Liabilities					
Derivatives					
Interest Rate Swaps	\$—	\$5.1	\$—	\$—	\$5.1
Foreign Exchange Contracts	—	46.9	—	—	46.9
Credit Default Swaps	—	0.2	—	—	0.2
Embedded Derivative in Modified Coinsurance Arrangement	—	—	15.9	—	15.9
Total Derivatives	—	52.2	15.9	—	68.1
Total Recurring Fair Value Measurements Liabilities	\$—	\$52.2	\$15.9	\$—	\$68.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Transfers of assets between Level 1 and Level 2 are as follows:

	Three Months Ended March 31			
	2018		2017	
	Level 1 from Level 2	Level 2 from Level 1	Level 1 from Level 2	Level 2 from Level 1
	(in millions of dollars)			
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$40.1	\$ —	\$54.5	\$ 180.0
Public Utilities	528.5	62.0	1,103.9	57.5
All Other Corporate Bonds	5,274.9	953.3	6,317.0	1,075.3
Total Fixed Maturity Securities	\$5,843.5	\$ 1,015.3	\$7,475.4	\$ 1,312.8
Equity Securities	\$24.2	\$ 14.9	\$—	\$ —

Transfers between Level 1 and Level 2 occurred due to the change in availability of either a TRACE or broker market maker price. Depending on current market conditions, the availability of these Level 1 prices can vary from period to period. For fair value measurements of financial instruments that were transferred either into or out of Level 1 or 2, we reflect the transfers using the fair value at the beginning of the period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Three Months Ended March 31, 2018						Level 3	
	Total Realized and Unrealized Investment Gains (Losses) Included in				Transfers			
	Fair Value Beginning of Period	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	Fair Value End of Period	
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$—	\$ (0.8 )	\$ —	—\$(0.1)	\$36.6	\$ —	\$35.7	
Foreign Governments	—	(0.4 )	—	—	32.7	—	32.3	
Public Utilities	<del>207.7</del>	(6.7 )	—	(1.1 )	200.9	(116.6)	284.2	
Mortgage/Asset-Backed Securities	—	—	—	—	0.5	—	0.5	
All Other Corporate Bonds	1,150.1	(22.1 )	—	(11.7)	466.0	(595.1)	1,987.2	
Redeemable Preferred Stocks	22.8	(0.6 )	—	—	—	—	22.2	
Total Fixed Maturity Securities	1,380.6	(30.6 )	—	(12.9)	736.7	(711.1)	1,362.1	
Equity Securities	1.1	—	—	—	—	—	1.1	
Embedded Derivative in Modified Coinsurance Arrangement	(15.9)	(1.7)	—	—	—	—	(17.6 )	



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

	Three Months Ended March 31, 2017							
	Fair Value Beginning of Period	Total Realized and Unrealized Investment Gains (Losses) Included in		Purchases	Sales	Level 3 Transfers		Fair Value End of Period
Earnings		Other Comprehensive Income or Loss	Into			Out of		
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$89.5	\$ —	—	\$ —	\$ —	\$0.4	\$(89.5)	\$ 0.4
Public Utilities	265.3	—	1.8	8.0	—	112.6	(75.2 )	312.5
All Other Corporate Bonds	1,459.7	—	13.1	—	(36)	143.9	(657.3 )	923.0
Redeemable Preferred Stocks	23.2	—	(0.3 )	—	—	—	—	22.9
Total Fixed Maturity Securities	1,837.7	—	14.6	8.0	(36)	256.9	(822.0 )	1,258.8
Equity Securities	1.2	—	—	—	—	—	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	(46.7 )	8.6	—	—	—	—	—	(38.1 )

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for greater transparency, as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation. Gains (losses) which are included in earnings and are attributable to the change in fair value of assets or liabilities valued using significant unobservable inputs and still held at period end were \$(1.7) million and \$8.6 million for the three months ended March 31, 2018 and 2017, respectively. These amounts relate entirely to the change in fair value of an embedded derivative in a modified coinsurance arrangement and are reported as a component of realized investment gains and losses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

The table below provides quantitative information regarding the significant unobservable inputs used in Level 3 fair value measurements derived from internal models. Certain securities classified as Level 3 are excluded from the table below due to limitations in our ability to obtain the underlying inputs used by external pricing sources.

		March 31, 2018			
		Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
		(in millions of dollars)			
Fixed Maturity Securities					
All Other Corporate Bonds - Private	\$276.6	Market Approach	Comparability Adjustment Lack of Marketability Volatility of Credit Market Convention	(a) 1.00% - 1.25% / 1.04% (b) 0.25% - 0.25% / 0.25% (c) 0.20% - 5.82% / 0.59% (d) Priced at Par	
Equity Securities - Private	\$1.1	Market Approach	Market Convention	(d) Priced at Cost or Owner's Equity	
Embedded Derivative in Modified Coinsurance Arrangement	\$(17.6)	Discounted Cash Flows	Projected Liability Cash Flows	(e) Actuarial Assumptions	
		December 31, 2017			
		Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
		(in millions of dollars)			
Fixed Maturity Securities					
All Other Corporate Bonds - Private	\$244.4	Market Approach	Comparability Adjustment Lack of Marketability Volatility of Credit Market Convention	(a) 0.20% - 0.20% / 0.20% (b) 0.25% - 0.25% / 0.25% (c) 0.12% - 6.25% / 0.50% (d) Priced at Par	
Equity Securities - Private	\$1.1	Market Approach	Market Convention	(d) Priced at Cost or Owner's Equity	
Embedded Derivative in Modified Coinsurance Arrangement	\$(15.9)	Discounted Cash Flows	Projected Liability Cash Flows	(e) Actuarial Assumptions	

(a) Represents basis point adjustments for changes in benchmark spreads associated with various industry sectors

(b) Represents basis point adjustments to apply a discount due to the illiquidity of an investment

(c) Represents basis point adjustments for credit-specific factors

(d) Represents a decision to price based on par value, cost, or owner's equity when limited data is available

(e) Represents various actuarial assumptions required to derive the liability cash flows including incidence, termination, and lapse rates

Isolated increases in unobservable inputs other than market convention will result in a lower fair value measurement, whereas isolated decreases will result in a higher fair value measurement. The unobservable input for market convention is not sensitive to input movements. The projected liability cash flows used in the fair value measurement of our Level 3 embedded derivative are based on expected claim payments. If claim payments increase, the projected liability cash flows will increase, resulting in a decrease in the fair value of the embedded derivative. Decreases in

projected liability cash flows will result in an increase in the fair value of the embedded derivative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

The methods and assumptions used to estimate fair values of financial instruments not carried at fair value are discussed as follows.

**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.

**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 \$3,306.8 million and \$3,307.5 million as of March 31, 2018 and December 31, 2017, 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.

**Miscellaneous Long-term Investments:** Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Our shares of FHLB common stock are carried at cost, which approximates fair value.

**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.

**FHLB Funding Agreements:** Funding agreements with the FHLB represent cash advances used for the purpose of investing in fixed maturity securities. Carrying amounts approximate fair value.

**Unfunded Commitments to Investment Partnerships:** Unfunded equity commitments represent amounts that we have committed to fund certain investment partnerships. These commitments are legally binding, subject to the partnerships meeting specified conditions. Carrying amounts of these financial instruments approximate fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

	March 31, 2018				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
	(in millions of dollars)				
<b>Assets</b>					
Mortgage Loans	\$—	\$2,235.1	\$—	\$2,235.1	\$2,200.8
Policy Loans	—	—	3,666.0	3,666.0	3,573.3
Other Long-term Investments					
Miscellaneous Long-term Investments	—	34.1	119.1	153.2	153.2
Total Financial Instrument Assets Not Carried at Fair Value	\$—	\$2,269.2	\$3,785.1	\$6,054.3	\$5,927.3
<b>Liabilities</b>					
Long-term Debt	\$2,155.7	\$805.9	\$—	\$2,961.6	\$2,721.9
Payables for Collateral on Investments					
Federal Home Loan Bank (FHLB) Funding Agreements	—	350.0	—	350.0	350.0
Other Liabilities					
Unfunded Commitments	—	3.7	—	3.7	3.7
Total Financial Instrument Liabilities Not Carried at Fair Value	\$2,155.7	\$1,159.6	\$—	\$3,315.3	\$3,075.6

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2017				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
	(in millions of dollars)				
<b>Assets</b>					
Mortgage Loans	\$—	\$2,306.2	\$—	\$2,306.2	\$2,213.2
Policy Loans	—	—	3,677.5	3,677.5	3,571.1
Other Long-term Investments					
Miscellaneous Long-term Investments	—	34.1	128.2	162.3	162.3
Total Financial Instrument Assets Not Carried at Fair Value	\$—	\$2,340.3	\$3,805.7	\$6,146	\$5,946.6
<b>Liabilities</b>					
Long-term Debt	\$1,171.8	\$1,876.9	\$—	\$3,048.7	\$2,738.4
Payables for Collateral on Investments					
Federal Home Loan Bank (FHLB) Funding Agreements	—	350.0	—	350.0	350.0
Other Liabilities					
Unfunded Commitments	—	3.7	—	3.7	3.7
Total Financial Instrument Liabilities Not Carried at Fair Value	\$1,171.8	\$2,230.6	\$—	\$3,402.4	\$3,092.1

The carrying values of financial instruments such as short-term investments, cash and bank deposits, accounts and premiums receivable, accrued investment income, securities lending agreements, 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 above chart.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments

## Fixed Maturity Securities

At March 31, 2018 and December 31, 2017, all fixed maturity securities were classified as available-for-sale. The amortized cost and fair values of securities by security type are shown as follows:

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,411.0	\$ 146.4	\$ 11.1	\$1,546.3
States, Municipalities, and Political Subdivisions	2,016.6	343.2	2.5	2,357.3
Foreign Governments	692.6	181.9	0.8	873.7
Public Utilities	6,919.6	1,089.7	27.6	7,981.7
Mortgage/Asset-Backed Securities	1,776.4	81.1	14.7	1,842.8
All Other Corporate Bonds	27,296.7	2,796.7	236.4	29,857.0
Redeemable Preferred Stocks	39.0	2.3	—	41.3
Total Fixed Maturity Securities	\$40,151.9	\$ 4,641.3	\$ 293.1	\$44,500.1
	December 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,311.1	\$ 176.1	\$ 4.7	\$1,482.5
States, Municipalities, and Political Subdivisions	1,942.8	395.4	1.3	2,336.9
Foreign Governments	673.0	191.3	0.4	863.9
Public Utilities	6,952.7	1,296.4	12.6	8,236.5
Mortgage/Asset-Backed Securities	1,873.2	105.1	4.7	1,973.6
All Other Corporate Bonds	26,988.7	3,633.5	99.8	30,522.4
Redeemable Preferred Stocks	39.0	3.0	—	42.0
Total Fixed Maturity Securities	\$39,780.5	\$ 5,800.8	\$ 123.5	\$45,457.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

The following charts indicate the length of time our fixed maturity securities have been in a gross unrealized loss position.

	March 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$178.4	\$ 8.0	\$57.5	\$ 3.1
States, Municipalities, and Political Subdivisions	134.3	1.4	24.2	1.1
Foreign Governments	38.8	0.8	—	—
Public Utilities	400.7	17.8	152.2	9.8
Mortgage/Asset-Backed Securities	366.3	9.4	114.1	5.3
All Other Corporate Bonds	5,376.8	149.7	745.2	86.7
Total Fixed Maturity Securities	\$6,495.3	\$ 187.1	\$1,093.2	\$ 106.0
	December 31, 2017			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$157.9	\$ 3.0	\$58.8	\$ 1.8
States, Municipalities, and Political Subdivisions	45.7	0.5	22.3	0.7
Foreign Governments	13.2	0.4	—	—
Public Utilities	213.2	7.9	133.5	4.7
Mortgage/Asset-Backed Securities	252.5	1.4	144.7	3.3
All Other Corporate Bonds	1,355.1	26.8	785.2	73.0
Total Fixed Maturity Securities	\$2,037.6	\$ 40.0	\$1,144.5	\$ 83.5

The following is a distribution of the maturity dates for fixed maturity securities. The maturity dates have not been adjusted for possible calls or prepayments.

	March 31, 2018				
	Total Amortized Cost	Unrealized Gross Gain	Unrealized Gain Position Fair Value	Unrealized Loss Position Gross Loss	Unrealized Loss Position Fair Value
	(in millions of dollars)				
1 year or less	\$1,694.9	\$ 23.4	\$ 1,645.0	\$ 4.1	\$ 69.2
Over 1 year through 5 years	5,665.0	372.0	5,680.4	22.3	334.3
Over 5 years through 10 years	12,273.8	903.8	9,124.4	138.1	3,915.1
Over 10 years	18,741.8	3,261.0	19,099.4	113.9	2,789.5
	38,375.5	4,560.2	35,549.2	278.4	7,108.1
Mortgage/Asset-Backed Securities	1,776.4	81.1	1,362.4	14.7	480.4



Edgar Filing: Unum Group - Form 10-Q

Total Fixed Maturity Securities	\$40,151.9	\$ 4,641.3	\$ 36,911.6	\$ 293.1	\$ 7,588.5
---------------------------------	------------	------------	-------------	----------	------------

32

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

	December 31, 2017				
	Total Amortized Cost	Unrealized Gross Gain	Unrealized Gain Position Fair Value	Unrealized Loss Position Gross Loss	Unrealized Loss Position Fair Value
	(in millions of dollars)				
1 year or less	\$1,625.1	\$ 30.9	\$ 1,638.8	\$ 3.1	\$ 14.1
Over 1 year through 5 years	5,579.9	453.6	5,810.9	18.5	204.1
Over 5 years through 10 years	12,091.1	1,169.8	11,916.5	53.2	1,291.2
Over 10 years	18,611.2	4,041.4	21,333.1	44.0	1,275.5
	37,907.3	5,695.7	40,699.3	118.8	2,784.9
Mortgage/Asset-Backed Securities	1,873.2	105.1	1,576.4	4.7	397.2
Total Fixed Maturity Securities	\$39,780.5	\$ 5,800.8	\$ 42,275.7	\$ 123.5	\$ 3,182.1

The following chart depicts an analysis of our fixed maturity security portfolio between investment-grade and below-investment-grade categories as of March 31, 2018:

	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss Amount	Percent of Total Gross Unrealized	
				Gain	Loss
	(in millions of dollars)				
Investment-Grade	\$41,233.8	\$ 4,527.8	\$ 198.7	67.8	%
Below-Investment-Grade	3,266.3	113.5	94.4	32.2	
Total Fixed Maturity Securities	\$44,500.1	\$ 4,641.3	\$ 293.1	100.0	%

The unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities. Below-investment-grade fixed maturity securities are generally more likely to develop credit concerns than investment-grade securities. At March 31, 2018, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of March 31, 2018, we held 413 individual investment-grade fixed maturity securities and 88 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 141 investment-grade fixed maturity securities and 20 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate the following factors:

Whether we expect to recover the entire amortized cost basis of the security

• Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis

• Whether the security is current as to principal and interest payments

• The significance of the decline in value

- The time period during which there has been a significant decline in value

• Current and future business prospects and trends of earnings

• The valuation of the security's underlying collateral

• Relevant industry conditions and trends relative to their historical cycles

• Market conditions

• Rating agency and governmental actions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

- Bid and offering prices and the level of trading activity
- Adverse changes in estimated cash flows for securitized investments
- Changes in fair value subsequent to the balance sheet date
- Any other key measures for the related security

While determining other-than-temporary impairments is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of losses on a timely basis for investments determined to have an other-than-temporary impairment.

We held no fixed maturity securities as of March 31, 2018 or December 31, 2017 for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At March 31, 2018, we had commitments of \$213.5 million to fund private placement fixed maturity securities, the amount of which may or may not be funded.

Variable Interest Entities

We invest in variable interests issued by variable interest entities. These investments include tax credit partnerships, private equity partnerships, and special purpose entities. For those variable interests that are not consolidated in our financial statements, we are not the primary beneficiary because we have neither the power to direct the activities that are most significant to economic performance nor the responsibility to absorb a majority of the expected losses. The determination of whether we are the primary beneficiary is performed at the time of our initial investment and at the date of each subsequent reporting period.

As of March 31, 2018, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$532.4 million, comprised of \$119.1 million of tax credit partnerships and \$413.3 million of private equity partnerships. At December 31, 2017, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$535.4 million, comprised of \$128.2 million of tax credit partnerships and \$407.2 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

The Company invests in tax credit partnerships primarily for the receipt of income tax credits and tax benefits derived from passive losses on the investments. Amounts recognized in the consolidated statements of income are as follows:

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
Income Tax Credits	\$10.4	\$10.4
Amortization, net of tax	(7.0 )	(5.8 )
Income Tax Benefit	\$3.4	\$4.6

Contractually, we are a limited partner in these tax credit partnerships, and our maximum exposure to loss is limited to the carrying value of our investment, which includes \$3.7 million of unfunded unconditional commitments at March 31, 2018. See Note 3 for commitments to fund private equity partnerships.

We are the sole beneficiary of a special purpose entity which is consolidated in our financial statements. This entity is a securitized asset trust containing a highly rated bond for principal protection which we contributed into the trust at the time it was established. There are no restrictions on the asset held in this trust, and the trust is free to dispose of the asset at any time. The fair values of the bond were \$154.4 million and \$154.1 million as of March 31, 2018 and December 31, 2017, respectively. The bond is reported as a component of fixed maturity securities in our consolidated balance sheets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

## Mortgage Loans

Our mortgage loan portfolio is well diversified by both geographic region and property type to reduce risk of concentration. All of our mortgage loans are collateralized by commercial real estate. When issuing a new loan, our general policy is not to exceed a loan-to-value ratio, or the ratio of the loan balance to the estimated fair value of the underlying collateral, of 75 percent. We update the loan-to-value ratios at least every three years for each loan, and properties undergo a general inspection at least every two years. Our general policy for newly issued loans is to have a debt service coverage ratio greater than 1.25 times on a normalized 25 year amortization period. We update our debt service coverage ratios annually. Mortgage loans by property type and geographic region are presented below.

	March 31, 2018		December 31, 2017	
	(in millions of dollars)			
	Carrying	Percent	Carrying	Percent
	Amount	of Total	Amount	of Total
<b>Property Type</b>				
Apartment	\$380.0	17.3 %	\$360.0	16.3 %
Industrial	584.9	26.6	601.2	27.2
Office	674.5	30.6	692.3	31.3
Retail	529.5	24.1	527.6	23.8
Other	31.9	1.4	32.1	1.4
<b>Total</b>	<b>\$2,200.8</b>	<b>100.0%</b>	<b>\$2,213.2</b>	<b>100.0%</b>
<b>Region</b>				
New England	\$55.2	2.5 %	\$56.1	2.5 %
Mid-Atlantic	154.5	7.0	155.5	7.0
East North Central	291.3	13.2	282.0	12.8
West North Central	208.4	9.5	210.1	9.5
South Atlantic	481.7	21.9	494.4	22.3
East South Central	88.1	4.0	88.8	4.0
West South Central	245.4	11.2	247.4	11.2
Mountain	254.9	11.6	251.2	11.4
Pacific	421.3	19.1	427.7	19.3
<b>Total</b>	<b>\$2,200.8</b>	<b>100.0%</b>	<b>\$2,213.2</b>	<b>100.0%</b>

We evaluate each of our mortgage loans individually for impairment and assign an internal credit quality rating based on a comprehensive rating system used to evaluate the credit risk of the loan. The factors we use to derive our internal credit ratings may include the following:

- ↳ Loan-to-value ratio
- ↳ Debt service coverage ratio based on current operating income
- ↳ Property location, including regional economics, trends and demographics
- ↳ Age, condition, and construction quality of property
- ↳ Current and historical occupancy of property
- ↳ Lease terms relative to market

- Tenant size and financial strength
- Borrower's financial strength
- Borrower's equity in transaction
- Additional collateral, if any

35

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

Although all available and applicable factors are considered in our analysis, loan-to-value and debt service coverage ratios are the most critical factors in determining whether we will initially issue the loan and also in assigning values and determining impairment. We assign an overall rating to each loan using an internal rating scale of Aa (highest quality) to B (lowest quality). We review and adjust, as needed, our internal credit quality ratings on an annual basis. This review process is performed more frequently for mortgage loans deemed to have a higher risk of delinquency.

Mortgage loans, sorted by the applicable credit quality indicators, are as follows:

March 31, December 31,  
2018      2017  
(in millions of dollars)

## Internal Rating

Aa	\$0.3	\$ 0.4
A	481.9	445.7
Baa	1,704.4	1,753.0
Ba	14.2	14.1
Total	\$2,200.8	\$ 2,213.2

## Loan-to-Value Ratio

<= 65%	\$1,082.6	\$1,101.7
> 65% <= 75%	1,053.8	1,041.6
> 75% <= 85%	40.2	49.3
> 85%	24.2	20.6
Total	\$2,200.8	\$2,213.2

There were no troubled debt restructurings during the three months ended March 31, 2018 or 2017. At March 31, 2018, we held one mortgage loan with a carrying value of \$3.2 million that was greater than 90 days past due regarding principal and/or interest payments. At December 31, 2017, we held no mortgage loans that were greater than 90 days past due regarding principal and/or interest payments.

There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans. As of March 31, 2018 and December 31, 2017, we had no allowance for credit losses, and there was no activity in the allowance for credit losses during the three months ended March 31, 2018 or 2017.

Our average investment in impaired mortgage loans was \$1.1 million for the three months ended March 31, 2018. We did not hold any impaired mortgage loans during the three months ended March 31, 2017, nor did we recognize any interest income on mortgage loans subsequent to impairment for the three months ended March 31, 2018 or 2017.

At March 31, 2018, we had commitments of \$78.9 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

## Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for



short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. We may

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

receive cash and/or securities as collateral under these agreements. Cash received as collateral is typically reinvested in short-term investments. If securities are received as collateral, we are not permitted to sell or re-post them.

As of March 31, 2018, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$104.2 million, for which we received collateral in the form of cash and securities of \$16.0 million and \$94.3 million, respectively. As of December 31, 2017, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$159.2 million, for which we received collateral in the form of cash and securities of \$30.5 million and \$135.6 million, respectively. We had no outstanding repurchase agreements at March 31, 2018 or December 31, 2017.

The remaining contractual maturities of our securities lending agreements disaggregated by class of collateral pledged are as follows:

	March 31, 2018 Overnight and Continuous (in millions of dollars)	December 31, 2017
United States		
Government and		
Government	\$ 1.0	\$ 0.2
Agencies and		
Authorities		
Public Utilities	—	0.5
All Other Corporate	15.0	29.8
Bonds		
Total Borrowings	16.0	30.5
Gross Amount of		
Recognized Liability		
for Securities	16.0	30.5
Lending		
Transactions		
Amounts Related to		
Agreements Not		
Included in	\$ —	\$ —
Offsetting		
Disclosure		
Contained Herein		

Certain of our U.S. insurance subsidiaries are members of regional FHLBs. Membership, which requires that we purchase a minimum amount of FHLB common stock on which we receive dividends, provides access to low-cost funding. Advances received from the FHLB are used for the purchase of fixed maturity securities. Additional common stock purchases may be required, based on the amount of funds we borrow from the FHLBs. The carrying value of common stock owned, collateral posted, and advances received are as follows:

	March 31,	December 31,
	2018	2017

Edgar Filing: Unum Group - Form 10-Q

	(in millions of dollars)	
Carrying Value of FHLB Common Stock	\$34.1	\$ 34.1
Advances from FHLB	350.0	350.0
Carrying Value of Collateral Posted to FHLB		
Fixed Maturity Securities	\$268.5	\$ 213.3
Commercial Mortgage Loans	321.6	331.5
Total Carrying Value of Collateral Posted to FHLB	\$590.1	\$ 544.8

Offsetting of Financial Instruments

We enter into master netting agreements with each of our derivatives counterparties. These agreements provide for conditional rights of set-off upon the occurrence of an early termination event. An early termination event is considered a default, and it allows the non-defaulting party to offset its contracts in a loss position against any gain positions or payments due to the defaulting party. Under our agreements, default type events are defined as failure to pay or deliver as contractually agreed, misrepresentation, bankruptcy, or merger without assumption. See Note 5 for further discussion of collateral related to our derivative contracts.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity securities. A right of set-off exists that allows us to keep and apply collateral received in the event of default by the counterparty. Default within a securities lending agreement would typically occur if the counterparty failed to return the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

securities borrowed from us as contractually agreed. In addition, if we default by not returning collateral received, the counterparty has a right of set-off against our securities or any other amounts due to us.

Shown below are our financial instruments that either meet the accounting requirements that allow them to be offset in our balance sheets or that are subject to an enforceable master netting arrangement or similar agreement. Our accounting policy is to not offset these financial instruments in our balance sheets. Net amounts disclosed below have been reduced by the amount of collateral pledged to or received from our counterparties.

	March 31, 2018					
	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Gross Amount Not Offset in Balance Sheet	Cash Collateral	Net Amount
	(in millions of dollars)					
<b>Financial Assets:</b>						
Derivatives	\$21.5	\$ —	—\$ 21.5	\$(5.4 )	\$(16.1 )	\$ —
Securities Lending	104.2	—	104.2	(88.2 )	(16.0 )	—
Total	\$125.7	\$ —	—\$ 125.7	\$(93.6 )	\$(32.1 )	\$ —
<b>Financial Liabilities:</b>						
Derivatives	\$51.4	\$ —	—\$ 51.4	\$(39.0 )	\$ —	\$ 12.4
Securities Lending	16.0	—	16.0	(16.0 )	—	—
Total	\$67.4	\$ —	—\$ 67.4	\$(55.0 )	\$ —	\$ 12.4

	December 31, 2017					
	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Gross Amount Not Offset in Balance Sheet	Cash Collateral	Net Amount
	(in millions of dollars)					
<b>Financial Assets:</b>						
Derivatives	\$19.5	\$ —	—\$ 19.5	\$(4.2 )	\$(15.3 )	\$ —
Securities Lending	159.2	—	159.2	(128.7 )	(30.5 )	—
Total	\$178.7	\$ —	—\$ 178.7	\$(132.9 )	\$(45.8 )	\$ —
<b>Financial Liabilities:</b>						
Derivatives	\$52.2	\$ —	—\$ 52.2	\$(42.9 )	\$ —	\$ 9.3

Edgar Filing: Unum Group - Form 10-Q

Securities Lending	30.5	—	30.5	(30.5 )	—	—
Total	\$82.7	\$	—\$ 82.7	\$(73.4 )	\$ —	\$ 9.3

38

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 4 - Investments - Continued

## Net Investment Income

Net investment income reported in our consolidated statements of income is as follows:

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
Fixed Maturity Securities	\$557.1	\$563.7
Derivatives	15.4	13.4
Mortgage Loans	27.3	25.4
Policy Loans	4.4	4.3
Other Long-term Investments		
Equity Securities <sup>1</sup>	(0.2 )	0.3
Private Equity Partnerships <sup>1</sup>	5.6	5.1
Other	2.1	0.7
Short-term Investments	3.6	1.9
Gross Investment Income	615.3	614.8
Less Investment Expenses	9.6	8.8
Less Investment Income on Participation Fund Account Assets	3.4	3.6
Net Investment Income	\$602.3	\$602.4

<sup>1</sup> The net unrealized loss recognized in net investment income for the first three months of 2018 related to equity securities and private equity partnerships still held at March 31, 2018 was \$2.0 million and \$1.6 million, respectively.

## Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
Fixed Maturity Securities		
Gross Gains on Sales	\$2.0	\$2.4
Gross Losses on Sales	(1.4 )	(1.1 )
Other-Than-Temporary Impairment Loss	(1.0 )	—
Mortgage Loans and Other Invested Assets		
Gross Gains on Sales	—	0.7
Gross Losses on Sales	—	(0.2 )
Embedded Derivative in Modified Coinsurance Arrangement	(1.7 )	8.6
All Other Derivatives	0.7	(0.2 )

Edgar Filing: Unum Group - Form 10-Q

Foreign Currency Transactions	(0.8 ) 0.8
Net Realized Investment Gain (Loss)	\$(2.2) \$11.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments

Purpose of Derivatives

We are exposed to certain risks relating to our ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, risk related to matching duration for our assets and liabilities, foreign currency risk, and credit risk. Historically, we have utilized current and forward interest rate swaps, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Transactions hedging interest rate risk are primarily associated with our individual and group long-term care and individual and group disability products. All other product portfolios are periodically reviewed to determine if hedging strategies would be appropriate for risk management purposes. We do not use derivative financial instruments for speculative purposes.

Derivatives designated as cash flow hedges and used to reduce our exposure to interest rate and duration risk are as follows:

Interest rate swaps are used to hedge interest rate risks and to improve the matching of assets and liabilities. An interest rate swap is an agreement in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts. We use interest rate swaps to hedge the anticipated purchase of fixed maturity securities thereby protecting us from the potential adverse impact of declining interest rates on the associated policy reserves. We also use interest rate swaps to hedge the potential adverse impact of rising interest rates in anticipation of issuing fixed rate long-term debt.

Forward treasury locks are used to minimize interest rate risk associated with the anticipated purchase or disposal of fixed maturity securities. A forward treasury lock is a derivative contract without an initial investment where we and the counterparty agree to purchase or sell a specific U.S. Treasury bond at a future date at a pre-determined price.

Derivatives designated as fair value hedges and used to reduce our exposure to interest rate and duration risk are as follows:

Interest rate swaps are used to effectively convert certain of our fixed rate securities into floating rate securities which are used to fund our floating rate long-term debt. Under these swap agreements, we receive a variable rate of interest and pay a fixed rate of interest. Additionally, we use interest rate swaps to effectively convert certain fixed rate, long-term debt into floating rate long-term debt. Under these swap agreements, we receive a fixed rate of interest and pay a variable rate of interest.

Derivatives designated as either cash flow or fair value hedges and used to reduce our exposure to foreign currency risk are as follows:

Foreign currency interest rate swaps are used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification. Under these swap agreements, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment.

Derivatives not designated as hedging instruments and used to reduce our exposure to foreign currency risk, credit losses on securities owned, and interest rate risk are as follows:



Foreign currency interest rate swaps previously designated as hedges were used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification. These derivatives were effective hedges prior to novation to a new counterparty. In conjunction with the novation, these derivatives were re-designated as hedges. We agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. We hold offsetting swaps wherein we agree to pay fixed rate principal and interest payments in the functional currency of the operating segment in exchange for fixed rate foreign currency-denominated payments.

Credit default swaps are used as economic hedges against credit risk but do not qualify for hedge accounting. A credit default swap is an agreement in which we agree with another party to pay, at specified intervals, a fixed-rate fee in exchange for insurance against a credit event on a specific investment. If a defined credit event occurs, our counterparty may either pay us a net cash settlement or we may surrender the specific investment to them in exchange

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

for cash equal to the full notional amount of the swap. Credit events typically include events such as bankruptcy, failure to pay, or certain types of debt restructuring.

Interest rate swap was used to effectively convert certain of our floating rate, long-term debt into fixed rate long-term debt. Under this swap agreement, we received a variable rate of interest and paid a fixed rate of interest.

## Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives should generally offset the market risk associated with the hedged financial instrument or liability. To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was \$0.1 million at March 31, 2018. The table below summarizes the nature and amount of collateral received from and posted to our derivative counterparties.

	March 31, 2018	December 31, 2017
	(in millions of dollars)	
Carrying Value of Collateral Received from Counterparties		
Cash	\$16.2	\$ 15.7
Carrying Value of Collateral Posted to Counterparties		
Fixed Maturity Securities	\$49.6	\$ 46.4

See Note 4 for further discussion of our master netting agreements.

The majority of our derivative instruments contain provisions that require us to maintain specified issuer credit ratings and financial strength ratings. Should our ratings fall below these specified levels, we would be in violation of the provisions, and our derivatives counterparties could terminate our contracts and request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was \$51.4 million and \$52.2 million at March 31, 2018 and December 31, 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

## Derivative Transactions

The table below summarizes, by notional amounts, the activity for each category of derivatives. The notional amounts represent the basis upon which our counterparty pay and receive amounts are calculated.

	Swaps			Credit Default	Forwards	Total
	Receive Variable/ Fixed	Receive/ Pay Fixed	Receive Fixed/ Pay Variable			
	(in millions of dollars)					
Balance at December 31, 2016	\$ 105.5	\$ 616.5	\$ 250.0	\$ 70.0	\$ 10.0	\$ 1,052.0
Additions	—	—	—	—	—	—
Terminations	0.1	20.3	—	—	10.0	30.4
Balance at March 31, 2017	\$ 105.4	\$ 596.2	\$ 250.0	\$ 70.0	\$ —	\$ 1,021.6
Balance at December 31, 2017	\$ 48.0	\$ 536.5	\$ 250.0	\$ 70.0	\$ —	\$ 904.5
Additions	—	19.9	—	—	26.8	46.7
Terminations	—	—	—	70.0	—	70.0
Balance at March 31, 2018	\$ 48.0	\$ 556.4	\$ 250.0	\$ —	\$ 26.8	\$ 881.2

## Cash Flow Hedges

As of March 31, 2018 and December 31, 2017, we had \$343.9 million notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.

As of March 31, 2018, we expect to amortize approximately \$65.1 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected by this amortization are net investment income and interest and debt expense. Additional amounts that may be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of March 31, 2018, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2038.

## Fair Value Hedges

As of March 31, 2018 and December 31, 2017, we had \$48.0 million notional amount of receive variable, pay fixed interest rate swaps to hedge the changes in fair value of certain fixed rate securities held. These swaps effectively convert the associated fixed rate securities into floating rate securities, which are used to fund our floating rate long-term debt. The change in fair value of the hedged fixed maturity securities attributable to the hedged benchmark interest rate resulted in a loss of \$0.5 million and \$1.1 million for the three months ended March 31, 2018 and 2017, respectively, with an offsetting gain on the related interest rate swaps.

## Edgar Filing: Unum Group - Form 10-Q

As of March 31, 2018, we had \$19.9 million notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities. The change in fair value of the hedged fixed maturity securities attributable to the change in the foreign currency exchange rate resulted in a loss of \$0.3 million during the three months ended March 31, 2018 with an offsetting gain on the related forward foreign currency interest rate swaps.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

As of March 31, 2018 and December 31, 2017, we had \$250.0 million notional amount of receive fixed, pay variable interest rate swaps to hedge the changes in the fair value of certain fixed rate long-term debt. These swaps effectively convert the associated fixed rate long-term debt into floating rate debt and provide for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security. The change in fair value of the hedged debt attributable to the hedged benchmark interest rate resulted in a gain of \$2.4 million and \$0.5 million for the three months ended March 31, 2018 and 2017, respectively, with an offsetting loss on the related interest rate swaps.

The following table summarizes the carrying amount of hedged assets and liabilities and the related cumulative basis adjustments related to our fair value hedges.

	Carrying Amount of Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	(in millions of dollars)			
Fixed maturity securities:				
Receive variable interest rate, pay fixed interest rate	\$48.1	\$ 48.5	\$ 0.1	\$ 0.6
Receive fixed foreign currency interest, pay fixed foreign currency interest	19.4	—	(0.3 )	—
Long-term Debt	(242.5)	(244.8 )	6.9	4.5

For the three months ended March 31, 2018, a de minimis amount of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. For the three months ended March 31, 2017, no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

## Derivatives not Designated as Hedging Instruments

As of March 31, 2018 and December 31, 2017, we held \$192.6 million notional amount of receive fixed, pay fixed, foreign currency interest rate swaps. These derivatives are not designated as hedges, and as such, changes in fair value related to these derivatives are reported in earnings as a component of net realized investment gain or loss.

As of December 31, 2017, we held \$70.0 million notional amount of single name credit default swaps. We entered into these swaps in order to mitigate the credit risk associated with specific securities owned. These swaps matured during the first quarter of 2018 and a de minimis gain was recognized on the maturities.

We have an embedded derivative in a modified coinsurance arrangement for which we include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract. There are no credit-related counterparty triggers, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

Locations and Amounts of Derivative Financial Instruments

The following tables summarize the location and fair values of derivative financial instruments, as reported in our consolidated balance sheets.

	March 31, 2018	
	Derivative Assets Balance Sheet Location (in millions of dollars)	Derivative Liabilities Balance Sheet Location Fair Value
Designated as Hedging Instruments		
Cash Flow Hedges		
Forwards	Other L-T Investments \$—	Other Liabilities \$0.2
Foreign Exchange Contracts	Other L-T Investments 21.2	Other Liabilities 17.4
Total Cash Flow Hedges	21.2	17.6
Fair Value Hedges		
Interest Rate Swaps	Other L-T Investments —	Other Liabilities 7.0
Foreign Exchange Contracts	Other L-T Investments 0.3	Other Liabilities —
Total Fair Value Hedges	0.3	7.0
Total Designated as Hedging Instruments	\$21.5	\$24.6
Not Designated as Hedging Instruments		
Foreign Exchange Contracts		Other Liabilities \$26.8
Embedded Derivative in Modified Coinsurance Arrangement		Other Liabilities 17.6
Total Not Designated as Hedging Instruments		\$44.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

	December 31, 2017	
	Derivative Assets	Derivative Liabilities
	Balance Sheet	Balance Sheet
	Fair Value	Fair Value
	Location	Location
	(in millions of dollars)	
Designated as Hedging Instruments		
Cash Flow Hedges		
Foreign Exchange Contracts	Other L-T Investments	Other Liabilities
Total Cash Flow Hedges	\$ 19.5	\$ 19.4
Fair Value Hedges		
Interest Rate Swaps	Other L-T Investments	Other Liabilities
Total Fair Value Hedges	—	5.1
Total Designated as Hedging Instruments	\$ 19.5	\$ 24.5
Not Designated as Hedging Instruments		
Credit Default Swaps		Other Liabilities
Foreign Exchange Contracts		Other Liabilities
Embedded Derivative in Modified Coinsurance Arrangement		Other Liabilities
Total Not Designated as Hedging Instruments		\$ 43.6



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

The following table summarizes the location of gains and losses of derivative financial instruments designated as hedging instruments, as reported in our consolidated statements of income.

	Three Months Ended March 31					
	2018			2017		
	Net Investment Income	Net Realized Gain (Loss)	Interest and Debt Expense	Net Investment Income	Net Realized Gain (Loss)	Interest and Debt Expense
(in millions of dollars)						
Total Income and Expense Presented in the Consolidated Statements of Income of Which Hedged Items are Recorded	\$602.3	\$ (2.2 )	\$ 40.2	\$602.4	\$ 11.0	\$ 39.8
Gain (Loss) on Cash Flow Hedging Relationships						
Interest Rate Swaps:						
Hedged items	77.8	0.1	11.4	81.9	0.2	11.4
Derivatives Designated as Hedging Instruments	15.9	(0.1 )	0.6	14.6	—	0.5
Foreign Exchange Contracts						
Hedged items	5.0	—	—	5.4	1.2	—
Derivatives Designated as Hedging Instruments	(0.3 )	—	—	(0.2 )	(1.2 )	—
Gain (Loss) on Fair Value Hedging Relationships						
Interest Rate Swaps:						
Hedged items	0.7	1.9	3.6	1.4	(0.6 )	3.6
Derivatives Designated as Hedging Instruments	(0.4 )	(1.9 )	0.1	(1.0 )	0.6	(0.3 )
Foreign Exchange Contracts						
Hedged items	0.1	(0.3 )	—	—	—	—
Derivatives Designated as Hedging Instruments	—	0.3	—	—	—	—

The following table summarizes the location of gains and losses of derivative financial instruments designated as cash flow hedging instruments, as reported in our consolidated statements of comprehensive income.

Three Months  
 Ended March  
 31  
 2018 2017  
 (in millions  
 of dollars)

Gain  
 (Loss)  
 Recognized  
 in  
 Other  
 Comprehensive

Income		
(Loss)		
on		
Derivatives		
Interest		
Rate		
Swaps	\$(0.2)	\$—
and		
Forwards		
Foreign		
Exchange	\$ (4.5 )	
Contracts		
Total	\$3.6	\$(4.5)

46

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 5 - Derivative Financial Instruments - Continued

The following table summarizes the location of gains and losses on our derivatives not designated as hedging instruments, as reported in our consolidated statements of income.

	Three Months Ended March 31 2018 2017 (in millions of dollars)	
Net Realized Investment Gain (Loss)		
Credit Default Swaps	\$—	\$(0.3)
Foreign Exchange Contracts	0.7	0.2
Embedded Derivative in Modified Coinsurance Arrangement	(1.7 )	8.6
Total	\$(1.0)	\$8.5

## Note 6 - Accumulated Other Comprehensive Income (Loss)

Components of our accumulated other comprehensive income (loss), after tax, and related changes are as follows:

	Net Unrealized Gain on Securities	Net Gain on Hedges	Foreign Currency Translation Adjustment	Unrecognized Pension and Postretirement Benefit Costs	Total
	(in millions of dollars)				
Balance at December 31, 2017	\$607.8	\$282.3	\$(254.5 )	\$(508.1 )	\$127.5
Adjustment to Adopt Accounting Standard Update - Note 2	(17.5 )	—	—	—	(17.5 )
Balance at January 1, 2018	\$590.3	\$282.3	\$(254.5 )	\$(508.1 )	\$110.0
Other Comprehensive Income (Loss) Before Reclassifications	(234.8 )	2.9	47.5	(1.2 )	(185.6 )
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	0.6	(11.7 )	—	4.3	(6.8 )
Net Other Comprehensive Income (Loss)	(234.2 )	(8.8 )	47.5	3.1	(192.4 )
Balance at March 31, 2018	\$356.1	\$273.5	\$(207.0 )	\$(505.0 )	\$(82.4)
Balance at December 31, 2016	\$440.6	\$327.5	\$(354.0 )	\$(465.1 )	\$(51.0)
Other Comprehensive Income (Loss) Before Reclassifications	44.7	(2.7 )	17.1	(0.6 )	58.5
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	(2.3 )	(8.0 )	—	3.2	(7.1 )
Net Other Comprehensive Income (Loss)	42.4	(10.7 )	17.1	2.6	51.4
Balance at March 31, 2017	\$483.0	\$316.8	\$(336.9 )	\$(462.5 )	\$0.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 6 - Accumulated Other Comprehensive Income (Loss) - Continued

The net unrealized gain on securities consists of the following components:

	March 31 2018	January 1 2018	Change
	(in millions of dollars)		
Fixed Maturity Securities	\$4,348.2	\$5,665.2	\$(1,317.0)
Deferred Acquisition Costs	(41.2 )	(51.4 )	10.2
Reserves for Future Policy and Contract Benefits	(4,030.1 )	(5,094.7 )	1,064.6
Reinsurance Recoverable	321.0	375.8	(54.8 )
Income Tax	(241.8 )	(304.6 )	62.8
Total	\$356.1	\$590.3	\$(234.2 )
	March 31 2017	December 31 2016	Change
	(in millions of dollars)		
Fixed Maturity Securities	\$4,925.6	\$4,664.6	\$261.0
Other Investments	(17.8 )	(22.7 )	4.9
Deferred Acquisition Costs	(40.9 )	(38.9 )	(2.0 )
Reserves for Future Policy and Contract Benefits	(4,467.3 )	(4,253.2 )	(214.1 )
Reinsurance Recoverable	335.6	321.3	14.3
Income Tax	(252.2 )	(230.5 )	(21.7 )
Total	\$483.0	\$440.6	\$42.4

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 6 - Accumulated Other Comprehensive Income (Loss) - Continued

Amounts reclassified from accumulated other comprehensive income or loss were recognized in our consolidated statements of income as follows:

	Three Months Ended March 31 2018 2017 (in millions of dollars)	
Net Unrealized Gain on Securities		
Net Realized Investment Gain (Loss)		
Net Gain on Sales of Securities and Other Invested Assets	\$0.2	\$3.4
Other-Than-Temporary Impairment Loss	(1.0 )	—
	(0.8 )	3.4
Income Tax Expense (Benefit)	(0.2 )	1.1
Total	\$(0.6 )	\$2.3
Net Gain on Hedges		
Net Investment Income		
Gain on Interest Rate Swaps and Forwards	\$15.6	\$14.3
Loss on Foreign Exchange Contracts	(0.3 )	(0.3 )
Net Realized Investment Gain (Loss)		
Loss on Interest Rate Swaps	(0.1 )	—
Loss on Foreign Exchange Contracts	—	(1.2 )
Interest and Debt Expense		
Loss on Interest Rate Swaps	(0.5 )	(0.5 )
	14.7	12.3
Income Tax Expense	3.0	4.3
Total	\$11.7	\$8.0
Unrecognized Pension and Postretirement Benefit Costs		
Other Expenses		
Amortization of Net Actuarial Loss	\$(5.6 )	\$(5.1 )
Amortization of Prior Service Credit	0.1	0.2
	(5.5 )	(4.9 )
Income Tax Benefit	(1.2 )	(1.7 )
Total	\$(4.3 )	\$(3.2 )

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

## Note 7 - Liability for Unpaid Claims and Claim Adjustment Expenses

Changes in the liability for unpaid claims and claim adjustment expenses are as follows:

	2018	2017
	(in millions of dollars)	
Balance at January 1	\$23,222.0	\$23,249.5
Less Reinsurance Recoverable	2,182.0	2,163.6
Net Balance at January 1	21,040.0	21,085.9
Incurred Related to		
Current Year	1,543.1	1,489.8
Prior Years		
Interest	283.6	295.7
All Other Incurred	(192.0 )	(184.8 )
Foreign Currency	72.2	29.8
Total Incurred	1,706.9	1,630.5
Paid Related to		
Current Year	(322.0 )	(283.9 )
Prior Years	(1,400.4 )	(1,369.3 )
Total Paid	(1,722.4 )	(1,653.2 )
Net Balance at March 31	21,024.5	21,063.2
Plus Reinsurance Recoverable	2,184.1	2,139.1
Balance at March 31	\$23,208.6	\$23,202.3

The majority of the net balances are related to disability claims with long-tail payouts on which interest earned on assets backing liabilities is an integral part of pricing and reserving. Interest accrued on prior year reserves has been calculated on the opening reserve balance less one-half of the period's claim payments relative to prior years at our average reserve discount rate for the respective periods.

"Incurred Related to Prior Years - All Other Incurred" shown in the preceding chart is primarily impacted by the level of claim resolutions in the period relative to the long-term expectations reflected in the reserves. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 7 - Liability for Unpaid Claims and Claim Adjustment Expenses - Continued

## Reconciliation

A reconciliation of policy and contract benefits and reserves for future policy and contract benefits as reported in our consolidated balance sheets to the liability for unpaid claims and claim adjustment expenses is as follows:

	March 31	
	2018	2017
	(in millions of dollars)	
Policy and Contract Benefits	\$1,623.1	\$1,544.8
Reserves for Future Policy and Contract Benefits	44,668.5	44,502.2
Total	46,291.6	46,047.0
Less:		
Life Reserves for Future Policy and Contract Benefits	8,278.7	8,105.7
Accident and Health Active Life Reserves	10,774.2	10,271.7
Adjustment Related to Unrealized Investment Gains and Losses	4,030.1	4,467.3
Liability for Unpaid Claims and Claim Adjustment Expenses	\$23,208.6	\$23,202.3

The adjustment related to unrealized investment gains and losses reflects the changes that would be necessary to policyholder liabilities if the unrealized investment gains and losses related to the corresponding available-for-sale securities had been realized. Changes in this adjustment are reported as a component of other comprehensive income or loss.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 8 - Segment Information

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other segments are Closed Block and Corporate.

## Definitive Purchase Agreement

In January of 2018, we entered into a definitive agreement to acquire Pramerica Zycie TUiR SA ("Pramerica"), a financial protection benefits provider in Poland. The acquisition of Pramerica will expand our European presence, which we believe to be an attractive market for financial protection benefits. The transaction is expected to close by the end of 2018 subject to customary approvals and closing conditions.

Segment information is as follows:

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars)	
Premium Income		
Unum US		
Group Disability		
Group Long-term Disability	\$441.2	\$434.4
Group Short-term Disability	176.3	157.9
Group Life and Accidental Death & Dismemberment		
Group Life	399.2	367.8
Accidental Death & Dismemberment	38.7	36.6
Supplemental and Voluntary		
Individual Disability	104.9	107.0
Voluntary Benefits	229.8	215.2
Dental and Vision	48.7	41.5
	1,438.8	1,360.4
Unum UK		
Group Long-term Disability	90.8	80.8
Group Life	28.6	24.8
Supplemental	20.2	15.7
	139.6	121.3
Colonial Life		
Accident, Sickness, and Disability	231.3	219.1
Life	81.0	74.2
Cancer and Critical Illness	86.0	81.0
	398.3	374.3
Closed Block		
Individual Disability	109.4	121.3
Long-term Care	161.3	163.1
All Other	2.6	2.5
	273.3	286.9



Total Premium Income	\$2,250.0	\$2,142.9
----------------------	-----------	-----------

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 8 - Segment Information - Continued

	Unum US	Unum UK	Colonial Life	Closed Block	Corporate	Total
(in millions of dollars)						
Three Months Ended March 31, 2018						
Premium Income	\$1,438.8	\$139.6	\$398.3	\$273.3	\$—	\$2,250.0
Net Investment Income	194.2	27.6	37.3	337.7	5.5	602.3
Other Income	29.0	—	0.3	19.0	1.2	49.5
Adjusted Operating Revenue	\$1,662.0	\$167.2	\$435.9	\$630.0	\$6.7	\$2,901.8
Adjusted Operating Income (Loss)	\$243.9	\$29.8	\$81.0	\$28.9	\$(40.3)	\$343.3
Three Months Ended March 31, 2017						
Premium Income	\$1,360.4	\$121.3	\$374.3	\$286.9	\$—	\$2,142.9
Net Investment Income	202.5	26.6	35.1	335.3	2.9	602.4
Other Income	28.7	—	0.3	20.8	0.4	50.2
Adjusted Operating Revenue	\$1,591.6	\$147.9	\$409.7	\$643.0	\$3.3	\$2,795.5
Adjusted Operating Income (Loss)	\$239.1	\$26.6	\$82.4	\$31.6	\$(39.8)	\$339.9
	March 31	December				
	2018	31				
		2017				
	(in millions of					
	dollars)					
Assets						
Unum US	\$18,036.3	\$18,109.1				
Unum UK	3,497.6	3,428.1				
Colonial Life	4,292.9	4,184.1				
Closed Block	34,603.8	35,051.2				
Corporate	2,581.7	3,240.6				
Total Assets	\$63,012.3	\$64,013.1				

We measure and analyze our segment performance on the basis of "adjusted operating revenue" and "adjusted operating income" or "adjusted operating loss", which differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. We believe adjusted operating revenue and adjusted operating income or loss are better performance measures and better indicators of the revenue and profitability and underlying trends in our business. These performance measures are in accordance with GAAP guidance for segment reporting, but they should not be viewed as a substitute for total revenue, income before income tax, or net income.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the

interest rates assumed in calculating our liabilities.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability. See Note 11 for further discussion regarding the loss from a guaranty fund assessment.

53

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 8 - Segment Information - Continued

A reconciliation of total revenue to "adjusted operating revenue" and income before income tax to "adjusted operating income" is as follows:

	Three Months Ended	
	March 31	
	2018	2017
	(in millions of dollars)	
Total Revenue	\$2,899.6	\$2,806.5
Excluding:		
Net Realized Investment Gain (Loss)	(2.2 )	11.0
Adjusted Operating Revenue	\$2,901.8	\$2,795.5
Income Before Income Tax	\$341.1	\$330.3
Excluding:		
Net Realized Investment Gain (Loss)	(2.2 )	11.0
Loss from Guaranty Fund Assessment	—	(20.6 )
Adjusted Operating Income	\$343.3	\$339.9

## Note 9 - Employee Benefit Plans

## Defined Benefit Pension and Other Postretirement Benefit (OPEB) Plans

We sponsor several defined benefit pension and OPEB plans for our employees, including non-qualified pension plans. The U.S. qualified and non-qualified defined benefit pension plans comprise the majority of our total benefit obligation and benefit cost. We maintain a separate defined benefit plan for eligible employees in our U.K. operation. The U.S. defined benefit pension plans were closed to new entrants on December 31, 2013, the OPEB plan was closed to new entrants on December 31, 2012, and the U.K. plan was closed to new entrants on December 31, 2002.

The following table provides the components of the net periodic benefit cost (credit) for the defined benefit pension and OPEB plans.

	Three Months Ended March 31					
	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
	2018	2017	2018	2017	2018	2017
	(in millions of dollars)					
Service Cost	\$2.3	\$2.0	\$—	\$—	\$—	\$—
Interest Cost	19.9	21.1	1.5	1.5	1.2	1.5
Expected Return on Plan Assets	(26.1)	(25.8)	(2.4 )	(2.0 )	(0.1 )	(0.2 )
Amortization of:						
Net Actuarial Loss	5.4	4.9	0.2	0.2	—	—
Prior Service Credit	—	(0.1 )	—	—	(0.1 )	(0.1 )
Total	\$1.5	\$2.1	\$(0.7)	\$(0.3)	\$1.0	\$1.2

The service cost component of net periodic pension and postretirement benefit cost is included as a component of compensation expense in our consolidated statements of income. All other components of net periodic pension and postretirement benefit cost are included in other expenses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 10 - Stockholders' Equity and Earnings Per Common Share

## Earnings Per Common Share

Net income per common share is determined as follows:

	Three Months Ended March 31	
	2018	2017
	(in millions of dollars, except share data)	
Numerator		
Net Income	\$ 273.5	\$ 229.9
Denominator (000s)		
Weighted Average Common Shares - Basic	221,894	229,429.6
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	683.0	949.2
Weighted Average Common Shares - Assuming Dilution	222,577	230,378.8
Net Income Per Common Share		
Basic	\$ 1.23	\$ 1.00
Assuming Dilution	\$ 1.23	\$ 1.00

We use the treasury stock method to account for the effect of outstanding stock options, nonvested restricted stock units, and nonvested performance share units on the computation of diluted earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group common stock during the period exceeds the exercise price of the stock options and the grant price of the nonvested restricted stock units and the nonvested performance share units. The outstanding stock options have exercise prices ranging from \$23.35 to \$26.29, the nonvested restricted stock units have grant prices ranging from \$27.85 to \$55.26, and the nonvested performance share units have grant prices ranging from \$27.85 to \$49.86.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares excluded in the computation of diluted earnings per share because the impact would be antidilutive, based on then current market prices, approximated a de minimis amount and 0.4 million for the three months ended March 31, 2018 and 2017, respectively.

## Common Stock

During the second quarter of 2017, our board of directors authorized the repurchase of up to \$750.0 million of Unum Group's outstanding common stock through November 25, 2018. This authorization replaced the previous authorization of \$750.0 million that was scheduled to expire on November 26, 2017. The remaining repurchase amount under the new program was \$412.8 million at March 31, 2018.

Common stock repurchases, which are accounted for using the cost method and classified as treasury stock until otherwise retired, were as follows:

Edgar Filing: Unum Group - Form 10-Q

	Three Months Ended March 31	
	2018	2017
	(in millions)	
Shares Repurchased	1.9	2.1
Cost of Shares Repurchased <sup>1</sup>	\$ 100.2	\$ 100.0

<sup>1</sup> Includes commissions of \$0.2 million for the three months ended March 31, 2018, and a de minimis amount for the three months ended March 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 10 - Stockholders' Equity and Earnings Per Common Share - Continued

Preferred Stock

Unum Group has 25.0 million shares of preferred stock authorized with a par value of \$0.10 per share. No preferred stock has been issued to date.

Note 11 - Commitments and Contingent Liabilities

Contingent Liabilities

We are a defendant in a number of litigation matters. In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. There is a wide variation of pleading practice permitted in the United States courts with respect to requests for monetary damages, including some courts in which no specified amount is required and others which allow the plaintiff to state only that the amount sought is sufficient to invoke the jurisdiction of that court. Further, some jurisdictions permit plaintiffs to allege damages well in excess of reasonably possible verdicts. Based on our extensive experience and that of others in the industry with respect to litigating or resolving claims through settlement over an extended period of time, we believe that the monetary damages asserted in a lawsuit or claim bear little relation to the merits of the case, or the likely disposition value. Therefore, the specific monetary relief sought is not stated.

Unless indicated otherwise in the descriptions below, reserves have not been established for litigation and contingencies. An estimated loss is accrued when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Claims Handling Matters

We and our insurance subsidiaries, in the ordinary course of our business, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Most typically these lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our consolidated financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages could, from time to time, have a material adverse effect on our consolidated results of operations in a period, depending on the results of operations for the particular period.

From time to time class action allegations are pursued where the claimant or policyholder purports to represent a larger number of individuals who are similarly situated. Since each insurance claim is evaluated based on its own merits, there is rarely a single act or series of actions which can properly be addressed by a class action. Nevertheless, we monitor these cases closely and defend ourselves appropriately where these allegations are made.

Miscellaneous Matters

Similar to other insurers, we were recently the subject of an examination by a third party acting on behalf of a number of state treasurers concerning our compliance with the unclaimed property laws of the participating states. We cooperated fully with this examination and in the fourth quarter of 2017, we started the process to reach a Global



Resolution Agreement with the third party regarding settlement of the examination, which we finalized in January of 2018. Under the terms of the agreement, the third party acting on behalf of the signatory states compared insured data to the Social Security Administration's Death Master File (SSDMF) to identify deceased insureds and contract holders where a valid claim has not been made. During the fourth quarter of 2017, we established reserves which reflect our estimate of the liability expected to be paid as we execute on the terms of the settlement. We also are cooperating with a Delaware Market Conduct examination involving the same issue, which is currently inactive, as well as defending litigation on this issue in West Virginia, as described in the following paragraph. The legal and regulatory environment around unclaimed death benefits continues to evolve. It is possible that the current settlement and/or similar investigations by other state jurisdictions may result in payments to beneficiaries, the payment of abandoned funds under state law, and/or administrative penalties, the total of which may be in excess of the reserves established.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 11 - Commitments and Contingent Liabilities - Continued

In December 2012, State of West Virginia ex rel. John D. Perdue v. Provident Life and Accident Insurance Company and State of West Virginia ex rel. John D. Perdue v. Colonial Life & Accident Insurance Company were filed in the Circuit Court of Putnam County, West Virginia. These two separate complaints alleged violations of the West Virginia Uniform Unclaimed Property Act by failing to identify and report all unclaimed insurance policy proceeds due to be escheated to West Virginia. The complaints sought to examine company records and assess penalties and costs in an undetermined amount. In December 2013, the court dismissed both complaints, holding that the West Virginia Uniform Unclaimed Property Act does not require insurance companies to periodically search the SSDMF or escheat unclaimed life insurance benefits until a claim has been submitted. In January 2014, the plaintiff appealed the dismissal of both complaints. In June 2015, the appellate court reinstated the case, holding that the West Virginia Uniform Unclaimed Property Act requires insurers to make reasonable efforts to determine whether their insureds are still living. The case was remanded to the trial court where we answered the complaints. In 2016, the West Virginia Legislature enacted a law defining insurers' duties with regard to unclaimed benefits for life insurance policies, annuity contracts, and retained asset accounts issued in West Virginia. In December 2016, we filed a motion to dismiss the complaints in light of this law. In June 2017, the court denied the motion. The case is proceeding through the discovery phase.

In 2009, a Pennsylvania-based insurance company and its affiliates were ordered into rehabilitation, and the Pennsylvania Insurance Commissioner, who was appointed as the Rehabilitator, filed petitions for liquidation with the Commonwealth Court of Pennsylvania. Under Pennsylvania law, payment of covered claims and other related insurance obligations are provided, within prescribed limits, by state guaranty associations. These guaranty associations assess fees to meet these obligations on insurance companies that sell insurance within the state, which are generally based on a company's pro rata portion of average premiums written or received for several years prior to the insolvency. In March 2017, a formal order of liquidation was issued, and as such, we were subject to an assessment by those guaranty associations that are responsible for policyholder claims, and accordingly accrued, in the first quarter of 2017, an estimated loss contingency. We continue to submit payment to satisfy this assessment as requests for payment are received from the guaranty associations.

#### Summary

Various lawsuits against us, in addition to those discussed above, have arisen in the normal course of business. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations.

Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except if noted in connection with specific matters. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. We believe, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on our financial position.

Note 12 - Other

Debt

Edgar Filing: Unum Group - Form 10-Q

During the three months ended March 31, 2018, we made principal payments of \$15.0 million on our senior secured non-recourse notes issued by Northwind Holdings, LLC.

At March 31, 2018, letters of credit totaling \$2.1 million had been issued from the credit facility, but there were no borrowed amounts outstanding.

57

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2018

Note 12 - Other - Continued

Income Tax

On December 22, 2017, the U.S. Federal government enacted the TCJA, which reduces the federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. We are applying the guidance in Staff Accounting Bulletin (SAB) 118 when accounting for the enactment-date effects of TCJA. At March 31, 2018, our estimates recorded at December 31, 2017 for the tax effects of TCJA are not final. We will continue to refine our calculations as additional analysis is completed and record the final amounts during the one year measurement period after the enactment date as allowed by SAB 118. Tax rate estimates recorded at December 31, 2017 and March 31, 2018 may be impacted by changes in accounting and tax interpretations of the TCJA legislation.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Executive Summary

Unum Group, a Delaware general business corporation, and its insurance and non-insurance subsidiaries, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America, Provident Life and Accident Insurance Company, The Paul Revere Life Insurance Company, Colonial Life & Accident Insurance Company, Starmount Life Insurance Company, and in the United Kingdom, Unum Limited. We are a leading provider of financial protection benefits in the United States and the United Kingdom. Our products include disability, life, accident, critical illness, dental and vision, and other related services. We market our products primarily through the workplace.

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Closed Block and Corporate segments. These segments are discussed more fully under "Segment Results" included herein in this Item 2.

The benefits we provide help protect people from the financial hardship of illness, injury, or loss of life by providing support when it is needed most. As one of the leading providers of employee benefits in the U.S. and the U.K., we offer a broad portfolio of products and services through the workplace.

Specifically, we offer group, individual, and voluntary benefits, either as stand-alone products or combined with other coverages, that help employers of all sizes attract and retain a stronger workforce while protecting the incomes and livelihood of their employees. We believe employer-sponsored benefits represent the single most effective way to provide workers with access to the information and options they need to protect their financial stability. Working people and their families, particularly those at lower and middle incomes, are perhaps the most vulnerable in today's economy yet are often overlooked by many providers of financial services and products. For many of these people, employer-sponsored benefits are the primary defense against the potentially catastrophic fallout of death, illness, or injury.

We have established a corporate culture consistent with the social values our products provide. We are committed not only to meeting the needs of our customers who depend on us, but also to operating with integrity and being accountable for our actions. Our sound and consistent business practices, strong internal compliance program, and comprehensive risk management strategy enable us to operate efficiently as well as to identify and address potential areas of risk in our business. We have also applied these same values to our social responsibility efforts. Because we see important links between the obligations we have to all of our stakeholders, we place a strong emphasis on contributing to positive change in our communities.

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the "Cautionary Statement Regarding Forward-Looking Statements" included below the Table of Contents, as well as the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2017.

### Operating Performance and Capital Management

For the first quarter of 2018, we reported net income of \$273.5 million, or \$1.23 per diluted common share, compared to net income of \$229.9 million, or \$1.00 per diluted common share, in the same period of 2017. Net income includes

net realized investment gains and losses. Excluding net realized investment gains and losses, after-tax adjusted operating income was \$275.1 million, or \$1.24 per diluted common share, in the first quarter of 2018. Net income, for the first quarter of 2017, also included a loss from a guaranty fund assessment related to an unaffiliated insurer that was declared insolvent of \$20.6 million before tax and \$13.4 million after tax, or \$0.06 per diluted common share. Excluding net realized investment gains and losses and the loss from a guaranty fund assessment, after-tax adjusted operating income was \$236.1 million, or \$1.02 per diluted common share, in the first quarter of 2017. See additional information in Note 11 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Reconciliation of Non-GAAP Financial Measures" contained in this Item 2 for further discussion and a reconciliation of these items.

Our Unum US segment reported an increase in adjusted operating income of 2.0 percent in the first quarter of 2018 compared to the same period of 2017, with growth in premium income and overall favorable benefits experience, partially offset by lower net investment income. The benefit ratio for our Unum US segment for the first quarter of 2018 was 66.8 percent, compared to 67.9

percent in the same period of 2017. Unum US sales increased 4.2 percent in the first quarter of 2018 compared to the same period of 2017. Persistency was generally favorable relative to the prior year and is consistent with our expectations.

Our Unum UK segment reported a consistent level of adjusted operating income, as measured in Unum UK's local currency, in the first quarter of 2018 compared to the same period of 2017, with growth in premium income and a favorable operating expense ratio, offset by less favorable benefits experience and lower net investment income. The benefit ratio for Unum UK was 71.9 percent in the first quarter of 2018 compared to 71.4 percent in the same period of 2017. Unum UK sales in local currency decreased 22.6 percent in the first quarter of 2018 compared to the same period of 2017. Persistency was favorable relative to the prior year and is consistent with our expectations.

Our Colonial Life segment reported a decline in adjusted operating income of 1.7 percent in the first quarter of 2018 compared to the same period of 2017, with less favorable benefits experience and a higher operating expense ratio, which offset growth in premium income and net investment income. The benefit ratio for Colonial Life was 51.6 percent in the first quarter of 2018 compared to 50.8 percent in the same period of 2017. Colonial Life sales increased 7.6 percent in the first quarter of 2018 compared to the same period of 2017. Persistency was generally favorable relative to the prior year and is consistent with our expectations.

Our Closed Block segment reported a decrease in adjusted operating income of 8.5 percent in the first quarter of 2018 compared to the same period of 2017 due primarily to a decline in premium income and unfavorable overall benefits experience. Benefits experience in our individual disability line of business was favorable in the first quarter of 2018 compared to the prior year and was favorable relative to our range of expectations. Benefits experience in our long-term care line of business was unfavorable in the first quarter of 2018 relative to the same prior year period and was unfavorable relative to our range of expectations.

Although our profit margins continue to be pressured by the impact of the low interest rate environment on our net investment income yields, our invested asset quality remains strong. The net unrealized gain on our fixed maturity securities was \$4.3 billion at March 31, 2018 compared to \$5.7 billion at December 31, 2017, with the decline due to an increase in U.S. Treasury rates and credit spreads during the first three months of 2018. The earned book yield on our investment portfolio was 5.09 percent for the first quarter of 2018 compared to a yield of 5.23 percent for full year 2017.

We believe our capital and financial positions are strong. At March 31, 2018, the risk-based capital (RBC) ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 380 percent, in line with our expectations. During the first quarter of 2018, we repurchased 1.9 million shares of Unum Group common stock under our share repurchase program, at a cost of approximately \$100 million. Our weighted average common shares outstanding, assuming dilution, equaled 222.6 million and 230.4 million for the first quarter of 2018 and 2017, respectively, reflecting our capital management strategy of returning capital to shareholders through repurchases of our common stock. As of March 31, 2018, Unum Group and our intermediate holding companies held fixed maturity securities, short-term investments, and cash of \$887 million.

#### U.S. Tax Reform

On December 22, 2017, the U.S. Federal government enacted a tax bill, H.R.1, An Act to Provide Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, more commonly known as the Tax Cuts and Jobs Act (TCJA). The TCJA, among other things, included a reduction to the U.S. corporate statutory tax rate from 35 percent to 21 percent, the impact of which resulted in a favorable comparison in our effective tax rate in the first quarter of 2018 compared to the first quarter of 2017. See Note 12 of the "Notes to

Consolidated Financial Statements" contained herein in Item 1 and "Consolidated Operating Results" contained herein in Item 2 for further details.

#### U.K. Referendum

During 2016, the U.K. held a referendum and voted to leave the EU. The U.K. subsequently invoked Article 50 of the Treaty on European Union (EU) and is due to leave the EU on March 29, 2019. We may see some continued dampening of growth in the U.K. as well as claims volatility due to the current disruption and uncertainty in the U.K. economy. We may also experience volatility in the fair values of our investments in U.K. and EU-based issuers, but we do not expect a material increase in other-than-temporary impairments or defaults, nor do we believe this volatility will impact our ability to hold these investments. The magnitude and longevity of potential negative economic impacts on our growth will depend on the agreements reached by the U.K. and EU as a result of exit negotiations and the resulting response of the U.K. marketplace. There are currently no indications that capital requirements for our U.K. operations will change, but economic conditions may cause volatility in our solvency ratios. Our reported consolidated financial results may continue to be impacted by fluctuations in the British pound



sterling to dollar exchange rate. Further discussion is contained herein in "Unum UK Segment" in this Item 2.

#### Definitive Purchase Agreement

In January of 2018, we entered into a definitive agreement to acquire Pramerica Zycie TUiR SA ("Pramerica"), a financial protection benefits provider in Poland. The acquisition of Pramerica will expand our European presence, which we believe to be an attractive market for financial protection benefits. The transaction, which we anticipate will close by the end of 2018 subject to customary approvals and closing conditions, is not expected to materially impact our results of operations or financial position for 2018 or alter our share repurchase and common stock dividend strategy.

#### Consolidated Company Outlook

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength as we seek to capitalize on the growing and largely unfilled need for our products and services. We believe the need for our products and services remains strong, and we intend to continue protecting our solid margins and returns through our pricing and risk actions. We continue to invest in our infrastructure and our employees, with a focus on quality and simplification of processes and offerings. Our strategy is centered on market expansion, enhancing the customer experience, providing an innovative product portfolio of financial protection choices, and investing in new solutions to further improve productivity.

Our outlook for the remainder of 2018 is for continued solid premium growth trends in our core businesses, with stable persistency and a disciplined approach to sales growth. We expect to have generally stable benefits experience due to our focus on disciplined pricing, risk selection, and management of renewals. We will maintain our commitment to expense discipline and improving our operational efficiencies.

The low interest rate environment continues to place pressure on our profit margins and could unfavorably impact the adequacy of our reserves for some products. Accordingly, we will continue to gradually increase our allocation to alternative assets, particularly in our long-term care line of business, while still adhering to our disciplined risk management strategy. This increase in allocation may cause an increase in volatility in our net investment income. Our reported consolidated financial results may also continue to be unfavorably impacted by political and economic uncertainty in the U.K., specifically lower interest rates, wage inflation and employer spending, and claims volatility due to the U.K. Referendum. As a result of tax reform, we expect our effective tax rate for 2018 to be in the range of 19 percent to 20 percent. Although we expect tax reform to be beneficial to our earnings and long-term cash generation, we may experience some further pressure on our RBC ratios as a result of expected NAIC revisions to the RBC calculations to consider the lower U.S. statutory income tax rate. We expect our insurance subsidiaries to generate stronger statutory earnings. The level of excess capital generation is dependent on the timing and magnitude of these NAIC changes and the extent to which and how quickly the rating agencies will expect the industry to rebuild its RBC ratio levels.

We continue to analyze and employ strategies that we believe will help us navigate the current environment and allow us to maintain solid operating margins and significant financial flexibility to support the needs of our businesses, while also continuing to return capital to our shareholders and exploring merger and acquisition opportunities to enhance our business lines. We have substantial leverage to rising interest rates and an improving economy which generates payroll growth and wage inflation. We believe that consistent operating results, combined with the implementation of strategic initiatives and the effective deployment of capital, will allow us to meet our long-term financial objectives.

Further discussion is contained in this Item 2 and in the "Notes to Consolidated Financial Statements" contained herein in Item 1.

#### Reconciliation of Non-GAAP and Other Financial Measures

We analyze our performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measure of "after-tax adjusted operating income" differs from net income as presented in our consolidated operating results and income statements prepared in accordance with GAAP due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. We believe adjusted operating income is a better performance measure and better indicator of the profitability and underlying trends in our business.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as

opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the interest rates assumed in calculating our liabilities.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability. See Note 11 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion regarding the loss from a guaranty fund assessment.

A reconciliation of GAAP financial measures to our non-GAAP financial measures is as follows:

	Three Months Ended March 31			
	2018		2017	
	(in millions)*	per share	(in millions)*	per share
Net Income	\$273.5	\$ 1.23	\$229.9	\$ 1.00
Excluding:				
Net Realized Investment Gain (Loss) (net of tax expense (benefit) of (\$0.6); \$3.8)	(1.6 )	(0.01 )	7.2	0.04
Loss from Guaranty Fund Assessment (net of tax benefit of \$-; \$7.2)	—	—	(13.4 )	(0.06 )
After-tax Adjusted Operating Income	\$275.1	\$ 1.24	\$236.1	\$ 1.02

\* Assuming Dilution

We measure and analyze our segment performance on the basis of "adjusted operating revenue" and "adjusted operating income" or "adjusted operating loss", which differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. These performance measures are in accordance with GAAP guidance for segment reporting, but they should not be viewed as a substitute for total revenue, income before income tax, or net income.

A reconciliation of total revenue to "adjusted operating revenue" and income before income tax to "adjusted operating income" is as follows:

	Three Months Ended	
	March 31	
	2018	2017
	(in millions of dollars)	
Total Revenue	\$2,899.6	\$2,806.5
Excluding:		
Net Realized Investment Gain (Loss)	(2.2 )	11.0
Adjusted Operating Revenue	\$2,901.8	\$2,795.5
Income Before Income Tax	\$341.1	\$330.3
Excluding:		
Net Realized Investment Gain (Loss)	(2.2 )	11.0
Loss from Guaranty Fund Assessment	—	(20.6 )
Adjusted Operating Income	\$343.3	\$339.9

### Critical Accounting Estimates

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements.

62

---

The accounting estimates deemed to be most critical to our financial position and results of operations are those related to reserves for policy and contract benefits, deferred acquisition costs, valuation of investments, pension and postretirement benefit plans, income taxes, and contingent liabilities. There have been no significant changes in our critical accounting estimates during the first three months of 2018.

For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" in Part II, Item 8 and "Critical Accounting Estimates" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2017.

#### Accounting Developments

See Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on accounting developments.

#### Consolidated Operating Results (in millions of dollars)

	Three Months Ended March 31		
	2018	% Change	2017
			As Adjusted
<b>Revenue</b>			
Premium Income	\$2,250.0	5.0	% \$2,142.9
Net Investment Income	602.3	—	602.4
Net Realized Investment Gain (Loss)	(2.2	) (120.0	) 11.0
Other Income	49.5	(1.4	) 50.2
Total Revenue	2,899.6	3.3	2,806.5
<b>Benefits and Expenses</b>			
Benefits and Change in Reserves for Future Benefits	1,807.9	3.4	1,749.0
Commissions	282.3	4.5	270.2
Interest and Debt Expense	40.2	1.0	39.8
Deferral of Acquisition Costs	(169.3	) 4.4	(162.1
Amortization of Deferred Acquisition Costs	151.5	7.1	141.5
Compensation Expense	221.7	6.1	209.0
Other Expenses	224.2	(2.0	) 228.8
Total Benefits and Expenses	2,558.5	3.3	2,476.2
Income Before Income Tax	341.1	3.3	330.3
Income Tax	67.6	(32.7	) 100.4
Net Income	\$273.5	19.0	\$229.9

The comparability of our financial results between years is affected by the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound strengthens, translating pounds into dollars increases current period results relative to the prior period. In periods when the pound weakens relative to the preceding period, translating pounds into dollars decreases current period results relative to the prior period.

Our weighted average pound/dollar exchange rate was 1.393 and 1.243 for the three months ended March 31, 2018 and 2017, respectively. If the first quarter of 2017 results for our U.K. operations had been translated at the higher exchange rate of 2018, our adjusted operating revenue and adjusted operating income by segment would have been higher by approximately \$18 million and \$3 million, respectively, in the first quarter of 2017. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a

result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Premium income for the first quarter of 2018 increased relative to the same period of 2017, with growth in each of our principal operating business segments, as measured in local currency, due to current and prior period sales growth, the expansion of our dental and vision products, and generally favorable persistency. Premium income continues to decline, as expected, in our Closed Block segment.

Net investment income was consistent in the first quarter of 2018 relative to the same period of 2017 with a decline in the yield on invested assets, mostly offset by an increase in the level of invested assets, the favorable impact of the higher foreign currency exchange rate on translated financial results, and higher miscellaneous investment income.

We recognized \$1.0 million of other-than-temporary impairment losses on fixed maturity securities included in net realized investment gains and losses for the first quarter of 2018. We had no other-than-temporary impairment losses on fixed maturity securities included in net realized investment gains and losses for the first quarter of 2017. Also included in net realized investment gains and losses were changes in the fair value of an embedded derivative in a modified coinsurance arrangement, which resulted in realized gains (losses) of \$(1.7) million and \$8.6 million in the first quarters of 2018 and 2017, respectively. See Note 4 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on realized investment gains and losses.

Overall benefits experience was favorable in the first quarter 2018 relative to the prior year period. The benefits experience for each of our operating business segments is discussed more fully in "Segment Results" as follows.

Commissions and the deferral of acquisition costs increased in the first quarter of 2018 relative to the same period of 2017 due primarily to sales growth. Growth in the level of the deferred asset resulted in higher amortization in the first quarter of 2018 compared to the prior year.

Interest and debt expense was slightly higher in the first quarter 2018 relative to the same period of 2017 due primarily to a higher overall rate of interest, partially offset by a lower level of outstanding debt.

Other expenses, including compensation expense, increased in the first quarter of 2018 compared to the same period of 2017. Excluding the loss from a guaranty fund assessment related to an unaffiliated insurer that was declared insolvent in the first quarter 2017, the year-over-year growth rates in compensation and other expenses more than offset the premium growth rate, resulting in a slight increase in the other expense ratio relative to the prior year as we continue balancing our investments in the growth of our business with our continued focus on expense management and operating efficiencies.

Our effective income tax rate for the first quarter of 2018 was 19.9 percent of income before income tax, compared to 30.4 percent for the first quarter of 2017. The decline in the effective rate was due to the enactment of the TCJA in the fourth quarter of 2017, which reduced the federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. Our effective tax rate differed from the U.S. statutory rate in effect for the first quarter of 2018 due to tax credits. Our effective tax rate differed from the U.S. statutory rate in effect for the first quarter of 2017 due to tax credits and the impact of foreign earnings which were taxed at a lower rate than the U.S. statutory rate. See Note 12 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion.

#### Consolidated Sales Results

Shown below are sales results for our three principal operating business segments.  
(in millions)

Edgar Filing: Unum Group - Form 10-Q

	Three Months Ended		
	March 31		
	2018	% Change	2017
Unum US	\$274.6	4.2 %	\$263.5
Unum UK	£12.3	(22.6 )%	£15.9
Colonial Life	\$103.7	7.6 %	\$96.4

64

---



Sales shown in the preceding chart generally represent the annualized premium income on new sales which we expect to receive and report as premium income during the next 12 months following or beginning in the initial quarter in which the sale is reported, depending on the effective date of the new sale. Sales do not correspond to premium income reported as revenue in accordance with GAAP. This is because new annualized sales premiums reflect current sales performance and what we expect to recognize as premium income over a 12 month period, while premium income reported in our financial statements is reported on an "as earned" basis rather than an annualized basis and also includes renewals and persistency of in-force policies written in prior years as well as current new sales.

Sales, persistency of the existing block of business, employment and salary growth, and the effectiveness of a renewal program are indicators of growth in premium income. Trends in new sales, as well as existing market share, also indicate the potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

See "Segment Results" as follows for a discussion of sales by segment.

### Segment Results

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Closed Block, and Corporate.

#### Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, which are comprised of individual disability, voluntary benefits, and dental and vision products.

#### Unum US Operating Results

Shown below are financial results for the Unum US segment. In the sections following, financial results and key ratios are also presented for the major lines of business within the segment.

(in millions of dollars, except ratios)

	Three Months Ended March 31		
	2018	% Change	2017
Adjusted Operating Revenue			
Premium Income	\$1,438.8	5.8 %	\$1,360.4
Net Investment Income	194.2	(4.1 )	202.5
Other Income	29.0	1.0	28.7
Total	1,662.0	4.4	1,591.6
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	960.9	4.1	923.4
Commissions	161.4	5.4	153.2
Deferral of Acquisition Costs	(89.5 )	2.5	(87.3 )
Amortization of Deferred Acquisition Costs	89.2	6.8	83.5
Other Expenses	296.1	5.9	279.7
Total	1,418.1	4.9	1,352.5
Adjusted Operating Income	\$243.9	2.0	\$239.1

Edgar Filing: Unum Group - Form 10-Q

Operating Ratios (% of Premium Income):

Benefit Ratio	66.8	%	67.9	%
Other Expense Ratio	20.6	%	20.6	%
Adjusted Operating Income Ratio	17.0	%	17.6	%

65

---

## Unum US Group Disability Operating Results

Shown below are financial results and key performance indicators for Unum US group disability.  
(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2018		% Change	2017
Adjusted Operating Revenue				
Premium Income				
Group Long-term Disability	\$441.2	1.6	%	\$434.4
Group Short-term Disability	176.3	11.7		157.9
Total Premium Income	617.5	4.3		592.3
Net Investment Income	108.2	(6.3	)	115.5
Other Income	26.3	9.6		24.0
Total	752.0	2.8		731.8
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	466.9	2.9		453.8
Commissions	48.9	5.4		46.4
Deferral of Acquisition Costs	(12.3	)	2.5	(12.0
Amortization of Deferred Acquisition Costs	11.2	12.0		10.0
Other Expenses	154.3	6.5		144.9
Total	669.0	4.0		643.1
Adjusted Operating Income	\$83.0	(6.4	)	\$88.7
Operating Ratios (% of Premium Income):				
Benefit Ratio	75.6	%		76.6
Other Expense Ratio	25.0	%		24.5
Adjusted Operating Income Ratio	13.4	%		15.0
Persistency:				
Group Long-term Disability	90.8	%		88.1
Group Short-term Disability	86.6	%		85.2

Premium income in the first quarter of 2018 increased compared to the same period of 2017 with growth in the in-force block due to prior period sales and improved persistency. Net investment income was lower in the first quarter of 2018 relative to the same period of 2017 due to a decrease in the level of invested assets, a decline in yield on invested assets, and slightly lower miscellaneous investment income. Other income is comprised primarily of fees from administrative services products.

Benefits experience was favorable in the first quarter of 2018 compared to the same period of 2017 due primarily to favorable claim recovery experience in our group long-term disability product line, partially offset by higher claims incidence in our group short-term disability product line.

Commissions and the deferral of acquisition costs were higher in the first quarter of 2018 compared to same period of 2017 due to prior period sales growth. The amortization of deferred acquisition costs increased in the first quarter of 2018 relative to the same period of 2017 due to growth in the level of the deferred asset. Our other expense ratio was higher in the first quarter of 2018 compared to the same period of 2017 due primarily to an increase in operational investments in our business.



Unum US Group Life and Accidental Death and Dismemberment Operating Results

Shown below are financial results and key performance indicators for Unum US group life and accidental death and dismemberment.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2018	% Change		2017
<b>Adjusted Operating Revenue</b>				
<b>Premium Income</b>				
Group Life	\$399.2	8.5	%	\$367.8
Accidental Death & Dismemberment	38.7	5.7		36.6
Total Premium Income	437.9	8.3		404.4
Net Investment Income	26.8	(2.9	)	27.6
Other Income	1.1	10.0		1.0
Total	465.8	7.6		433.0
<b>Benefits and Expenses</b>				
Benefits and Change in Reserves for Future Benefits	309.8	6.6		290.7
Commissions	36.7	12.6		32.6
Deferral of Acquisition Costs	(10.2	)	9.7	(9.3
Amortization of Deferred Acquisition Costs	9.1	13.8		8.0
Other Expenses	55.8	1.5		55.0
Total	401.2	6.4		377.0
Adjusted Operating Income	\$64.6	15.4		\$56.0
<b>Operating Ratios (% of Premium Income):</b>				
Benefit Ratio	70.7	%		71.9
Other Expense Ratio	12.7	%		13.6
Adjusted Operating Income Ratio	14.8	%		13.8
<b>Persistency:</b>				
Group Life	89.3	%		87.4
Accidental Death & Dismemberment	86.2	%		87.1

Premium income increased in the first quarter of 2018 compared to the same period of 2017 due to sales growth and overall favorable persistency. Net investment income was lower in the first quarter of 2018 compared to the same period of 2017 due primarily to a decline in yield, partially offset by an increase in the level of invested assets and higher miscellaneous investment income.

Benefits experience was favorable in the first quarter of 2018 compared to the same period of 2017, driven primarily by waiver of premium experience in our group life product line.

Commissions and the deferral of acquisition costs were higher in the first quarter of 2018 compared to same period of 2017 due to sales growth. The amortization of deferred acquisition costs increased in the first quarter of 2018 relative to the same period of 2017 due to growth in the level of the deferred asset. The other expense ratio declined in the first quarter of 2018 compared to the same period of 2017 due to growth in premium income and our continued focus on expense management and operating efficiencies balanced with continued investment in the growth of our business.



## Unum US Supplemental and Voluntary Operating Results

Shown below are financial results and key performance indicators for Unum US supplemental and voluntary product lines.

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2018	% Change		2017
<b>Adjusted Operating Revenue</b>				
<b>Premium Income</b>				
Individual Disability	\$104.9	(2.0 )%		\$107.0
Voluntary Benefits	229.8	6.8		215.2
Dental and Vision	48.7	17.3		41.5
Total Premium Income	383.4	5.4		363.7
Net Investment Income	59.2	(0.3 )		59.4
Other Income	1.6	(56.8 )		3.7
Total	444.2	4.1		426.8
<b>Benefits and Expenses</b>				
Benefits and Change in Reserves for Future Benefits	184.2	3.0		178.9
Commissions	75.8	2.2		74.2
Deferral of Acquisition Costs	(67.0 )	1.5		(66.0 )
Amortization of Deferred Acquisition Costs	68.9	5.2		65.5
Other Expenses	86.0	7.8		79.8
Total	347.9	4.7		332.4
Adjusted Operating Income	\$96.3	2.0		\$94.4
<b>Operating Ratios (% of Premium Income):</b>				
<b>Benefit Ratios:</b>				
Individual Disability	51.0	%		54.6 %
Voluntary Benefits	42.3	%		42.2 %
Dental and Vision	68.6	%		71.6 %
Other Expense Ratio	22.4	%		21.9 %
Adjusted Operating Income Ratio	25.1	%		26.0 %
<b>Persistency:</b>				
Individual Disability	90.7	%		91.1 %
Voluntary Benefits	76.9	%		75.9 %
Dental and Vision	85.0	%		83.4 %

Premium income increased in the first quarter of 2018 compared to the same period of 2017, driven by growth in the voluntary benefits product line due to higher sales and continued growth in our dental and vision product as we continue to expand its distribution. Net investment income was slightly lower in the first quarter of 2018 relative to the comparable period of 2017 due to a decline in yield on invested assets and lower miscellaneous investment income, partially offset by growth in the level of invested assets. Other income decreased in the first quarter of 2018 relative to the same period of 2017 due to the expected decline in surrender fees as our interest sensitive life products mature.

Benefits experience was favorable for the individual disability product line in the first quarter of 2018 compared to the same period of 2017 due to the favorable impact on our benefit ratio due to the reinsurance agreement we entered into

during the fourth quarter of 2016 whereby we ceded additional business in the first quarter of 2018 compared to the prior year period. Excluding the impact of this agreement, benefits experience for the individual disability product line was generally consistent with the same period of 2017. Benefits experience for voluntary benefits in the first quarter of 2018 was generally consistent

68

---



with the same period of 2017. Benefits experience for the dental and vision product line in the first quarter of 2018 was favorable compared to the same period of 2017 due primarily to lower average claim size.

Commissions and the deferral of acquisition costs were higher for the first quarter of 2018 relative to the same period of 2017 due primarily to sales growth. The amortization of deferred acquisition costs increased in the first quarter of 2018 relative to the same period of 2017 due to less favorable persistency in our individual disability product line and growth in the level of the deferred asset. Our other expense ratio increased in the first quarter of 2018 compared to the same period of 2017 due to an increase in operational investments in our business.

## Sales

(in millions of dollars)

	Three Months Ended		
	March 31		
	2018	% Change	2017
<b>Sales by Product</b>			
Group Disability and Group Life and AD&D			
Group Long-term Disability	\$30.1	(16.4 )%	\$36.0
Group Short-term Disability	16.3	(3.6 )	16.9
Group Life and AD&D	44.6	19.9	37.2
Subtotal	91.0	1.0	90.1
Supplemental and Voluntary			
Individual Disability	17.9	10.5	16.2
Voluntary Benefits	153.5	4.2	147.3
Dental and Vision	12.2	23.2	9.9
Subtotal	183.6	5.9	173.4
Total Sales	\$274.6	4.2	\$263.5
<b>Sales by Market Sector</b>			
Group Disability and Group Life and AD&D			
Core Market (< 2,000 employees)	\$54.9	(2.5 )%	\$56.3
Large Case Market	36.1	6.8	33.8
Subtotal	91.0	1.0	90.1
Supplemental and Voluntary	183.6	5.9	173.4
Total Sales	\$274.6	4.2	\$263.5

Group sales increased slightly in the first quarter of 2018 compared to the same period of 2017, primarily driven by an increase in sales to existing customers in our large case market segment, partially offset by a decline in sales to new customers in both the core market segment, which we define as employee groups with fewer than 2,000 employees, and in the large case market segment. The sales mix in the group market sector for the first three months of 2018 was approximately 60 percent core market and 40 percent large case market.

Individual disability sales, which are primarily concentrated in the multi-life market, increased in the first quarter of 2018 compared to the same period of 2017 driven by higher sales to new customers, partially offset by a decrease in sales to existing customers. Sales of voluntary benefits increased in the first quarter of 2018 compared to the same period of 2017, driven by increased sales to both new and existing customers in the core market and sales to existing customers in the large case market. Dental and vision sales increased in the first quarter of 2018 compared to the same period of 2017, primarily driven by higher sales to both new and existing customers.



## Segment Outlook

We remain committed to offering consumers a broad set of financial protection benefit products at the worksite. During the remainder of 2018, we will continue to focus on client expansion, consumer engagement, and collaborative partnerships, all underpinned by strong risk management. We intend to broaden our client relationships and build additional partnerships to open new digital channels. We also aim to enhance the customer experience through the expansion of our dental and vision business and the introduction of our medical stop-loss product, investing in processes with a focus on quality and simplification, and the utilization of technology to enhance enrollment, underwriting, and online claims. We believe our active client management and differentiated integrated customer experience across our product lines will continue to enable us to grow our market.

We anticipate solid adjusted operating income growth in 2018, with disciplined sales and premium growth, consistent risk management, and improving operational efficiency. We believe further improvement in our premium and sales growth rates is possible if overall economic conditions continue to improve and/or industry pricing levels increase to better align with our view of adequate premium rates. We believe our underlying profitability will remain strong throughout the year, driven primarily by our continued product mix shift, expense efficiencies, and consistent operating effectiveness. Underpinning our strategy is our continued commitment to risk management discipline, talent development, and our core values.

The low interest rate environment continues to place pressure on our profit margins by impacting net investment income yields as well as discount rates on our insurance liabilities. Our net investment income may be impacted, either favorably or unfavorably, by fluctuations in miscellaneous investment income. As part of our continued pricing discipline and our reserving strategy, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We expect that our group disability ratio will remain generally consistent with 2017 and that our voluntary benefits benefit ratio will gradually increase back to long-term trends. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Unum UK Segment

The Unum UK segment includes insurance for group long-term disability, group life, and supplemental lines of business which include dental, individual disability, and critical illness products. Unum UK's products are sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

Operating Results

Shown below are financial results and key performance indicators for the Unum UK segment.

(in millions of dollars, except ratios)

	Three Months Ended		
	March 31		
	2018	% Change	2017
Adjusted Operating Revenue			
Premium Income			
Group Long-term Disability	\$90.8	12.4 %	\$80.8
Group Life	28.6	15.3	24.8
Supplemental	20.2	28.7	15.7
Total Premium Income	139.6	15.1	121.3
Net Investment Income	27.6	3.8	26.6
Total	167.2	13.0	147.9
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	100.3	15.7	86.7
Commissions	9.4	6.8	8.8
Deferral of Acquisition Costs	(1.5 )	(16.7 )	(1.8 )
Amortization of Deferred Acquisition Costs	2.1	(4.5 )	2.2
Other Expenses	27.1	6.7	25.4
Total	137.4	13.3	121.3
Adjusted Operating Income	\$29.8	12.0	\$26.6

## Foreign Currency Translation

The functional currency of Unum UK is the British pound sterling. Unum UK's premium income, net investment income, claims, and expenses are received or paid in pounds, and we hold pound-denominated assets to support Unum UK's pound-denominated policy reserves and liabilities. We translate Unum UK's pound-denominated financial statement items into dollars for our consolidated financial reporting. We translate income statement items using an average exchange rate for the reporting period, and we translate balance sheet items using the exchange rate at the end of the period. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income in our consolidated balance sheets.

Fluctuations in the pound to dollar exchange rate have an effect on Unum UK's reported financial results and our consolidated financial results. In periods when the pound strengthens relative to the preceding period, translating pounds into dollars increases current period results relative to the prior period. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period. The discussion of financial and sales results as follows is based on local currency.

(in millions of pounds, except ratios)

	Three Months Ended March		
	2018	% Change	2017
Adjusted Operating Revenue			
Premium Income			
Group Long-term Disability	£65.2	—	£65.2
Group Life	20.6	3.0	20.0
Supplemental	14.5	14.2	12.7
Total Premium Income	100.3	2.5	97.9
Net Investment Income	19.9	(7.0 )	21.4
Total	120.2	0.8	119.3
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	72.1	3.1	69.9
Commissions	6.8	(4.2 )	7.1
Deferral of Acquisition Costs	(1.1 )	(21.4 )	(1.4 )
Amortization of Deferred Acquisition Costs	1.5	(11.8 )	1.7
Other Expenses	19.5	(5.3 )	20.6
Total	98.8	0.9	97.9
Adjusted Operating Income	£21.4	—	£21.4
Weighted Average Pound/Dollar Exchange Rate	1.393		1.243
Operating Ratios (% of Premium Income):			
Benefit Ratio	71.9 %		71.4 %
Other Expense Ratio	19.4 %		21.0 %
Adjusted Operating Income Ratio	21.3 %		21.9 %
Persistency:			
Group Long-term Disability	86.7 %		84.2 %
Group Life	85.5 %		82.0 %
Supplemental	91.5 %		91.5 %

Premium income increased in the first quarter of 2018 compared to the same period of 2017 driven by overall improved persistency and sales growth in the group critical illness and dental product lines.

72

---

Net investment income was lower in the first quarter of 2018 relative to the prior year period due primarily to lower yield on our fixed-rate bonds, partially offset by the increase in the level of invested assets.

Overall benefits experience was less favorable in the first quarter of 2018 relative to the same prior year period due primarily to unfavorable claims activity in our group life and group critical illness product lines, partially offset by favorable claim resolutions in our group long-term disability product line.

Commissions and the deferral of acquisition costs decreased in the first quarter of 2018 relative to the same prior year period due primarily to an overall decrease in sales. The amortization of acquisition costs in the first quarter of 2018 was generally consistent with the same period of 2017. The other expense ratio was lower in the first quarter of 2018 compared to the same prior year period due to an increase in premium income and a continued focus on expense management and operating efficiencies.

Sales

(in millions of dollars and pounds)

	Three Months Ended		
	March 31		
	2018	% Change	2017
Sales by Product			
Group Long-term Disability	\$7.8	(42.2 )%	\$13.5
Group Life	4.5	15.4	3.9
Supplemental	4.8	108.7	2.3
Total Sales	\$17.1	(13.2 )	\$19.7

Sales by Market Sector

Group Long-term Disability and Group Life

Core Market (< 500 employees)	\$7.6	18.8	%	\$6.4
Large Case Market	4.7	(57.3 )		11.0
Subtotal	12.3	(29.3 )		17.4
Supplemental	4.8	108.7		2.3
Total Sales	\$17.1	(13.2 )		\$19.7

Sales by Product

Group Long-term Disability	£5.6	(48.6 )%	£10.9
Group Life	3.3	6.5	3.1
Supplemental	3.4	78.9	1.9
Total Sales	£12.3	(22.6 )	£15.9

Sales by Market Sector

Group Long-term Disability and Group Life

Core Market (< 500 employees)	£5.4	3.8	%	£5.2
Large Case Market	3.5	(60.2 )		8.8
Subtotal	8.9	(36.4 )		14.0
Supplemental	3.4	78.9		1.9
Total Sales	£12.3	(22.6 )		£15.9

Group long-term disability sales decreased in the first quarter of 2018 relative to the first quarter of 2017 due primarily to a decline in sales to new customers in our large case market. Group life sales were slightly higher in the first quarter of 2018 compared to the first quarter of 2017 with an increase in sales to new customers in the large case market mostly offset by a decline in sales to existing customers in the large case market.

Supplemental sales increased during the first quarter of 2018 compared to the same period of 2017 due to an increase in sales in both the group critical illness and dental product lines.

73

---



## Segment Outlook

We remain committed to driving growth in the U.K. market, and during the remainder of 2018, we will continue to build on those capabilities that we believe will generate growth and profitability in our businesses. Expanding our group long-term disability market position remains a significant opportunity and priority. Our key priorities in 2018 include the continuing implementation of price increases across interest sensitive product lines while maintaining solid persistency results and continuing to follow a disciplined approach to new sales activity in the competitive pricing environment. We intend to build upon the strong sales momentum we have seen in our group critical illness and dental products through increased participation rates as well as accelerate growth in our group life line of business. We will expand our distribution and build marketing and digital capabilities which we believe will drive sustainable growth. We have simplified our processes and operations to deliver efficiencies and further improvements to customer service and remain focused on risk discipline.

We expect to continue to see some near-term dampening of growth in Unum UK due to the current disruption and uncertainty in the U.K. economy as a result of the U.K.'s formal notice to withdraw from the EU. We anticipate that lower economic growth, wage inflation, and the interest rate outlook in the U.K. will present challenges in the short to medium term, but we will continue to monitor and adapt our plans accordingly to respond to these challenges. The magnitude and longevity of potential negative economic impacts on our growth will depend on the agreements reached by the U.K. and EU as a result of exit negotiations and the resulting response of the U.K. marketplace, but we believe we are well positioned to capitalize on future growth opportunities as these negotiations are resolved and the operating environment improves.

We expect the current environment to continue to have a negative impact on our growth expectations in the near-term and may also lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. As part of our continued pricing discipline and our reserving strategy, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We will likely continue to experience volatility in net investment income and our benefit ratio due to fluctuations in the level of inflation in the U.K., however, we do not expect this to have a significant impact on adjusted operating income. There are no indications currently that capital requirements for our U.K. operations will change, but economic conditions may in the near term cause volatility in our solvency ratios. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

## Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, which includes our expanded dental and vision products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees, on both a group and an individual basis, at the workplace through an independent contractor agency sales force and brokers.

## Operating Results

Shown below are financial results and key performance indicators for the Colonial Life segment.  
(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2018	% Change	2017	
Adjusted Operating Revenue				
Premium Income				
Accident, Sickness, and Disability	\$231.3	5.6 %	\$219.1	
Life	81.0	9.2	74.2	
Cancer and Critical Illness	86.0	6.2	81.0	
Total Premium Income	398.3	6.4	374.3	
Net Investment Income	37.3	6.3	35.1	
Other Income	0.3	—	0.3	
Total	435.9	6.4	409.7	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	205.7	8.1	190.2	
Commissions	90.2	5.9	85.2	
Deferral of Acquisition Costs	(78.3 )	7.3	(73.0 )	
Amortization of Deferred Acquisition Costs	60.2	7.9	55.8	
Other Expenses	77.1	11.6	69.1	
Total	354.9	8.4	327.3	
Adjusted Operating Income	\$81.0	(1.7 )	\$82.4	
Operating Ratios (% of Premium Income):				
Benefit Ratio	51.6 %		50.8 %	
Other Expense Ratio	19.4 %		18.5 %	
Adjusted Operating Income Ratio	20.3 %		22.0 %	
Persistency:				
Accident, Sickness, and Disability	75.3 %		74.6 %	
Life	84.2 %		84.5 %	
Cancer and Critical Illness	83.1 %		81.9 %	

Premium income increased in the first quarter of 2018 relative to the same period of 2017 as a result of sales growth and solid persistency. Net investment income was higher in the first quarter of 2018 compared to the same period of 2017 due to an increase in the level of invested assets and higher miscellaneous investment income, partially offset by a decline in yield on invested assets.

Benefits experience in the first quarter of 2018 was unfavorable compared to the same period of 2017 due primarily to higher claims incidence and a higher average claim size in the life line of business, partially offset by favorable claims experience in the accident, sickness and disability line of business.



Commissions and the deferral of acquisition costs were higher in the first quarter of 2018 relative to the same period of 2017 due to sales growth. The amortization of deferred acquisition costs increased during the first quarter of 2018 relative to the same period of 2017 due to growth in the level of the deferred asset. The other expense ratio was higher in the first quarter of 2018 compared to the same period of 2017 due to an increase in operational investments in our business.

## Sales

Certain prior year amounts below were reclassified to conform to current year presentation.  
(in millions of dollars)

	Three Months Ended		
	March 31		
	2018	% Change	2017
<b>Sales by Product</b>			
Accident, Sickness, and Disability	\$66.4	8.0 %	\$61.5
Life	21.3	1.9	20.9
Cancer and Critical Illness	16.0	14.3	14.0
Total Sales	\$103.7	7.6	\$96.4

## Sales by Market Sector

<b>Commercial</b>			
Core Market (< 1,000 employees)	\$67.9	7.8 %	\$63.0
Large Case Market	15.7	1.9	15.4
Subtotal	83.6	6.6	78.4
Public Sector	20.1	11.7	18.0
Total Sales	\$103.7	7.6	\$96.4

Sales were higher in the first quarter of 2018 relative to the same period of 2017 due to growth in both new and existing customer account sales. Commercial market sales increased in the first quarter of 2018 as compared to the same period of 2017 due primarily to higher sales to both new and existing customer accounts in the core market, which we define as accounts with fewer than 1,000 employees, partially offset by lower sales to new customer accounts in the large case market. Growth in our public sector market sales for the first quarter of 2018 was due to an increase in both new and existing customer account sales. The number of new accounts increased 4.3 percent in the first quarter of 2018 relative to the same period of 2017, and the average new case size increased 10.4 percent.

## Segment Outlook

We remain committed to providing employees and their families with simple, modern, and personal benefit solutions. During the remainder of 2018, we intend to continue to focus on expanding our distribution, introducing new products and services, enhancing the customer experience, and investing in new solutions and digital capabilities to further improve productivity. We believe there is significant opportunity for growth in our core market, particularly those employers with fewer than 100 employees. This market is currently underserved, and we believe having a large national distribution system is critical to reaching those markets. We will continue to focus on accelerating growth during the remainder of 2018 through territory expansion, territory growth, persistency investments, and increased participation rates. We believe our distribution system, enrollment capabilities, public sector expertise, the introduction of our new individual dental and vision products, and ability to serve all market sizes position us well for future growth.

We expect to see continued favorable sales and premium growth trends during the remainder of 2018 and a consistent level of adjusted operating earnings growth as a result of accelerating investments in our future growth. The lower

interest rate environment will continue to have an unfavorable impact on our profit margins, and volatility in miscellaneous investment income is likely to continue. We expect our annual benefit ratio for 2018 to be generally consistent with the level of 2017. While we believe our underlying profitability will remain strong, current economic conditions and increasing competition in the voluntary workplace market are seen as external risks to achievement of our business plans. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

## Closed Block Segment

The Closed Block segment consists of individual disability, group and individual long-term care, and other insurance products no longer actively marketed. Individual disability in this segment generally consists of policies we sold prior to the mid-1990s and entirely discontinued selling in 2004, other than update features contractually allowable on existing policies. We discontinued offering individual long-term care in 2009 and group long-term care in 2012. Other insurance products include group pension, individual life and corporate-owned life insurance, reinsurance pools and management operations, and other miscellaneous product lines.

## Operating Results

Shown below are financial results and key performance indicators for the Closed Block segment.  
(in millions of dollars, except ratios)

	Three Months Ended March 31	
	2018	% Change 2017
Adjusted Operating Revenue		
Premium Income		
Individual Disability	\$109.4	(9.8 )%
Long-term Care	161.3	(1.1 )
All Other	2.6	4.0
Total Premium Income	273.3	(4.7 )
Net Investment Income	337.7	0.7
Other Income	19.0	(8.7 )
Total	630.0	(2.0 )
Benefits and Expenses		
Benefits and Change in Reserves for Future Benefits	541.0	(1.4 )
Commissions	21.3	(7.4 )
Interest and Debt Expense	1.7	—
Other Expenses	37.1	(2.4 )
Total	601.1	(1.7 )
Adjusted Operating Income	\$28.9	(8.5 )
Interest Adjusted Loss Ratios:		
Individual Disability	77.1 %	83.6 %
Long-term Care	96.6 %	88.6 %
Operating Ratios (% of Premium Income):		
Other Expense Ratio	13.6 %	13.2 %
Adjusted Operating Income Ratio	10.6 %	11.0 %
Persistency:		
Individual Disability	89.3 %	90.4 %
Long-term Care	95.7 %	95.1 %

Premium income for individual disability decreased in the first quarter of 2018 compared to the same period of 2017 due to policy terminations and maturities. Premium income for long-term care decreased slightly due primarily to policy terminations, partially offset by rate increases. We continue to file requests with various state insurance

departments for premium rate increases on certain of our individual and group long-term care policies. The rate increases reflect current interest rates and claims experience, higher expected future claims, longevity, persistency, and other factors related to pricing long-term care

77

---

coverage. In states for which a rate increase is submitted and approved, we routinely provide customers options for coverage changes or other approaches that might fit their current financial and insurance needs.

Net investment income was higher in the first quarter of 2018 relative to the same period of 2017 due to a higher level of invested assets, partially offset by a decline in the yield on invested assets. Other income, which includes the underlying results of certain blocks of individual disability reinsured business and the net investment income of portfolios held by those ceding companies to support the block we have reinsured, continues to decline due to expected terminations and maturities.

Individual disability benefits experience was favorable in the first quarter of 2018 compared to the same period of 2017 due primarily to a lower average size of new claims. Long-term care benefits experience was unfavorable in the first quarter of 2018 compared to the same period of 2017 due to higher claims incidence, partially offset by favorable claim resolutions related to mortality experience. Also contributing to the unfavorable long-term care benefits experience in the first quarter of 2018 compared to the same period of 2017 was a lower level of policy terminations.

The other expense ratio increased slightly in the first quarter of 2018 compared to the same period of 2017 driven primarily by the expected decline in premium income for individual disability, partially offset by our continued focus on expense management and operating efficiencies.

#### Segment Outlook

During the remainder of 2018, we will continue to execute on our well-defined strategy of implementing long-term care premium rate increases, efficient capital management, improved financial analysis, and operational effectiveness. Despite continued anticipated premium rate increases in our long-term care business, we expect overall premium income and adjusted operating revenue to decline over time as these closed blocks of business wind down. We will likely experience volatility in net investment income due to fluctuations of miscellaneous investment income and the continued increase in our allocation towards high yield and alternative assets in the long-term care product line. We expect the low interest rate environment to continue to place pressure on our earnings and the adequacy of our reserves. Although the yield achieved on the investment of new money supporting our long-term care business continues to meet the expectations we have assumed in our reserves established under loss recognition, we consider this a continued watch area as we get closer to the time when the new money yield assumptions will begin to grade higher in our reserve assumptions. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Profitability of our long-tailed products is affected by claims experience related to mortality and morbidity, investment returns, premium rate increases, and persistency. We believe that the interest adjusted loss ratios for the individual disability and long-term care lines of business will be relatively flat over the long term, but these product lines may continue to experience quarterly volatility, particularly in the near term for our long-term care product lines as our claim block matures and the timing of our premium rate increases varies relative to expectations. For 2018, although premium rate increases and higher investment margins have contributed positively to the interest adjusted loss ratios for our long-term care product lines, we expect that they will remain elevated relative to the prior year. We also believe the implementation of our long-term care rate increases have contributed to higher claim submissions in the near term. Claim resolution rates, which measure the resolution of claims from recovery, deaths, settlements, and benefit expirations, are very sensitive to operational and external factors and can be volatile. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible that variability in any of our reserve assumptions, including, but not limited to, interest rates, mortality, morbidity, premium rate increases, benefit change elections, and persistency, could result in a material impact on the adequacy of our reserves, including adjustments to reserves established under loss recognition.





## Corporate Segment

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business.

## Operating Results

(in millions of dollars)

	Three Months Ended		
	March 31		
	2018	% Change	2017
Adjusted Operating Revenue			
Net Investment Income	\$5.5	89.7 %	\$2.9
Other Income	1.2	200.0	0.4
Total	6.7	103.0	3.3
Interest and Other Expenses	47.0	(26.2 )	63.7
Loss Before Income Tax and Net Realized Investment Gains and Losses	(40.3 )	33.3	(60.4 )
Loss from Guaranty Fund Assessment	—	N.M.	20.6
Adjusted Operating Loss	\$(40.3)	(1.3 )	\$(39.8)

N.M. = not a meaningful percentage

Net investment income was higher in the first quarter of 2018 relative to the same period of 2017 due to a higher yield on invested assets, partially offset by a lower asset level.

Interest and other expenses were lower in the first quarter of 2018 relative to the same period of 2017 due primarily to a \$20.6 million loss incurred in the first quarter of 2017 from a guaranty fund assessment related to an unaffiliated insurer that was declared insolvent. Excluding this loss, interest and other expenses were higher than the prior year due primarily to the reduction of a premium tax receivable.

## Segment Outlook

We expect the low interest rate environment to continue to place pressure on investment income. Although we expect tax reform to be beneficial to our earnings and long-term cash generation, we may experience some further pressure on our RBC ratios as a result of expected NAIC revisions to the RBC calculations to consider the lower U.S. statutory income tax rate. We expect our insurance subsidiaries to generate stronger statutory earnings. The level of excess capital generation is dependent on the timing and magnitude of these NAIC changes and the extent to which and how quickly the rating agencies will expect the industry to rebuild its RBC ratio levels.

## Investments

### Overview

Investment activities are an integral part of our business, and profitability is significantly affected by investment results. We segment our invested assets into portfolios that support our various product lines. Generally, our investment strategy for our portfolios is to match the effective asset cash flows and durations with related expected liability cash flows and durations to consistently meet the liability funding requirements of our businesses. We seek to earn investment income while assuming credit risk in a prudent and selective manner, subject to constraints of quality, liquidity, diversification, and regulatory considerations. Our overall investment philosophy is to invest in a portfolio of high quality assets that provide investment returns consistent with that assumed in the pricing of our insurance products. Assets are invested predominately in fixed maturity securities. Changes in interest rates may affect the amount and timing of cash flows.

We actively manage our asset and liability cash flow match and our asset and liability duration match to limit interest rate risk. We may redistribute investments among our different lines of business, when necessary, to adjust the cash flow and/or duration of the asset portfolios to better match the cash flow and duration of the liability portfolios. Asset and liability portfolio modeling is updated on a quarterly basis and is used as part of the overall interest rate risk management strategy. Cash flows from the in-force asset and liability portfolios are projected at current interest rate levels and also at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates. Testing the asset and liability portfolios under various interest rate scenarios enables us to choose what we believe to be the most appropriate investment strategy, as well as to limit the risk of disadvantageous outcomes. Although we test the asset and liability portfolios under various interest rate scenarios as part of our modeling, the majority of our liabilities related to insurance contracts are not interest rate sensitive, and we therefore have minimal exposure to policy withdrawal risk. Our determination of investment strategy relies on long-term measures such as reserve adequacy analysis and the relationship between the portfolio yields supporting our various product lines and the aggregate discount rate assumptions embedded in the reserves. We also use this analysis in determining hedging strategies and utilizing derivative financial instruments for managing interest rate risk and the risk related to matching duration for our assets and liabilities. We do not use derivative financial instruments for speculative purposes.

Our investment portfolio is well diversified by type of investment and industry sector. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We believe our emphasis on risk management in our investment portfolio, including credit and interest rate management, has positioned us well and generally reduced the volatility in our results.

## Fixed Maturity Securities

The fair values and associated unrealized gains and losses of our fixed maturity securities portfolio, by industry classification, are as follows:

## Fixed Maturity Securities - By Industry Classification

As of March 31, 2018

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	\$2,835.1	\$ 209.5	\$ 578.9	\$ 18.7	\$ 2,256.2	\$ 228.2
Capital Goods	4,210.2	378.4	801.2	26.5	3,409.0	404.9
Communications	2,956.2	338.5	535.4	26.8	2,420.8	365.3
Consumer Cyclical	1,399.0	104.3	224.9	5.7	1,174.1	110.0
Consumer Non-Cyclical	6,737.4	520.2	1,870.7	81.8	4,866.7	602.0
Energy	4,857.2	520.1	704.2	40.5	4,153.0	560.6
Financial Institutions	3,394.8	218.6	762.7	17.0	2,632.1	235.6
Mortgage/Asset-Backed	1,842.8	66.4	480.4	14.7	1,362.4	81.1
Sovereigns	873.7	181.1	38.8	0.8	834.9	181.9
Technology	1,529.9	61.1	341.0	9.2	1,188.9	70.3
Transportation	1,978.5	211.9	303.0	10.2	1,675.5	222.1
U.S. Government Agencies and Municipalities	3,903.6	476.0	394.4	13.6	3,509.2	489.6
Public Utilities	7,981.7	1,062.1	552.9	27.6	7,428.8	1,089.7
Total	\$44,500.1	\$ 4,348.2	\$ 7,588.5	\$ 293.1	\$ 36,911.6	\$ 4,641.3

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of March 31, 2018 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after March 31, 2018. The increase in the unrealized loss on fixed maturity securities during the first quarter of 2018 was due primarily to an increase in credit spreads and U.S. Treasury rates.

Unrealized Loss on Investment-Grade Fixed Maturity Securities  
Length of Time in Unrealized Loss Position

(in millions of dollars)

	2018	2017			
	March	December	September	June	March
	31	31	30	30	31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$79.8	\$20.8	\$ 12.4	\$4.5	\$4.0
> 90 <= 180 days	40.5	9.5	2.1	1.3	82.1
> 180 <= 270 days	30.5	—	1.8	31.7	9.5
> 270 days <= 1 year	—	1.2	24.5	5.9	0.1
> 1 year <= 2 years	44.8	32.1	9.2	4.1	10.0
> 2 years <= 3 years	2.9	1.7	2.7	3.6	1.7
> 3 years	0.2	—	—	0.1	0.7
Sub-total	198.7	65.3	52.7	51.2	108.1

Fair Value < 70% >= 40% of  
Amortized Cost

<=90 days	—	1.2	—	—	—
Total	\$198.7	\$66.5	\$ 52.7	\$51.2	\$108.1

Unrealized Loss on Below-Investment-Grade Fixed Maturity Securities  
Length of Time in Unrealized Loss Position

(in millions of dollars)

	2018	2017			
	March	December	September	June	March
	31	31	30	30	31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$ 19.8	\$ 4.7	\$ 0.7	\$ 1.1	\$ 2.9
> 90 <= 180 days	13.6	1.5	0.3	3.5	2.3
> 180 <= 270 days	2.9	0.4	1.2	1.9	—
> 270 days <= 1 year	—	0.7	—	—	0.4
> 1 year <= 2 years	10.5	2.7	3.2	11.1	20.1
> 2 years <= 3 years	13.1	13.1	18.2	22.3	13.2
> 3 years	26.6	19.6	14.4	10.2	14.6
Sub-total	86.5	42.7	38.0	50.1	53.5
Fair Value < 70% >= 40% of Amortized Cost					
> 1 year <= 2 years	—	—	—	6.6	—
> 2 years <= 3 years	7.9	7.3	10.6	2.8	—
> 3 years	—	7.0	9.3	9.0	—
Sub-total	7.9	14.3	19.9	18.4	—
Total	\$ 94.4	\$ 57.0	\$ 57.9	\$ 68.5	\$ 53.5

At March 31, 2018, we held one below-investment grade fixed maturity security with a gross unrealized loss greater than \$10.0 million. The security was in the consumer sector and had a fair value of \$65.7 million and a gross unrealized loss of \$11.4 million.

We had no individual realized investment losses of \$10.0 million or greater from the sale of fixed-maturity securities during the first quarters of 2018 or 2017, nor did we have individual realized investment losses of \$10.0 million or greater from other-than-temporary impairments

At March 31, 2018, our mortgage/asset-backed securities had an average life of 4.99 years, effective duration of 5.50 years, and a weighted average credit rating of Aaa. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. One of the risks involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment

income.

We have no exposure to subprime mortgages, "Alt-A" loans, or collateralized debt obligations in our investment portfolios. We have not invested in mortgage-backed derivatives, such as interest-only, principal-only, or residuals, where market values can be highly volatile relative to changes in interest rates. The credit quality of our mortgage-backed securities portfolio has not been negatively impacted by the issues in the market concerning subprime mortgage loans. The change in value of our mortgage-backed securities portfolio has moved in line with that of prime agency-backed mortgage-backed securities.

83

---

As of March 31, 2018, the amortized cost and fair value of our below-investment-grade fixed maturity securities was \$3,247.2 million and \$3,266.3 million, respectively. Below-investment-grade securities are inherently riskier than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

#### Fixed Maturity Securities - Foreign Exposure

Our investments in issuers in foreign countries are chosen for specific portfolio management purposes, including asset and liability management and portfolio diversification across geographic lines and sectors to minimize non-market risks. In our approach to investing in fixed maturity securities, specific investments within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. For each security, we consider the political, legal, and financial environment of the sovereign entity in which an issuer is domiciled and operates. The country of domicile is based on consideration of the issuer's headquarters, in addition to location of the assets and the country in which the majority of sales and earnings are derived. We do not have exposure to foreign currency risk, as the cash flows from these investments are either denominated in currencies or hedged into currencies to match the related liabilities. We continually evaluate our foreign investment risk exposure.

Our monitoring is heightened for investments in certain countries due to our concerns over the current economic and political environments, and we believe these investments are more vulnerable to potential credit problems. At March 31, 2018, we had minimal exposure in those countries and had no direct exposure to financial institutions of those countries.

#### Mortgage Loans

Our mortgage loan portfolio was \$2,200.8 million and \$2,213.2 million on an amortized cost basis at March 31, 2018 and December 31, 2017, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity continues to be low. Due to conservative underwriting, we expect the level of problem loans to remain low relative to the industry. We held one impaired mortgage loan at March 31, 2018 with a carrying value of \$3.2 million and no impaired mortgage loans at December 31, 2017.

#### Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment, duration, foreign currency, and credit risks. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps and U.S. Treasury rates, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Our credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was \$0.1 million at March 31, 2018. We held \$16.2 million of cash collateral from our counterparties at March 31, 2018. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$49.6 million at March 31, 2018. We had no cash collateral posted to our counterparties at March 31, 2018. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have an investment-grade credit rating, and by our use of cross-collateralization agreements.

Other



## Edgar Filing: Unum Group - Form 10-Q

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled \$36.2 million and \$32.9 million on a fair value basis at March 31, 2018 and December 31, 2017, respectively.

For further information see "Investments" in Part I, Item 1 and "Critical Accounting Estimates" and "Investments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2017, and Notes 4 and 5 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

## Liquidity and Capital Resources

### Overview

Our liquidity requirements are met primarily by cash flows provided from operations, principally in our insurance subsidiaries. Premium and investment income, as well as maturities and sales of invested assets, provide the primary sources of cash. Debt and/or securities offerings provide additional sources of liquidity. Cash is applied to the payment of policy benefits, costs of acquiring new business (principally commissions), operating expenses, and taxes, as well as purchases of new investments.

We have established an investment strategy that we believe will provide for adequate cash flows from operations. We attempt to match our asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of our business. However, deterioration in the credit market may delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner and adversely impact the price we receive for such securities, which may negatively impact our cash flows. Furthermore, if we experience defaults on securities held in the investment portfolios of our insurance subsidiaries, this will negatively impact statutory capital, which could reduce our insurance subsidiaries' capacity to pay dividends to our holding companies. A reduction in dividends to our holding companies could force us to seek external financing to avoid impairing our ability to pay dividends to our stockholders or meet our debt and other payment obligations.

Our policy benefits are primarily in the form of claim payments, and we have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities. A decrease in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. However, our historical pattern of benefits paid to revenues is generally consistent, even during cycles of economic downturns, which serves to minimize liquidity risk.

The liquidity requirements of the holding company Unum Group include common stock dividends, interest and debt service, acquisitions, and ongoing investments in our businesses. Unum Group's liquidity requirements are met by assets held by Unum Group and our intermediate holding companies, dividends from primarily our insurance subsidiaries, and issuance of common stock, debt, or other capital securities and borrowings from existing credit facilities, as needed. As of March 31, 2018, Unum Group and our intermediate holding companies held fixed maturity securities, short-term investments, and cash of \$887 million. Fixed maturity securities consisted primarily of corporate bonds with an average maturity date of 6.1 years. Short-term investments consisted primarily of commercial paper. No significant restrictions exist on our ability to use or access funds in any of our U.S. or U.K. intermediate holding companies. As a result of the TCJA, future amounts repatriated from our foreign subsidiaries in the U.K. are eligible for a 100 percent exemption from U.S. income tax but may be subject to tax on foreign currency gain or loss.

As part of our capital deployment strategy, we have in recent years repurchased shares of Unum Group's common stock, as authorized by our board of directors. Our current share repurchase program was approved by our board of directors in May 2017 and authorizes the repurchase of up to \$750 million of common stock through November 2018, with the pace of repurchase activity to depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. This new authorization replaced the previous authorization of \$750 million that was scheduled to expire in November 2017. During the first three months of 2018, we repurchased 1.9 million shares at a cost of approximately \$100 million. The dollar value of shares remaining under the current repurchase program was approximately \$413 million at March 31, 2018. See Note 10 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

### Cash Available from Subsidiaries

Unum Group and certain of its intermediate holding company subsidiaries depend on payments from subsidiaries to pay dividends to stockholders, to pay debt obligations, and/or to pay expenses. These payments by our insurance and non-insurance subsidiaries may take the form of dividends, operating and investment management fees, and/or interest payments on loans from the parent to a subsidiary.

Restrictions under applicable state insurance laws limit the amount of dividends that can be paid to a parent company from its insurance subsidiaries in any 12-month period without prior approval by regulatory authorities. For life insurance companies domiciled in the U.S., that limitation generally equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year. The payment of dividends to a parent company from a life insurance subsidiary is generally further limited to the amount of unassigned funds.

Certain of our domestic insurance subsidiaries cede blocks of business to Northwind Reinsurance Company (Northwind Re) and Fairwind Insurance Company (Fairwind), both of which are affiliated captive reinsurance subsidiaries domiciled in the United States with Unum Group as the ultimate parent. The ability of Northwind Re and Fairwind to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Northwind Re and Fairwind.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries also depends on additional factors such as RBC ratios and capital adequacy and/or solvency requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. The impacts of the TCJA, in particular the reduction of our admitted deferred tax assets due to the decrease in the U.S. corporate tax rate, have generally reduced our RBC ratios; however, at March 31, 2018, the capital adequacy individual RBC ratios for each of our U.S. insurance subsidiaries, including our captive reinsurers, is above the range that would require state regulatory action.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from our U.K. subsidiaries, the payment of which may be subject to applicable insurance company regulations and capital guidance in the U.K. Unum Limited is subject to the requirements of Solvency II, a European Union (EU) directive, which prescribes capital requirements and risk management standards for the European insurance industry. Our European holding company is also subject to the Solvency II requirements relevant to insurance holding companies, while its subsidiaries (the Unum European Economic Area (EEA) Group), which includes Unum Limited, are subject to group supervision under Solvency II. The Unum EEA Group received approval from the U.K. Prudential Regulation Authority to use its own internal model for calculating regulatory capital and also received approval for certain associated regulatory permissions including transitional relief as the Solvency II capital regime continues to be implemented. There are currently no indications that capital requirements for the Unum EEA Group will change as a result of the U.K. formally commencing the process to leave the EU, but economic conditions may in the near term cause volatility in our solvency ratios.

The payment of dividends to the parent company from our subsidiaries also requires the approval of the individual subsidiary's board of directors.

During 2018, we intend to maintain a level of capital in our U.S. and U.K. insurance subsidiaries above the applicable capital adequacy requirements and minimum solvency margins.

Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group.

#### Funding for Employee Benefit Plans

During the first three months of 2018, we made contributions of \$19.1 million and £0.8 million to our U.S. and U.K. defined contribution plans, respectively, and expect to make additional contributions of approximately \$51 million and £3 million during the remainder of 2018. We do not expect to make contributions to our U.S. or U.K. qualified defined benefit pension plans during 2018. We have met all minimum pension funding requirements set forth by the Employee Retirement Income Security Act. We have estimated our future funding requirements under the Pension Protection Act of 2006 and under applicable U.K. law and do not believe that any future funding requirements will cause a material adverse effect on our liquidity.

#### Debt

## Edgar Filing: Unum Group - Form 10-Q

At March 31, 2018, we had short-term debt of \$200.0 million, consisting entirely of our senior unsecured notes due July 2018. Our long-term debt balance at March 31, 2018 was \$2,721.9 million, net of deferred debt issuance costs of \$23.4 million, and consisted primarily of secured and unsecured senior notes and junior subordinated debt securities.

Northwind Holdings made principal payments on its floating rate, senior secured non-recourse notes of \$15.0 million in the first three months of 2018.

At March 31, 2018, letters of credit totaling \$2.1 million had been issued from the credit facility, but there were no borrowed amounts outstanding.

There are no significant financial covenants associated with any of our outstanding debt obligations. We continually monitor our compliance with our debt covenants and remain in compliance. We have not observed any current trends that would cause a breach of any debt covenants. See Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Debt" and Note 8 of the "Notes to Consolidated Financial Statements" contained in Part II, Items 7 and 8, respectively, of our annual report on Form 10-K for the year ended December 31, 2017 for further discussion.

#### Commitments

At March 31, 2018, we had unfunded unconditional commitments of \$3.7 million to fund tax credit partnership investments and \$17.2 million to fund the purchase of transferable state tax credits. These commitments are recognized as liabilities in our consolidated balance sheets, with a corresponding recognition of other long-term investments and other assets, respectively. In addition, we had commitments of \$213.5 million to fund certain investments in private placement fixed maturity securities, \$307.3 million to fund certain private equity partnerships, and \$78.9 million to fund certain commercial mortgage loans, which may or may not be funded.

With respect to our commitments and off-balance sheet arrangements, see the discussion under "Commitments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2017. During the first three months of 2018, there were no substantive changes in our commitments, contractual obligations, or other off-balance sheet arrangements other than the changes noted herein.

#### Transfers of Financial Assets

Our investment policy permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increases our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as secured borrowings. We had \$16.0 million of securities lending agreements outstanding at March 31, 2018 which were collateralized by cash and reported as payables for collateral on investments in our consolidated balance sheets. The cash received as collateral was reinvested in short-term investments. The average balance during the first three months of 2018 was \$22.9 million, and the maximum amount outstanding at any month end was \$28.1 million. In addition, at March 31, 2018, we had \$94.3 million of off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the first three months of 2018 was \$113.8 million, and the maximum amount outstanding at any month end was \$129.0 million.

We had no repurchase agreements outstanding at March 31, 2018, nor did we utilize any repurchase agreements during the first three months of 2018. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

Certain of our U.S. insurance subsidiaries are members of regional Federal Home Loan Banks (FHLB). As of March 31, 2018, we owned \$34.1 million of FHLB common stock and had obtained \$350.0 million in advances from the regional FHLBs for the purpose of purchasing fixed maturity securities.

See Note 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information.

#### Consolidated Cash Flows (in millions of dollars)

Three Months  
Ended March 31

Edgar Filing: Unum Group - Form 10-Q

	2018	2017
Net Cash Provided by Operating Activities	\$299.9	\$310.2
Net Cash Provided (Used) by Investing Activities	119.3	(126.6 )
Net Cash Used by Financing Activities	(187.7 )	(177.0 )
Net Increase in Cash and Bank Deposits	\$231.5	\$6.6

87

---

#### Operating Cash Flows

Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on policy renewals and growth of existing business, renewal price increases, and persistency. Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and capital and on the earned yield. The level of commissions and operating expenses is attributable to the level of sales and the first year acquisition expenses associated with new business as well as the maintenance of existing business. The level of paid claims is affected partially by the growth and aging of the block of business and also by the general economy, as previously discussed in the operating results by segment.

#### Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Our investment strategy is to match the cash flows and durations of our assets with the cash flows and durations of our liabilities to meet the funding requirements of our business. When market opportunities arise, we may sell selected securities and reinvest the proceeds to improve the yield and credit quality of our portfolio. We may at times also sell selected securities and reinvest the proceeds to improve the duration matching of our assets and liabilities and/or re-balance our portfolio. As a result, sales before maturity may vary from period to period. The sale and purchase of short-term investments is influenced by proceeds received from issuance of debt, our securities lending program, and by the amount of cash which is at times held in short-term investments to facilitate the availability of cash to fund the purchase of appropriate long-term investments, repay maturing debt, and/or to fund our capital deployment program.

See Note 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information.

#### Financing Cash Flows

Financing cash flows consist primarily of borrowings and repayments of debt, issuance or repurchase of common stock, and dividends paid to stockholders.

During each of the first three months of 2018 and 2017, we made principal payments of \$15.0 million on our senior secured non-recourse notes issued by Northwind Holdings.

Cash used to repurchase shares of Unum Group's common stock during the first quarters of 2018 and 2017 was \$105.7 million and \$106.9 million, respectively, with a portion of the cash used related to the settlement of amounts due on shares purchased in the fourth quarters of 2017 and 2016, respectively. During the first three months of 2018 and 2017, we paid dividends of \$52.4 million and \$46.5 million, respectively, to holders of Unum Group's common stock.

See Notes 10 and 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Debt" contained in this Item 2 for further information.

#### Ratings

AM Best, Fitch Ratings (Fitch), Moody's Investors Service (Moody's), and Standard & Poor's Rating Services (S&P) are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. Issuer credit ratings reflect an agency's opinion of the overall financial capacity of a company to meet its senior debt obligations. Financial strength ratings are specific to each individual insurance subsidiary and reflect each rating agency's view of the overall financial strength (capital levels, earnings, growth, investments, business mix, operating performance, and market position) of the insuring entity and its ability to meet its obligations to policyholders. Both the issuer credit ratings and financial strength ratings incorporate quantitative and qualitative analyses by rating agencies and are routinely reviewed and updated on an ongoing basis.



We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings can be expected to adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, particularly large case group sales and individual sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital or our ability to raise additional capital.

Edgar Filing: Unum Group - Form 10-Q

The table below reflects the outlook as well as the issuer credit ratings for Unum Group and the financial strength ratings for each of our traditional insurance subsidiaries as of the date of this filing.

	AM Best	Fitch	Moody's	S&P
Outlook	Stable	Stable	Stable	Stable
Issuer Credit Ratings	bbb	BBB	Baa2	BBB
Financial Strength Ratings				
Provident Life and Accident Insurance Company	A	A	A2	A
Provident Life and Casualty Insurance Company	A	A	NR	NR
Unum Life Insurance Company of America	A	A	A2	A
First Unum Life Insurance Company	A	A	A2	A
Colonial Life & Accident Insurance Company	A	A	A2	A
The Paul Revere Life Insurance Company	A	A	A2	A
Starmount Life Insurance Company	A-	NR	NR	NR
Unum Insurance Company	A-	A	A2	NR
Unum Limited	NR	NR	NR	A-

NR = not rated

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans as well as other pertinent issues. A significant component of our communications involves our annual review meeting with each of the four agencies. We hold other meetings throughout the year regarding our business, including, but not limited to, quarterly updates. There have been no changes in any of the rating agencies' outlook statements or ratings during 2018 prior to the date of this filing.

Agency ratings are not directed toward the holders of our securities and are not recommendations to buy, sell, or hold our securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term. Based on our ongoing dialogue with the rating agencies concerning our insurance risk profile, our financial flexibility, our operating performance, and the quality of our investment portfolio, we do not expect any negative actions from any of the four rating agencies related to either Unum Group's current issuer credit ratings or the financial strength ratings of our insurance subsidiaries. However, in the event that we are unable to meet the rating agency specific guideline values to maintain our current ratings, including but not limited to maintenance of our capital management metrics at the threshold values stated and maintenance of our financial flexibility and operational consistency, we could be placed on a negative credit watch, with a potential for a downgrade to both our issuer credit ratings and our financial strength ratings.

See our annual report on Form 10-K for the year ended December 31, 2017 for further information regarding our debt and financial strength ratings and the risks associated with rating changes.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risk exposures including interest rate risk and foreign exchange rate risk. With respect to our exposure to market risk, see the discussion under "Investments" in Item 2 of this Form 10-Q and in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2017. During the first three months of 2018, there was no substantive change to our market risk or the management of this risk.

### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. We assessed those controls based on criteria established in the 2013 Internal Control - Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective as of March 31, 2018.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Refer to Part I, Item 1, Note 11 of the "Notes to Consolidated Financial Statements" for information on legal proceedings.

## ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our share repurchase activity for the first quarter of 2018:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
January 1 - January 31, 2018	846,273	\$ 55.71	846,273	\$ 465,640,131
February 1 - February 28, 2018	930,930	51.20	930,930	417,974,718
March 1 - March 31, 2018	105,174	49.29	105,174	412,790,222
Total	1,882,377		1,882,377	

(1) The average price paid per share excludes the cost of commissions.

(2) In May 2017, our board of directors authorized the repurchase of up to \$750 million of Unum Group's common stock through November 25, 2018.

ITEM 6. EXHIBITS

Index to Exhibits

Exhibit 10.1 Amended and Restated Aircraft Time-Sharing Agreement between Unum Group and Richard P. McKenney, dated as of March 8, 2018.

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 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.

Exhibit 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.

Exhibit 101 The following financial statements from Unum Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, filed on May 2, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements.

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.

Unum Group  
(Registrant)

Date: May 2, 2018 By: /s/ John F. McGarry

John F. McGarry

Executive Vice President and Chief Financial Officer

Date: May 2, 2018 By: /s/ Daniel J. Waxenberg

Daniel J. Waxenberg

Senior Vice President, Chief Accounting Officer