

Edgar Filing: Unum Group - Form 10-Q

Unum Group
Form 10-Q
July 30, 2015

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

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

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 (I.R.S. Employer Identification No.)
organization)

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

423.294.1011
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

246,681,260 shares of the registrant's common stock were outstanding as of July 28, 2015.

TABLE OF CONTENTS

	<u>Cautionary Statement Regarding Forward-Looking Statements</u>	Page <u>1</u>
	<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>	<u>3</u>
	<u>Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u>	<u>3</u>
	<u>Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014</u>	<u>5</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014</u>	<u>6</u>
	<u>Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2015 and 2014</u>	<u>7</u>
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</u>	<u>8</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>50</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>80</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>80</u>
	<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>81</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>81</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>81</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>82</u>
	<u>Signatures</u>	<u>83</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 government programs.

• Unfavorable economic or business conditions, both domestic and foreign.

• Legislative, regulatory, or tax changes, both domestic and foreign, including the effect of potential legislation and increased regulation in the current political environment.

• Investment results, including, but not limited to, changes in interest rates, defaults, changes in credit spreads, impairments, and the lack of appropriate investments in the market which can be acquired to match our liabilities.

• The failure of cyber or other information security systems, as well as the occurrence of events unanticipated in our disaster recovery systems.

• Increased competition from other insurers and financial services companies due to industry consolidation, new entrants to our markets, or other factors.

• Changes in our financial strength and credit ratings.

• Damage to our reputation due to, among other factors, regulatory investigations, legal proceedings, external events, and/or inadequate or failed internal controls and procedures.

• Actual experience that deviates from our assumptions used in pricing, underwriting, and reserving.

• Actual persistency and/or sales growth that is higher or lower than projected.

• Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, consumer confidence, and/or legislative and regulatory changes, including healthcare reform.

• Effectiveness of our risk management program.

• Contingencies and the level and results of litigation.

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

• 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.

• Changes in accounting standards, practices, or policies.

Edgar Filing: Unum Group - Form 10-Q

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, 2014.

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 (UNAUDITED)

Unum Group and Subsidiaries

	June 30 2015	December 31 2014
	(in millions of dollars)	
		As Adjusted
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$39,669.2; \$38,803.4)	\$44,570.4	\$45,064.9
Mortgage Loans	1,856.5	1,856.6
Policy Loans	3,248.4	3,306.6
Other Long-term Investments	585.0	545.0
Short-term Investments	762.8	974.3
Total Investments	51,023.1	51,747.4
Other Assets		
Cash and Bank Deposits	122.6	102.5
Accounts and Premiums Receivable	1,652.4	1,634.7
Reinsurance Recoverable	4,777.8	4,906.4
Accrued Investment Income	803.2	696.1
Deferred Acquisition Costs	1,937.8	1,901.3
Goodwill	198.8	198.7
Property and Equipment	535.7	531.7
Income Tax Receivable	5.7	69.5
Other Assets	649.7	661.9
Total Assets	\$61,706.8	\$62,450.2

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED) - Continued

Unum Group and Subsidiaries

	June 30 2015	December 31 2014
	(in millions of dollars)	
		As Adjusted
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$ 1,549.4	\$ 1,529.3
Reserves for Future Policy and Contract Benefits	44,842.4	45,929.4
Unearned Premiums	489.6	396.6
Other Policyholders' Funds	1,680.9	1,657.8
Deferred Income Tax	41.2	62.0
Short-term Debt	151.9	151.9
Long-term Debt	2,580.8	2,628.7
Payables for Collateral on Investments	409.9	73.8
Other Liabilities	1,445.0	1,498.8
Total Liabilities	53,191.1	53,928.3
Commitments and Contingent Liabilities - Note 10		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 302,324,602 and 301,834,556 shares	30.2	30.2
Additional Paid-in Capital	2,235.5	2,221.2
Accumulated Other Comprehensive Income	3.4	166.4
Retained Earnings	7,656.0	7,302.3
Treasury Stock - at cost: 55,678,014 and 49,524,849 shares	(1,409.4	) (1,198.2
)
Total Stockholders' Equity	8,515.7	8,521.9
Total Liabilities and Stockholders' Equity	\$61,706.8	\$62,450.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(in millions of dollars, except share data)			
	As Adjusted		As Adjusted	
Revenue				
Premium Income	\$2,017.5	\$1,943.6	\$4,023.8	\$3,882.1
Net Investment Income	630.7	632.4	1,232.7	1,248.2
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(8.1	) —	(12.6) —
Net Realized Investment Gain (Loss), Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	8.9	25.9	(1.9	) 32.2
Net Realized Investment Gain (Loss)	0.8	25.9	(14.5	) 32.2
Other Income	54.7	54.9	109.1	108.7
Total Revenue	2,703.7	2,656.8	5,351.1	5,271.2
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,702.8	1,653.4	3,356.7	3,284.7
Commissions	244.6	229.2	501.5	465.2
Interest and Debt Expense	38.0	52.7	75.8	90.6
Deferral of Acquisition Costs	(140.7	) (124.8	) (285.7	) (253.8
Amortization of Deferred Acquisition Costs	124.1	106.4	258.4	225.0
Compensation Expense	205.0	200.0	418.1	401.0
Other Expenses	210.1	190.1	403.5	378.9
Total Benefits and Expenses	2,383.9	2,307.0	4,728.3	4,591.6
Income Before Income Tax	319.8	349.8	622.8	679.6
Income Tax (Benefit)				
Current	105.9	86.6	146.5	124.4
Deferred	(10.4	) 23.8	39.1	90.0
Total Income Tax	95.5	110.4	185.6	214.4
Net Income	\$224.3	\$239.4	\$437.2	\$465.2
Net Income Per Common Share				
Basic	\$0.90	\$0.93	\$1.75	\$1.80
Assuming Dilution	\$0.90	\$0.93	\$1.74	\$1.79

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30		
	2015	2014	2015	2014	
	(in millions of dollars)				
		As Adjusted		As Adjusted	
Net Income	\$224.3	\$239.4	\$437.2	\$465.2	
Other Comprehensive Income (Loss)					
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of \$(654.9); \$304.7; \$(472.1); \$675.8)	(1,267.1	) 572.7	(916.9	) 1,282.7
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of \$507.2; \$(211.7); \$386.9; \$(483.7))	964.9	(396.8) 738.7	(917.2)
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of \$(6.2) \$(11.8); \$2.8; \$(10.8))	(20.2) (28.5) 0.7	(26.8)
Change in Foreign Currency Translation Adjustment (net of tax benefit of \$-; \$-; \$0.1; \$-)	64.9	30.2	10.9	37.8	
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$0.4; \$-; \$1.9; \$0.3)	0.5	(0.1	) 3.6	0.4
Total Other Comprehensive Income (Loss)	(257.0	) 177.5	(163.0	) 376.9
Comprehensive Income (Loss)	\$(32.7	) \$416.9	\$274.2	\$842.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2015	2014
	(in millions of dollars)	
		As Adjusted
Common Stock		
Balance at Beginning of Year and End of Period	\$30.2	\$36.1
Additional Paid-in Capital		
Balance at Beginning of Year	2,221.2	2,634.1
Common Stock Activity	14.3	12.1
Balance at End of Period	2,235.5	2,646.2
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	166.4	255.0
Other Comprehensive Income (Loss)	(163.0	) 376.9
Balance at End of Period	3.4	631.9
Retained Earnings		
Balance at Beginning of Year	7,302.3	8,064.0
Net Income	437.2	465.2
Dividends to Stockholders (per common share: \$0.33; \$0.29)	(83.5	) (75.7
Balance at End of Period	7,656.0	8,453.5
Treasury Stock		
Balance at Beginning of Year	(1,198.2	) (2,349.3
Purchases of Treasury Stock	(211.2	) (200.1
Balance at End of Period	(1,409.4	) (2,549.4
Total Stockholders' Equity at End of Period	\$8,515.7	\$9,218.3

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2015	2014
	(in millions of dollars)	
		As Adjusted
Cash Flows from Operating Activities		
Net Income	\$437.2	\$465.2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	134.9	115.7
Change in Deferred Acquisition Costs	(27.3	) (28.8
Change in Insurance Reserves and Liabilities	204.9	212.3
Change in Income Taxes	141.2	169.8
Change in Other Accrued Liabilities	(55.9	) (35.5
Non-cash Components of Net Investment Income	(195.4	) (190.2
Net Realized Investment (Gain) Loss	14.5	(32.2
Depreciation	48.6	42.9
Other, Net	23.7	6.6
Net Cash Provided by Operating Activities	726.4	725.8
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	266.3	288.7
Proceeds from Maturities of Fixed Maturity Securities	1,164.4	1,011.4
Proceeds from Sales and Maturities of Other Investments	153.8	116.1
Purchase of Fixed Maturity Securities	(2,239.2	) (1,658.3
Purchase of Other Investments	(194.7	) (134.9
Net Sales (Purchases) of Short-term Investments	213.7	(129.1
Net Increase (Decrease) in Payables for Collateral on Investments	336.1	(16.6
Net Purchases of Property and Equipment	(53.1	) (58.4
Net Cash Used by Investing Activities	(352.7	) (581.1
Cash Flows from Financing Activities		
Issuance of Long-term Debt	—	347.2
Long-term Debt Repayments	(48.4	) (175.0
Cost Related to Early Retirement of Debt	—	(13.2
Issuance of Common Stock	2.2	3.0
Repurchase of Common Stock	(211.2	) (202.7
Dividends Paid to Stockholders	(83.5	) (75.7
Other, Net	(12.7	) (10.4
Net Cash Used by Financing Activities	(353.6	) (126.8
Net Increase in Cash and Bank Deposits	20.1	17.9
Cash and Bank Deposits at Beginning of Year	102.5	94.1

Edgar Filing: Unum Group - Form 10-Q

Cash and Bank Deposits at End of Period	\$122.6	\$112.0
-----------------------------------------	---------	---------

See notes to consolidated financial statements.

8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

June 30, 2015

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, 2014.

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 2015:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 860 "Transfers and Servicing"	This update changed the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The update also required disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions.	January 1, 2015, except for certain disclosures, which were effective April 1, 2015.	The adoption of this update expanded our disclosures, but had no effect on our financial position or results of operations.
ASC 323 "Investments - Equity Method and Joint Ventures"	This update permitted entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Additional disclosures concerning investments in qualified affordable housing projects were also required. We elected to adopt this guidance and applied the amendments in the update retrospectively.	January 1, 2015	The cumulative effect at January 1, 2014, was a \$19.2 million reduction in stockholders' equity. The following table summarizes the effects of our retrospective adoption on periods reported herein.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 2 - Accounting Developments - Continued

	Historical Accounting Method (in millions of dollars, except share data)	As Adjusted	Effect of Change	Historical Accounting Method	As Adjusted	Effect of Change
	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
Consolidated Statements of Income						
Net Investment Income	\$629.1	\$632.4	\$3.3	\$1,241.6	\$1,248.2	\$6.6
Income Tax - Current	78.6	86.6	8.0	108.3	124.4	16.1
Income Tax - Deferred	25.4	23.8	(1.6)	93.3	90.0	(3.3)
Net Income	242.5	239.4	(3.1)	471.4	465.2	(6.2)
Net Income Per Common Share						
Basic	\$0.94	\$0.93	\$(0.01)	\$1.83	\$1.80	\$(0.03)
Assuming Dilution	\$0.94	\$0.93	\$(0.01)	\$1.82	\$1.79	\$(0.03)
Consolidated Statements of Comprehensive Income (Loss)						
Net Income	\$242.5	\$239.4	\$(3.1)	\$471.4	\$465.2	\$(6.2)
Consolidated Statements of Cash Flows						
Net Income				\$471.4	\$465.2	\$(6.2)
Change in Income Taxes				157.0	169.8	12.8
Non-cash Components of Net Investment Income				(183.6)	(190.2)	(6.6)
Consolidated Balance Sheets						
	December 31, 2014			June 30, 2014		
Other Long-term Investments	\$591.9	\$545.0	\$(46.9)	\$570.8	\$531.8	\$(39.0)
Deferred Income Tax	78.4	62.0	(16.4)	419.7	406.1	(13.6)
Retained Earnings	7,332.8	7,302.3	(30.5)	8,478.9	8,453.5	(25.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 606 "Revenue from Contracts with Customers"	This update supersedes virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of this update are insurance contracts, although our fee-based service products are included within the scope. The 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. The guidance is to be applied retrospectively.	January 1, 2018	The adoption of this update will not have a material effect on our financial position or results of operations.
ASC 835 "Interest-Imputation of Interest"	This update simplifies the presentation of deferred debt issuance costs by requiring these costs to be presented in the balance sheet as a reduction of the carrying amount of the debt liability to which the deferred costs relate, rather than classifying the deferred costs as an asset. This classification is consistent with the treatment of debt discounts. The guidance is to be applied retrospectively.	January 1, 2016	The adoption of this update will result in reclassification adjustments to our consolidated balance sheets but will not have an effect on our financial position or results of operations.
ASC 944 "Financial Services-Insurance"	This update is intended to improve disclosures for short-duration insurance contracts by requiring the disclosure of disaggregated incurred and paid claims development information, methodologies and assumptions used in estimating claim liabilities, and quantitative claims frequency information. The guidance is to be applied retrospectively.	January 1, 2016 for annual reporting period disclosures and January 1, 2017 for interim reporting period disclosures.	The adoption of this update may result in additional disclosures but will not have an effect on our financial position or results of operations.
ASC 820 "Fair Value Measurement"	This update eliminates the requirement to categorize within the fair value hierarchy table investments whose fair value is measured at net asset value using the practical expedient. Instead, entities will be required to disclose the fair value of these investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table to the amounts reported on the consolidated balance sheets. The guidance is to be applied retrospectively.	January 1, 2016	The adoption of this update will modify our disclosures but will not have an effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments

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

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	\$44,570.4	\$44,570.4	\$45,064.9	\$45,064.9
Mortgage Loans	1,856.5	1,995.3	1,856.6	2,024.2
Policy Loans	3,248.4	3,346.0	3,306.6	3,407.6
Other Long-term Investments				
Derivatives	39.3	39.3	28.0	28.0
Equity Securities	1.4	1.4	12.5	12.5
Miscellaneous Long-term Investments	483.3	483.3	438.7	438.7
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	\$615.4	\$615.4	\$621.4	\$621.4
Supplementary Contracts without Life Contingencies	625.0	625.0	600.4	600.4
Short-term Debt	151.9	154.9	151.9	158.9
Long-term Debt	2,580.8	2,803.6	2,628.7	2,912.6
Payables for Collateral on Investments				
Federal Home Loan Bank (FHLB) Funding Agreements	350.0	350.0	—	—
Other Liabilities				
Derivatives	74.7	74.7	92.9	92.9
Embedded Derivative in Modified Coinsurance Arrangement	55.8	55.8	49.9	49.9
Unfunded Commitments to Investment Partnerships	8.1	8.1	12.8	12.8

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

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

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

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 \$3,007.8 million and \$3,068.4 million as of June 30, 2015 and December 31, 2014, respectively,

approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in railcar leasing, the financial services industry, mezzanine debt and bank loans. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of June 30, 2015, we estimate that the underlying assets of the funds will be liquidated over the next one to twelve years. These financial instruments are assigned a Level 3 within the fair value hierarchy. Our shares of FHLB common stock are carried at cost, which approximates fair value. These financial instruments are considered restricted investments and are assigned a Level 2 within the fair value hierarchy.

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

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

Short-term Debt: Fair values for short-term debt valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument are assigned a Level 1 within the fair value hierarchy. Fair values for short-term debt determined based on prices from independent pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques are assigned a Level 2. As of June 30, 2015 and December 31, 2014, these financial instruments are assigned a Level 2.

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have fair values of \$1,099.4 million and \$849.7 million as of June 30, 2015 and December 31, 2014, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of \$1,704.2 million and \$2,062.9 million as of June 30, 2015 and December 31, 2014, respectively, and are assigned a Level 2.

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 and are assigned a Level 2 within the fair value hierarchy.

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

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and unrestricted equity securities at fair value in our consolidated balance sheets. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

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.

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

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

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2015, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2014.

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

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

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

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

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

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

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

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

At June 30, 2015, approximately 17.2 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

The remaining 82.8 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 67.7 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Approximately 3.6 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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

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

	June 30, 2015			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions of dollars)			
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$664.4	\$789.4	\$—	\$1,453.8
States, Municipalities, and Political Subdivisions	—	1,937.0	136.7	2,073.7
Foreign Governments	—	1,201.7	69.8	1,271.5
Public Utilities	455.4	7,433.6	357.8	8,246.8
Mortgage/Asset-Backed Securities	—	2,579.5	—	2,579.5
All Other Corporate Bonds	6,545.8	21,028.2	1,321.9	28,895.9
Redeemable Preferred Stocks	—	24.4	24.8	49.2
Total Fixed Maturity Securities	7,665.6	34,993.8	1,911.0	44,570.4
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	4.8	—	4.8
Foreign Exchange Contracts	—	34.5	—	34.5
Total Derivatives	—	39.3	—	39.3
Equity Securities	—	—	1.4	1.4
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$—	\$17.4	\$—	\$17.4
Foreign Exchange Contracts	—	56.0	—	56.0
Credit Default Swaps	—	1.3	—	1.3
Embedded Derivative in Modified Coinsurance Arrangement	—	—	55.8	55.8
Total Derivatives	—	74.7	55.8	130.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions of dollars)			
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$297.5	\$941.0	\$—	\$1,238.5
States, Municipalities, and Political Subdivisions	—	1,981.4	140.1	2,121.5
Foreign Governments	—	1,238.1	69.3	1,307.4
Public Utilities	106.2	8,129.4	315.0	8,550.6
Mortgage/Asset-Backed Securities	—	2,431.8	—	2,431.8
All Other Corporate Bonds	2,556.6	25,383.3	1,425.3	29,365.2
Redeemable Preferred Stocks	—	25.0	24.9	49.9
Total Fixed Maturity Securities	2,960.3	40,130.0	1,974.6	45,064.9
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	5.7	—	5.7
Foreign Exchange Contracts	—	22.3	—	22.3
Total Derivatives	—	28.0	—	28.0
Equity Securities	—	11.1	1.4	12.5
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$—	\$20.8	\$—	\$20.8
Foreign Exchange Contracts	—	70.9	—	70.9
Credit Default Swaps	—	1.2	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	—	—	49.9	49.9
Total Derivatives	—	92.9	49.9	142.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

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

	Three Months Ended June 30			
	2015		2014	
	Transfers into			
	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	\$—	\$—	\$93.3	\$166.0
Public Utilities	241.2	453.3	275.4	265.9
All Other Corporate Bonds	2,778.8	2,736.4	2,557.7	1,724.7
Total Fixed Maturity Securities	\$3,020.0	\$3,189.7	\$2,926.4	\$2,156.6
	Six Months Ended June 30			
	2015		2014	
	Transfers into			
	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	\$219.6	\$—	\$—	\$—
Public Utilities	385.1	56.9	288.7	81.1
All Other Corporate Bonds	4,559.3	1,017.7	3,361.2	767.2
Total Fixed Maturity Securities	\$5,164.0	\$1,074.6	\$3,649.9	\$848.3

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

June 30, 2015

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 June 30, 2015							
	Beginning of Period	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ 144.2	\$—	\$(6.7)	) \$—	\$(0.8)	) \$—	\$—	\$ 136.7
Foreign Governments	69.1	—	0.7	—	—	—	—	69.8
Public Utilities	549.8	—	(4.7)	) —	(0.1)	) 121.6	(308.8)	357.8
All Other Corporate Bonds	1,635.8	2.4	(45.3)	) —	(50.1)	) 365.1	(586.0)	1,321.9
Redeemable Preferred Stocks	24.9	—	(0.1)	) —	—	—	—	24.8
Total Fixed Maturity Securities	2,423.8	2.4	(56.1)	) —	(51.0)	) 486.7	(894.8)	1,911.0
Equity Securities	1.4	—	—	—	—	—	—	1.4
Embedded Derivative in Modified Coinsurance Arrangement	(53.8)	) (2.0)	) —	—	—	—	—	(55.8)
	Three Months Ended June 30, 2014							
	Beginning of Period	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ 156.1	\$—	\$ 5.4	\$—	\$(0.7)	) \$—	\$(29.3)	) \$ 131.5
Foreign Governments	80.4	—	0.8	—	—	—	—	81.2
Public Utilities	190.6	—	2.4	—	(0.1)	) 58.5	(72.0)	) 179.4
Mortgage/Asset-Backed Securities	0.4	(0.2)	) 0.3	—	(0.5)) —	—	—

Edgar Filing: Unum Group - Form 10-Q

All Other Corporate Bonds	1,593.0	—	17.5	48.0	(61.5)	259.4	(696.7)	1,159.7
Redeemable Preferred Stocks	24.4	—	0.4	—	—	—	—	24.8
Total Fixed Maturity Securities	2,044.9	(0.2)	26.8	48.0	(62.8)	317.9	(798.0)	1,576.6
Equity Securities	3.1	—	—	—	—	—	—	3.1
Embedded Derivative in Modified Coinsurance Arrangement	(44.7)	12.4	—	—	—	—	—	(32.3)

20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

	Six Months Ended June 30, 2015							
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$140.1	\$—	\$(2.6)	) \$—	\$(0.8)	) \$—	\$—	\$136.7
Foreign Governments	69.3	—	0.5	—	—	—	—	69.8
Public Utilities	315.0	—	(3.6)	) —	(2.5)	) 123.9	(75.0)	) 357.8
All Other Corporate Bonds	1,425.3	2.1	(36.0)	) —	(81.7)	) 384.3	(372.1)	) 1,321.9
Redeemable Preferred Stocks	24.9	—	(0.1)	) —	—	—	—	24.8
Total Fixed Maturity Securities	1,974.6	2.1	(41.8)	) —	(85.0)	) 508.2	(447.1)	) 1,911.0
Equity Securities	1.4	—	—	—	—	—	—	1.4
Embedded Derivative in Modified Coinsurance Arrangement	(49.9)	) (5.9)	) —	—	—	—	—	(55.8)
	Six Months Ended June 30, 2014							
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$175.1	\$—	\$11.6	\$—	\$(0.7)	) \$—	\$(54.5)	) \$131.5
Foreign Governments	78.5	—	2.7	—	—	—	—	81.2
Public Utilities	139.3	—	6.9	—	(0.1)	) 105.6	(72.3)	) 179.4
Mortgage/Asset-Backed Securities	0.5	(0.2)	) 0.2	—	(0.5)) —	—	—
All Other Corporate Bonds	1,923.3	—	32.3	89.6	(82.0)	) 302.6	(1,106.1)	1,159.7

Edgar Filing: Unum Group - Form 10-Q

Redeemable Preferred Stocks	23.8	—	1.0	—	—	—	—	24.8
Total Fixed Maturity Securities	2,340.5	(0.2)	54.7	89.6	(83.3)	408.2	(1,232.9)	1,576.6
Equity Securities	4.6	2.1	(0.1)	—	(3.5)	—	—	3.1
Embedded Derivative in Modified Coinsurance Arrangement	(53.2)	20.9	—	—	—	—	—	(32.3)

21

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

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 unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at period end were \$(2.0) million and \$(5.9) million for the three and six months ended June 30, 2015, respectively, and \$12.4 million and \$20.9 million for the three and six months ended June 30, 2014, respectively. These amounts relate entirely to the changes in fair value of an embedded derivative in a modified coinsurance arrangement which are reported as realized investment gains and losses.

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.

		June 30, 2015		
		Fair Value	Unobservable Input	Range/Weighted Average
		(in millions of dollars)		
Fixed Maturity Securities				
States, Municipalities, and Political Subdivisions - Private	\$98.6		- Change in Benchmark Reference	(a) 0.25% - 1.00% / 0.71%
			- Comparability Adjustment	(b) 0.50% - 0.50% / 0.50%
All Other Corporate Bonds - Private	382.4		- Discount for Size	(c) 0.50% - 0.50% / 0.50%
			- Volatility of Credit	(e) 0.20% - 5.69% / 0.85%
			- Market Convention	(f) Priced at Par
All Other Corporate Bonds - Public	89.4		- Change in Benchmark Reference	(a) 0.50% - 0.50% / 0.50%
			- Volatility of Credit	(e) 0.93% - 1.41% / 1.19%
Equity Securities - Private	1.1		- Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(55.8)	)	- Projected Liability Cash Flows	(g) Actuarial Assumptions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2014		
	Fair Value	Unobservable Input	Range/Weighted Average
	(in millions of dollars)		
Fixed Maturity Securities			
States, Municipalities, and Political			
Subdivisions - Private	\$101.0	- Comparability Adjustment	(b) 0.25% - 1.00% / 0.71%
		- Comparability Adjustment	(b) 0.50% - 0.70% / 0.60%
		- Discount for Size	(c) 0.50% - 0.50% / 0.50%
All Other Corporate Bonds - Private	432.8	- Lack of Marketability	(d) 0.48% - 0.48% / 0.48%
		- Volatility of Credit	(e) 0.20% - 2.00% / 0.64%
		- Market Convention	(f) Priced at Par
		- Comparability Adjustment	(b) 0.10% - 0.50% / 0.40%
All Other Corporate Bonds - Public	128.7	- Lack of Marketability	(d) 0.20% - 0.35% / 0.29%
		- Volatility of Credit	(e) (0.30)% - 0.50% / (0.05)%
Equity Securities - Private	1.1	- Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified	(49.9	)	- Projected Liability Cash Flows (g) Actuarial Assumptions
Coinsurance Arrangement			

(a) Represents basis point adjustments for changes in benchmark spreads associated with various ratings categories

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

(c) Represents basis point adjustments based on issue/issuer size relative to the benchmark

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

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

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

(g) 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

June 30, 2015

Note 4 - Investments

Fixed Maturity Securities

At June 30, 2015 and December 31, 2014, 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:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,248.5	\$215.3	\$10.0	\$1,453.8
States, Municipalities, and Political Subdivisions	1,804.2	275.8	6.3	2,073.7
Foreign Governments	1,084.3	187.2	—	1,271.5
Public Utilities	7,063.9	1,189.8	6.9	8,246.8
Mortgage/Asset-Backed Securities	2,389.1	195.9	5.5	2,579.5
All Other Corporate Bonds	26,035.2	3,047.7	187.0	28,895.9
Redeemable Preferred Stocks	44.0	5.4	0.2	49.2
Total Fixed Maturity Securities	\$39,669.2	\$5,117.1	\$215.9	\$44,570.4
	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$983.5	\$255.5	\$0.5	\$1,238.5
States, Municipalities, and Political Subdivisions	1,745.0	377.6	1.1	2,121.5
Foreign Governments	1,101.1	206.3	—	1,307.4
Public Utilities	7,046.1	1,505.4	0.9	8,550.6
Mortgage/Asset-Backed Securities	2,224.9	207.0	0.1	2,431.8
All Other Corporate Bonds	25,658.8	3,828.6	122.2	29,365.2
Redeemable Preferred Stocks	44.0	5.9	—	49.9
Total Fixed Maturity Securities	\$38,803.4	\$6,386.3	\$124.8	\$45,064.9

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

	June 30, 2015			
	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	\$246.5	\$10.0	\$—	\$—
States, Municipalities, and Political Subdivisions	228.1	6.1	1.8	0.2

Edgar Filing: Unum Group - Form 10-Q

Public Utilities	262.3	6.5	6.7	0.4
Mortgage/Asset-Backed Securities	364.4	5.4	1.0	0.1
All Other Corporate Bonds	4,329.7	158.2	304.2	28.8
Redeemable Preferred Stocks	10.8	0.2	—	—
Total Fixed Maturity Securities	\$5,441.8	\$186.4	\$313.7	\$29.5

24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

	December 31, 2014		12 Months or Greater	
	Less Than 12 Months			
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$—	\$—	\$7.4	\$0.5
States, Municipalities, and Political Subdivisions	1.6	—	42.0	1.1
Public Utilities	5.1	0.2	58.2	0.7
Mortgage/Asset-Backed Securities	28.0	—	1.9	0.1
All Other Corporate Bonds	1,666.2	82.2	729.4	40.0
Total Fixed Maturity Securities	\$1,700.9	\$82.4	\$838.9	\$42.4

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.

	June 30, 2015		Unrealized Gain Position		Unrealized Loss Position	
	Total Amortized Cost	Gross Gain	Fair Value	Gross Loss	Fair Value	
	(in millions of dollars)					
1 year or less	\$1,238.4	\$26.7	\$1,250.1	\$0.1	\$14.9	
Over 1 year through 5 years	6,882.6	712.8	7,476.1	5.0	114.3	
Over 5 years through 10 years	10,057.0	852.2	7,987.7	93.7	2,827.8	
Over 10 years	19,102.1	3,329.5	19,886.9	111.6	2,433.1	
	37,280.1	4,921.2	36,600.8	210.4	5,390.1	
Mortgage/Asset-Backed Securities	2,389.1	195.9	2,214.1	5.5	365.4	
Total Fixed Maturity Securities	\$39,669.2	\$5,117.1	\$38,814.9	\$215.9	\$5,755.5	
	December 31, 2014		Unrealized Gain Position		Unrealized Loss Position	
	Total Amortized Cost	Gross Gain	Fair Value	Gross Loss	Fair Value	
	(in millions of dollars)					
1 year or less	\$1,372.0	\$34.3	\$1,406.3	\$—	\$—	
Over 1 year through 5 years	6,871.2	719.3	7,434.0	9.4	147.1	
Over 5 years through 10 years	9,532.9	1,003.3	8,792.3	80.9	1,663.0	
Over 10 years	18,802.4	4,422.4	22,490.6	34.4	699.8	
	36,578.5	6,179.3	40,123.2	124.7	2,509.9	
Mortgage/Asset-Backed Securities	2,224.9	207.0	2,401.9	0.1	29.9	
Total Fixed Maturity Securities	\$38,803.4	\$6,386.3	\$42,525.1	\$124.8	\$2,539.8	

At June 30, 2015, the fair value of investment-grade fixed maturity securities was \$40,910.7 million, with a gross unrealized gain of \$4,967.5 million and a gross unrealized loss of \$140.9 million. The gross unrealized loss on investment-grade fixed maturity securities was 65.3 percent of the total gross unrealized loss on fixed maturity

securities. 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.

At June 30, 2015, the fair value of below-investment-grade fixed maturity securities was \$3,659.7 million, with a gross unrealized gain of \$149.6 million and a gross unrealized loss of \$75.0 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 34.7 percent of the total gross unrealized loss on fixed maturity securities. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns than investment-grade securities. At June 30, 2015, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

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 June 30, 2015, we held 213 individual investment-grade fixed maturity securities and 82 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 8 investment-grade fixed maturity securities and 13 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
- 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 June 30, 2015 or December 31, 2014 for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At June 30, 2015, we had non-binding commitments of \$184.5 million to fund private placement fixed maturity securities.

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 June 30, 2015, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$451.0 million, comprised of \$220.7 million of tax credit partnerships and \$230.3 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(in millions of dollars)			
Income Tax Credits	\$10.5	\$10.5	\$21.0	\$20.9
Amortization, net of tax	(5.8	) (5.8	) (11.6	) (11.6
Income Tax Benefit	\$4.7	\$4.7	\$9.4	\$9.3

Additionally, we recognize a liability for all legally binding unfunded commitments to these partnerships, with a corresponding recognition of an invested asset. Our liability for legally binding unfunded commitments to the tax credit partnerships was \$8.1 million at June 30, 2015. Contractually, we are a limited partner in these investments, and our maximum exposure to loss is limited to the carrying value of our investment. We also had non-binding commitments of \$149.2 million to fund certain private equity partnerships at June 30, 2015, the amount of which may or may not be funded.

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 and a private equity partnership investment which we contributed into the trust at the time it was established. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. The fair values of the bond and partnership were \$146.2 million and \$1.4 million, respectively, as of June 30, 2015. The bond is reported as a component of fixed maturity securities, and the partnership is reported as a component of other long-term investments in our consolidated balance sheets. At June 30, 2015, we had no commitments to fund the underlying partnership, nor did we fund any amounts to the partnership during the three and six months ended June 30, 2015 and 2014.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

Mortgage loans by property type and geographic region are presented below.

Property Type	June 30, 2015 (in millions of dollars)		December 31, 2014		
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total	
Apartment	\$ 116.8	6.3	% \$ 110.1	5.9	%
Industrial	548.0	29.5	542.9	29.2	
Office	769.7	41.5	794.0	42.8	
Retail	422.0	22.7	409.6	22.1	
Total	\$ 1,856.5	100.0	% \$ 1,856.6	100.0	%
Region					
New England	\$ 103.1	5.6	% \$ 105.6	5.7	%
Mid-Atlantic	161.5	8.7	179.4	9.7	
East North Central	195.7	10.6	210.6	11.4	
West North Central	156.6	8.4	166.2	8.9	
South Atlantic	440.4	23.7	453.6	24.4	
East South Central	80.2	4.3	75.3	4.1	
West South Central	238.2	12.8	215.6	11.6	
Mountain	164.0	8.8	116.0	6.2	
Pacific	316.8	17.1	334.3	18.0	
Total	\$ 1,856.5	100.0	% \$ 1,856.6	100.0	%

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

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

	June 30 2015	December 31 2014
	(in millions of dollars)	
Internal Rating		
Aa	\$2.8	\$7.7
A	604.4	666.0
Baa	1,223.9	1,156.7
Ba	12.8	13.1
B	12.6	13.1
Total	\$1,856.5	\$1,856.6
Loan-to-Value Ratio		
<= 65%	\$958.2	\$898.7
> 65% <= 75%	772.1	818.0
> 75% <= 85%	89.5	102.3
> 85%	36.7	37.6
Total	\$1,856.5	\$1,856.6

There were no troubled debt restructurings during the three months ended June 30, 2015 and 2014 and during the six months ended June 30, 2015. During the six months ended June 30, 2014, we modified the terms of a mortgage loan with a carrying value of \$18.1 million and recognized a \$3.0 million realized loss on the troubled debt restructuring. At June 30, 2015 and December 31, 2014, 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. The activity in the allowance for credit losses is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(in millions of dollars)			
Balance at Beginning of Period	\$1.5	\$4.5	\$1.5	\$1.5
Provision	0.5	—	0.5	3.0
Balance at End of Period	\$2.0	\$4.5	\$2.0	\$4.5

At December 31, 2014 we held one impaired mortgage loan with an unpaid principal balance of \$14.6 million, a related allowance for credit losses of \$1.5 million, and a carrying value of \$13.1 million. During the second quarter of 2015, we increased the allowance for credit losses by \$0.5 million and recognized a corresponding investment loss, resulting in a carrying value of \$12.6 million at June 30, 2015. The unpaid principal balance remains unchanged.

Our average investment in impaired mortgage loans was \$12.9 million and \$13.0 million for the three and six months ended June 30, 2015, respectively, and \$31.2 million and \$25.2 million for the three and six months ended June 30, 2014, respectively. Interest income recognized on mortgage loans subsequent to impairment was \$0.2 million and \$0.4 million for the three and six months ended June 30, 2015, respectively, and \$0.4 million and \$0.7 million for the three and six months ended June 30, 2014, respectively.

At June 30, 2015, we had non-binding commitments of \$113.0 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

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 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 June 30, 2015, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$221.8 million, for which we received collateral in the form of cash and securities of \$34.9 million and \$196.5 million, respectively. As of December 31, 2014, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$176.5 million, for which we received collateral in the form of cash and securities of \$58.4 million and \$128.5 million, respectively. We had no outstanding repurchase agreements at June 30, 2015 or December 31, 2014.

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

	June 30, 2015
	Overnight and
	Continuous
	(in millions of dollars)
United States Government and Government Agencies and Authorities	\$1.2
Public Utilities	1.0
All Other Corporate Bonds	32.7
Total Borrowings	34.9
Gross Amount of Recognized Liability for Securities Lending Transactions	34.9
Amounts Related to Agreements Not Included in Offsetting Disclosure Contained Herein	\$—

Certain of our domestic insurance subsidiaries are members of regional FHLBs. As members, we obtain access to low-cost funding and also receive dividends based on our stock ownership. Our initial membership purchases of FHLB common stock occurred during 2015, and additional purchases may be required based upon the amount of funds borrowed from FHLBs. As of June 30, 2015, we owned \$30.9 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. As of June 30, 2015, the carrying value of fixed maturity securities and commercial mortgage loans posted as collateral to the regional FHLBs was \$336.8 million and \$101.0 million, respectively.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

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 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.

	June 30, 2015			Gross Amount Not		
	Gross Amount	Gross Amount	Net Amount	Offset in Balance Sheet	Cash	Net
	of Recognized	Offset in	Presented in	Financial	Collateral	Amount
	Financial	Balance Sheet	Balance Sheet	Instruments		
	Instruments					
	(in millions of dollars)					
Financial Assets:						
Derivatives	\$39.3	\$—	\$39.3	\$(10.6)	\$(25.0)	\$3.7
Securities Lending	221.8	—	221.8	(186.9)	(34.9)	—
Total	\$261.1	\$—	\$261.1	\$(197.5)	\$(59.9)	\$3.7
Financial Liabilities:						
Derivatives	\$74.7	\$—	\$74.7	\$(52.9)	\$—	\$21.8
Securities Lending	34.9	—	34.9	(34.9)	—	—
Total	\$109.6	\$—	\$109.6	\$(87.8)	\$—	\$21.8
December 31, 2014						
	Gross Amount	Gross Amount	Net Amount	Gross Amount Not	Cash	Net
	of Recognized	Offset in	Presented in	Offset in Balance Sheet	Collateral	Amount
	Financial	Balance Sheet	Balance Sheet	Financial		
	Instruments			Instruments		
	(in millions of dollars)					
Financial Assets:						
Derivatives	\$28.0	\$—	\$28.0	\$(7.2)	\$(15.4)	\$5.4
Securities Lending	176.5	—	176.5	(118.1)	(58.4)	—
Total	\$204.5	\$—	\$204.5	\$(125.3)	\$(73.8)	\$5.4
Financial Liabilities:						
Derivatives	\$92.9	\$—	\$92.9	\$(67.0)	\$—	\$25.9
Securities Lending	58.4	—	58.4	(58.4)	—	—
Total	\$151.3	\$—	\$151.3	\$(125.4)	\$—	\$25.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 4 - Investments - Continued

Net Investment Income

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

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(in millions of dollars)			
Fixed Maturity Securities	\$592.9	\$589.6	\$1,159.1	\$1,170.7
Derivatives	11.5	10.3	22.4	20.2
Mortgage Loans	27.4	26.6	55.7	55.0
Policy Loans	4.2	4.0	8.2	7.9
Other Long-term Investments	4.9	12.0	8.8	15.8
Short-term Investments	0.8	0.6	1.7	1.1
Gross Investment Income	641.7	643.1	1,255.9	1,270.7
Less Investment Expenses	7.3	6.9	15.8	14.9
Less Investment Income on Participation Fund Account Assets	3.7	3.8	7.4	7.6
Net Investment Income	\$630.7	\$632.4	\$1,232.7	\$1,248.2

Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(in millions of dollars)			
Fixed Maturity Securities				
Gross Gains on Sales	\$4.9	\$1.0	\$7.4	\$1.9
Gross Losses on Sales	(1.9)	(1.1)	(7.6)	(6.5)
Other-Than-Temporary Impairment Loss	(8.1)	—	(12.6)	—
Mortgage Loans and Other Invested Assets				
Gross Gains on Sales	7.8	2.4	8.9	9.8
Gross Losses on Sales	—	—	—	(0.6)
Impairment Loss	(1.0)	(0.4)	(3.7)	(3.4)
Embedded Derivative in Modified Coinsurance Arrangement	(2.0)	12.4	(5.9)	20.9
All Other Derivatives	0.8	12.7	(0.3)	12.3
Foreign Currency Transactions	0.3	(1.1)	(0.7)	(2.2)
Net Realized Investment Gain (Loss)	\$0.8	\$25.9	\$(14.5)	\$32.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

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 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. 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 cash flow hedges and used to reduce our exposure to foreign currency risk are as follows:

Foreign currency interest rate swaps have historically been used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification and to hedge the currency risk associated with certain of the principal and interest payments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. For hedges of fixed maturity securities, 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. For hedges of debt issued, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments to the counterparty in exchange for fixed rate U.S.

dollar-denominated principal and interest payments.

Derivatives not designated as hedging instruments and used to reduce our exposure to foreign currency risk and credit losses on securities owned 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

Note 5 - Derivative Financial Instruments - Continued

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 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.

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 current 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 \$12.7 million at June 30, 2015. We held \$25.0 million and \$15.4 million cash collateral from our counterparties at June 30, 2015 and December 31, 2014, respectively. We post either fixed maturity securities or cash as collateral to our counterparties. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$51.1 million and \$67.0 million at June 30, 2015 and December 31, 2014, respectively. We had no cash posted as collateral to our counterparties at June 30, 2015 and December 31, 2014. 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 \$74.7 million and \$92.9 million at June 30, 2015 and December 31, 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2015

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/Pay Fixed	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable			
	(in millions of dollars)					
Balance at March 31, 2014	\$150.0	\$622.5	\$600.0	\$97.0	\$—	\$1,469.5
Additions	—	—	—	—	—	—
Terminations	—	14.2	—	—	—	14.2
Balance at June 30, 2014	\$150.0	\$608.3	\$600.0	\$97.0	\$—	\$1,455.3
Balance at December 31, 2013	\$150.0	\$630.4	\$600.0	\$97.0	\$—	\$1,477.4
Additions	—	—	—	—	10.0	10.0
Terminations	—	22.1	—	—	10.0	32.1
Balance at June 30, 2014	\$150.0	\$608.3	\$600.0	\$97.0	\$—	\$1,455.3
Balance at March 31, 2015	\$150.0	\$831.5	\$600.0	\$97.0	\$—	\$1,678.5
Additions	—	—	—	2.0	27.0	29.0
Terminations	—	14.8	—	27.0	27.0	68.8
Balance at June 30, 2015	\$150.0	\$816.7	\$600.0	\$72.0	\$—	\$1,638.7
Balance at December 31, 2014	\$150.0	\$840.4	\$600.0	\$97.0	\$—	\$1,687.4
Additions	—	—	—	—	—	—