

Edgar Filing: Unum Group - Form 10-Q

Unum Group  
Form 10-Q  
July 28, 2017

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, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-11294

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

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

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

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

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

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

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

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

(Check one):

Large accelerated filer  Accelerated filer

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

Smaller reporting company

Emerging growth company

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

225,682,585 shares of the registrant's common stock were outstanding as of July 26, 2017.

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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.

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

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

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

• Execution risk related to our technology needs.

• 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.

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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.

• 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, 2016.

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.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

## Unum Group and Subsidiaries

	June 30 2017	December 31 2016
	(in millions of dollars) (Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$39,626.4; \$39,552.7)	\$45,118.6	\$44,217.3
Mortgage Loans	2,081.2	2,038.9
Policy Loans	3,409.8	3,463.2
Other Long-term Investments	661.3	631.5
Short-term Investments	1,120.8	780.0
Total Investments	52,391.7	51,130.9
Other Assets		
Cash and Bank Deposits	117.0	100.4
Accounts and Premiums Receivable	1,629.1	1,610.8
Reinsurance Recoverable	4,850.6	4,858.9
Accrued Investment Income	808.6	693.3
Deferred Acquisition Costs	2,123.9	2,094.2
Goodwill	337.1	335.1
Property and Equipment	497.1	500.6
Other Assets	626.5	617.3
Total Assets	\$63,381.6	\$61,941.5

See notes to consolidated financial statements.



## CONSOLIDATED BALANCE SHEETS - Continued

## Unum Group and Subsidiaries

	June 30 2017	December 31 2016
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,552.5	\$1,507.9
Reserves for Future Policy and Contract Benefits	45,136.1	44,245.9
Unearned Premiums	456.9	363.7
Other Policyholders' Funds	1,627.5	1,623.8
Income Tax Payable	3.5	20.6
Deferred Income Tax	247.3	130.3
Long-term Debt	2,968.4	2,999.4
Payables for Collateral on Investments	404.8	406.0
Other Liabilities	1,668.0	1,675.9
Total Liabilities	54,065.0	52,973.5
Commitments and Contingent Liabilities - Note 11		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 304,082,323 and 303,552,934 shares	30.4	30.4
Additional Paid-in Capital	2,282.9	2,272.8
Accumulated Other Comprehensive Income (Loss)	104.9	(51.0 )
Retained Earnings	9,126.7	8,744.0
Treasury Stock - at cost: 77,980,192 and 73,729,992 shares	(2,228.3 )	(2,028.2 )
Total Stockholders' Equity	9,316.6	8,968.0
Total Liabilities and Stockholders' Equity	\$63,381.6	\$61,941.5

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	
	2017	2016	2017	2016
	(in millions of dollars, except share data)			
Revenue				
Premium Income	\$2,142.2	\$2,081.6	\$4,285.1	\$4,169.1
Net Investment Income	620.5	623.3	1,222.9	1,229.7
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	(9.4 )	—	(30.5 )
Net Realized Investment Gain, Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	8.1	14.7	19.1	15.3
Net Realized Investment Gain (Loss)	8.1	5.3	19.1	(15.2 )
Other Income	51.2	51.1	101.4	103.1
Total Revenue	2,822.0	2,761.3	5,628.5	5,486.7
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,752.0	1,733.5	3,501.0	3,463.3
Commissions	261.3	255.0	531.5	514.9
Interest and Debt Expense	39.9	42.4	79.7	81.0
Deferral of Acquisition Costs	(153.2 )	(146.7 )	(315.3 )	(299.2 )
Amortization of Deferred Acquisition Costs	138.3	126.2	279.8	258.4
Compensation Expense	215.9	202.9	422.9	410.5
Other Expenses	206.2	207.8	437.0	413.4
Total Benefits and Expenses	2,460.4	2,421.1	4,936.6	4,842.3
Income Before Income Tax	361.6	340.2	691.9	644.4
Income Tax (Benefit)				
Current	105.8	107.7	162.4	158.7
Deferred	10.7	(4.3 )	54.5	38.3
Total Income Tax	116.5	103.4	216.9	197.0
Net Income	\$245.1	\$236.8	\$475.0	\$447.4
Net Income Per Common Share				
Basic	\$1.08	\$1.00	\$2.08	\$1.88
Assuming Dilution	\$1.07	\$1.00	\$2.07	\$1.87

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Net Income	\$245.1	\$236.8	\$475.0	\$447.4
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense of \$206.5; \$479.9; \$295.5; \$894.2)	373.3	921.9	550.2	1,722.0
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax benefit of \$162.6; \$367.6; \$229.9; \$655.3)	(298.1 )	(699.2 )	(432.6 )	(1,265.2 )
Change in Net Gain on Cash Flow Hedges (net of tax benefit of \$6.3; \$4.4; \$12.3; \$18.0)	(12.3 )	(8.2 )	(23.0 )	(34.4 )
Change in Foreign Currency Translation Adjustment	39.8	(79.4 )	56.9	(105.8 )
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$1.3; \$2.0; \$2.8; \$3.6)	1.8	4.0	4.4	7.1
Total Other Comprehensive Income	104.5	139.1	155.9	323.7
Comprehensive Income	\$349.6	\$375.9	\$630.9	\$771.1

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

## Unum Group and Subsidiaries

	Six Months Ended June 30	
	2017	2016
	(in millions of dollars)	
<b>Common Stock</b>		
Balance at Beginning of Year and End of Period	\$30.4	\$30.3
<b>Additional Paid-in Capital</b>		
Balance at Beginning of Year	2,272.8	2,247.2
Common Stock Activity	10.1	11.5
Balance at End of Period	2,282.9	2,258.7
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance at Beginning of Year	(51.0 )	16.1
Other Comprehensive Income	155.9	323.7
Balance at End of Period	104.9	339.8
<b>Retained Earnings</b>		
Balance at Beginning of Year	8,744.0	7,995.2
Net Income	475.0	447.4
Dividends to Stockholders (per common share: \$0.40; \$0.37)	(92.3 )	(89.4 )
Balance at End of Period	9,126.7	8,353.2
<b>Treasury Stock</b>		
Balance at Beginning of Year	(2,028.2 )	(1,624.9 )
Purchases of Treasury Stock	(200.1 )	(200.1 )
Balance at End of Period	(2,228.3 )	(1,825.0 )
<b>Total Stockholders' Equity at End of Period</b>	<b>\$9,316.6</b>	<b>\$9,157.0</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

## Unum Group and Subsidiaries

	Six Months Ended June 30	
	2017	2016
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	\$475.0	\$447.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	94.8	48.1
Change in Deferred Acquisition Costs	(35.5 )	(40.8 )
Change in Insurance Reserves and Liabilities	244.1	211.0
Change in Income Taxes	55.7	44.5
Change in Other Accrued Liabilities	(12.6 )	(37.6 )
Non-cash Components of Net Investment Income	(213.4 )	(190.5 )
Net Realized Investment (Gain) Loss	(19.1 )	15.2
Depreciation	53.4	50.6
Other, Net	(0.4 )	13.5
Net Cash Provided by Operating Activities	642.0	561.4
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	272.2	674.7
Proceeds from Maturities of Fixed Maturity Securities	1,288.4	917.2
Proceeds from Sales and Maturities of Other Investments	106.8	166.7
Purchases of Fixed Maturity Securities	(1,384.6 )	(1,741.1 )
Purchases of Other Investments	(179.9 )	(259.0 )
Net Purchases of Short-term Investments	(330.3 )	(604.2 )
Net Increase (Decrease) in Payables for Collateral on Investments	(1.2 )	34.8
Net Purchases of Property and Equipment	(47.8 )	(41.6 )
Net Cash Used by Investing Activities	(276.4 )	(852.5 )
Cash Flows from Financing Activities		
Issuance of Long-term Debt	—	609.1
Long-term Debt Repayments	(33.5 )	(24.0 )
Issuance of Common Stock	1.5	2.7
Repurchase of Common Stock	(207.0 )	(208.9 )
Dividends Paid to Stockholders	(92.3 )	(89.4 )
Other, Net	(17.7 )	(17.5 )
Net Cash Provided (Used) by Financing Activities	(349.0 )	272.0
Net Increase (Decrease) in Cash and Bank Deposits	16.6	(19.1 )
Cash and Bank Deposits at Beginning of Year	100.4	112.9
Cash and Bank Deposits at End of Period	\$117.0	\$93.8

See notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

June 30, 2017

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, 2016.

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 2017:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 944 "Financial Services - Insurance"	This update changed the disclosure requirements for certain insurance contracts. These changes included a requirement to disclose the rollforward of the liability for unpaid claims and claim adjustment expenses in both interim and annual reporting periods for long-duration and short-duration insurance contracts. Additional claims disclosures were also required for short-duration contracts. 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 expanded our interim reporting period disclosures but had no effect on our financial position or results of operations. The annual reporting period disclosure requirements were only applicable to our individual dental products, which we deem immaterial, and therefore did not alter our annual disclosures.
ASC 718 "Compensation - Stock Compensation"	This update changed the accounting and disclosure requirements for certain aspects of share-based payments to employees. The update required all income tax effects of stock-based compensation awards to be recognized in the income statement when the awards vest or are settled. The update also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. Additionally, the update required	January 1, 2017	The adoption of this update did not have a material effect on our financial position or results of operations. The impact of the update reduced our effective income tax rate by a de minimis amount during the three and six months ended June 30, 2017. During periods in which the vesting date fair value differs from the grant date fair value of certain stock-based compensation awards, we may experience volatility in the

reclassification of tax-related cash flows resulting from share-based payments to be classified as operating activities instead of financing activities on the statement of cash flows. Transition guidance for the amendments varies between the retrospective, modified retrospective, and prospective methods depending on the specific requirement of the update.

income tax recognized in our results of operations. The amendment related to the reclassification of tax-related cash flows in our consolidated statements of cash flows has been applied prospectively.



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

Unum Group and Subsidiaries

June 30, 2017

Note 2 - Accounting Developments - Continued

## Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 230 "Statement of Cash Flows"	This update provides clarifying guidance intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues that relate to various transactions. The guidance is to be applied retrospectively, with early adoption permitted.	January 1, 2018	The adoption of this update will result in reclassifications to certain cash receipts and payments within our consolidated statements of cash flows but will have no effect on our financial position or results of operations.
ASC 606 "Revenue from Contracts with Customers"	These updates supersede virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of these updates are insurance contracts, although our fee-based service products, which represent less than one percent of our total revenue, 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, with early adoption permitted.	January 1, 2018	The adoption of these updates will not have a material effect on our financial position or results of operations.
ASC 740 "Income Taxes"	This update eliminates the exception that requires intra-entity asset transfers other than inventory to be deferred until the transferred asset is sold to a third party or otherwise recovered through use. It requires recognition of tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The guidance is to be applied retrospectively, with early adoption permitted.	January 1, 2018	We continue to evaluate this update, but do not expect this to have a material impact on our financial position or results of operations.
ASC 825 "Financial Instruments - Overall"	This update changes the accounting and disclosure requirements for certain financial instruments. These changes include a requirement to measure equity investments, other than those that result in consolidation or are accounted for under the equity	January 1, 2018	We have determined that certain of our limited partnership investments are within the scope of this update. We continue to

method, at fair value through net income unless the investment qualifies for certain practicability exceptions. In addition, the update clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale fixed maturity securities. Changes also include the modification of certain disclosures around the fair value of financial instruments, including the requirement for separate presentation of financial assets and liabilities by measurement category, as well as the elimination of certain disclosures around methods and significant assumptions used to estimate fair value. The guidance is to be applied retrospectively and early adoption is generally not permitted.

evaluate this update, but do not expect this to have a material impact on our financial position or results of operations. This update could potentially increase volatility in our results of operations and we will be required to modify certain of our disclosures upon adoption.

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

Unum Group and Subsidiaries

June 30, 2017

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 715 "Compensation - Retirement Benefits"	This update requires the service cost component of net periodic pension and postretirement benefit costs to be included as a component of compensation costs in an entity's statement of income. Other components of net periodic pension and postretirement benefit costs are required to be presented separately from the service cost along with a disclosure identifying the line items in which these costs are presented in the statement of income. The amendments in this update are to be applied retrospectively or prospectively depending on the specific requirement of the update, with early adoption permitted.	January 1, 2018	The adoption of this update will result in reclassifications to certain line items within our consolidated statements of income but will have no effect on our financial position or results of operations.
ASC 842 "Leases"	This update changes the accounting for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is also recorded. Expense recognition for lessees will remain similar to current accounting requirements for capital and operating leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period presented and early adoption is permitted.	January 1, 2019	We have not yet determined the expected impact on our financial position or results of operations.
ASC 310 "Receivables - Nonrefundable Fees and Other Costs"	This update shortens the amortization period to the earliest call date for certain callable debt securities held at a premium. This update does not impact securities held at a discount. The guidance is to be applied using a modified retrospective approach, with early adoption permitted.	January 1, 2019	We have not yet determined the expected impact on our financial position or results of operations.
ASC 350 "Intangibles - Goodwill and Other"	This update eliminates the requirement to calculate the implied fair value of goodwill (the second step in the current two-step test) to measure a goodwill impairment charge. Instead, entities should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of the carrying amount over the fair value, with the loss not to exceed the total amount of goodwill allocated to that reporting unit. The guidance is	January 1, 2020	The adoption of this update will not have a material effect on our financial position or results of operations.

to be applied prospectively, with early adoption permitted  
for goodwill impairment tests performed on testing dates  
after January 1, 2017.

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

Unum Group and Subsidiaries

June 30, 2017

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 326 "Financial Instruments - Credit Losses"	<p>This update amends the guidance on the impairment of financial instruments. The update adds an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses and will generally result in earlier recognition of allowances for losses. The current expected credit loss model applies to financial instruments such as mortgage loans, fixed maturity securities classified as held-to-maturity, and certain receivables. The update also modifies the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit losses are recognized as an allowance rather than as a reduction in the amortized cost of the security. The reversal of previously recognized credit losses on available-for-sale fixed maturity securities is allowed under specified circumstances. Additional disclosures will also be required, including information used to develop the allowance for losses. The guidance is to be applied to most instruments in scope using a modified retrospective approach at the beginning of the earliest comparative period presented with early adoption permitted. For available-for-sale fixed maturity securities, the update is applied prospectively. Other-than-temporary impairment losses recognized on available-for-sale fixed maturity securities prior to adoption of the update cannot be reversed.</p>	January 1, 2020	We have not yet determined the expected impact on our financial position or results of operations.

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

Unum Group and Subsidiaries

June 30, 2017

## 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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
<b>Assets</b>				
Fixed Maturity Securities	\$45,118.6	\$45,118.6	\$44,217.3	\$44,217.3
Mortgage Loans	2,081.2	2,190.0	2,038.9	2,122.2
Policy Loans	3,409.8	3,516.4	3,463.2	3,564.2
Other Long-term Investments				
Derivatives	27.0	27.0	32.7	32.7
Equity Securities	1.2	1.2	1.2	1.2
Miscellaneous Long-term Investments	577.7	577.7	541.9	541.9
<b>Liabilities</b>				
Policyholders' Funds				
Deferred Annuity Products	\$590.9	\$590.9	\$597.4	\$597.4
Supplementary Contracts without Life Contingencies	601.0	601.0	608.8	608.8
Long-term Debt	2,968.4	3,288.8	2,999.4	3,175.8
Payables for Collateral on Investments				
Federal Home Loan Bank (FHLB) Funding Agreements	350.0	350.0	350.0	350.0
Other Liabilities				
Derivatives	52.6	52.6	52.8	52.8
Embedded Derivative in Modified Coinsurance Arrangement	31.9	31.9	46.7	46.7
Unfunded Commitments to Investment Partnerships	4.5	4.5	5.0	5.0

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 \$3,150.4 million and \$3,206.1 million as of June 30, 2017 and December 31, 2016, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to

reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in bank loans, the financial services industry, general private equity, railcar leasing, and mezzanine debt. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of June 30, 2017, we estimate that the underlying assets of the funds will be liquidated over the next one to ten years. These financial instruments are assigned a Level 3 within the fair value hierarchy. Our

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

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.

**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 by pricing services using active trades for which there was current market activity in that specific debt instrument have fair values of \$1,937.8 million and \$709.8 million as of June 30, 2017 and December 31, 2016, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued by pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of \$1,351.0 million and \$2,466.0 million as of June 30, 2017 and December 31, 2016, 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 amounts that we have committed to fund certain investment partnerships. These commitments are legally binding, subject to the partnerships meeting specified conditions. Carrying amounts approximate fair value and 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, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely 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 2017, we have applied valuation approaches and techniques on a consistent basis to similar assets and liabilities and consistent with those approaches and techniques used at year end 2016.

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

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

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Valuation Approaches	Primarily the market approach	Primarily the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services Non-binding broker quotes Call provisions	Analysis of similar bonds, adjusted for comparability Non-binding broker quotes Security and issuer level spreads
Public Utilities		
Valuation Approaches	Primarily the market and income approaches	Primarily the market and income approaches
Valuation Techniques / Inputs	TRACE pricing Prices obtained from external pricing services	Change in benchmark reference Analysis of similar bonds, adjusted for comparability

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
<b>Public Utilities - Continued</b>		
	<ul style="list-style-type: none"> <li>Non-binding broker quotes</li> <li>Benchmark yields</li> <li>Transactional data for new issuances and secondary trades</li> <li>Security cash flows and structures</li> <li>Recent issuance / supply</li> <li>Matrix pricing</li> <li>Security and issuer level spreads</li> <li>Security creditor ratings/maturity/capital structure/optionality</li> <li>Public covenants</li> <li>Comparative bond analysis</li> <li>Relevant reports issued by analysts and rating agencies</li> <li>Audited financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Discount for size - illiquidity</li> <li>Non-binding broker quotes</li> <li>Lack of marketability</li> <li>Security and issuer level spreads</li> <li>Volatility of credit</li> <li>Matrix pricing</li> </ul>
<b>Mortgage/Asset-Backed Securities</b>		
Valuation Approaches	Principally the market and income approaches	Principally the market approach
Valuation Techniques / Inputs	<ul style="list-style-type: none"> <li>Prices obtained from external pricing services</li> <li>Non-binding broker quotes</li> <li>Security cash flows and structures</li> <li>Underlying collateral</li> <li>Prepayment speeds/loan performance/delinquencies</li> <li>Relevant reports issued by analysts and rating agencies</li> <li>Audited financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of similar bonds, adjusted for comparability</li> <li>Non-binding broker quotes</li> <li>Security and issuer level spreads</li> </ul>
<b>All Other Corporate Bonds</b>		
Valuation Approaches	Principally the market and income approaches	Principally the market and income approaches
Valuation Techniques / Inputs	<ul style="list-style-type: none"> <li>TRACE pricing</li> <li>Prices obtained from external pricing services</li> <li>Non-binding broker quotes</li> <li>Benchmark yields</li> </ul>	<ul style="list-style-type: none"> <li>Change in benchmark reference</li> <li>Analysis of similar bonds, adjusted for comparability</li> <li>Discount for size - illiquidity</li> <li>Non-binding broker quotes</li> </ul>

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Transactional data for new issuances and secondary trades	Lack of marketability
Security cash flows and structures	Security and issuer level spreads
Recent issuance / supply	Volatility of credit
Matrix pricing	Matrix pricing
Security and issuer level spreads	
Security creditor ratings/maturity/capital structure/optionality	
Public covenants	
Comparative bond analysis	
Relevant reports issued by analysts and rating agencies	
Audited financial statements	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Redeemable Preferred Stocks		
Valuation Approaches	Principally the market approach	Principally the market approach
Valuation Techniques / Inputs	Non-binding broker quotes Benchmark yields Comparative bond analysis Call provisions Relevant reports issued by analysts and rating agencies Audited financial statements	Non-binding broker quotes
Equity Securities		
Valuation Approaches	Principally the market approach	Principally the market and income approaches
Valuation Techniques / Inputs	Prices obtained from external pricing services Non-binding broker quotes	Financial statement analysis Non-binding broker quotes

The management of our investment portfolio includes establishing pricing policy and reviewing the reasonableness of sources and inputs used in developing pricing. We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. In the event we receive a vendor's market price that does not appear reasonable based on our market analysis, we may challenge the price and request further information about the assumptions and methodologies used by the vendor to price the security. We may change the vendor price based on a better data source such as an actual trade. We also review all price changes from the prior month which fall outside a predetermined corridor. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

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, 2017, approximately 19.7 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the 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.

The remaining 80.3 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 66.3 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 3.7 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 10.3 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, 2017

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, 2017			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total
(in millions of dollars)				
<b>Assets</b>				
<b>Fixed Maturity Securities</b>				
United States Government and Government Agencies and Authorities	\$179.4	\$ 1,256.6	\$	—\$1,436.0
States, Municipalities, and Political Subdivisions	—	2,215.6	36.8	2,252.4
Foreign Governments	—	934.0	—	934.0
Public Utilities	706.9	7,313.0	192.5	8,212.4
Mortgage/Asset-Backed Securities	—	2,102.5	—	2,102.5
All Other Corporate Bonds	7,987.5	21,298.5	853.2	30,139.2
Redeemable Preferred Stocks	—	19.0	23.1	42.1
<b>Total Fixed Maturity Securities</b>	<b>8,873.8</b>	<b>35,139.2</b>	<b>1,105.6</b>	<b>45,118.6</b>
<b>Other Long-term Investments</b>				
<b>Derivatives</b>				
Foreign Exchange Contracts	—	27.0	—	27.0
Equity Securities	—	—	1.2	1.2
<b>Liabilities</b>				
<b>Other Liabilities</b>				
<b>Derivatives</b>				
Interest Rate Swaps	\$—	\$ 4.3	\$	—\$4.3
Foreign Exchange Contracts	—	47.8	—	47.8
Credit Default Swaps	—	0.5	—	0.5
Embedded Derivative in Modified Coinsurance Arrangement	—	—	31.9	31.9
<b>Total Derivatives</b>	<b>—</b>	<b>52.6</b>	<b>31.9</b>	<b>84.5</b>

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

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total
	(in millions of dollars)			
<b>Assets</b>				
<b>Fixed Maturity Securities</b>				
United States Government and Government Agencies and Authorities	\$454.2	\$ 928.2	\$	—\$1,382.4
States, Municipalities, and Political Subdivisions	—	2,068.5	89.5	2,158.0
Foreign Governments	—	914.7	—	914.7
Public Utilities	108.5	7,648.9	265.3	8,022.7
Mortgage/Asset-Backed Securities	—	2,230.4	—	2,230.4
All Other Corporate Bonds	3,507.1	24,500.4	1,459.7	29,467.2
Redeemable Preferred Stocks	—	18.7	23.2	41.9
<b>Total Fixed Maturity Securities</b>	<b>4,069.8</b>	<b>38,309.8</b>	<b>1,837.7</b>	<b>44,217.3</b>
<b>Other Long-term Investments</b>				
<b>Derivatives</b>				
Foreign Exchange Contracts	—	32.7	—	32.7
Equity Securities	—	—	1.2	1.2
<b>Liabilities</b>				
<b>Other Liabilities</b>				
<b>Derivatives</b>				
Interest Rate Swaps	\$—	\$ 7.6	\$	—\$7.6
Foreign Exchange Contracts	—	44.8	—	44.8
Credit Default Swaps	—	0.4	—	0.4
Embedded Derivative in Modified Coinsurance Arrangement	—	—	46.7	46.7
<b>Total Derivatives</b>	<b>—</b>	<b>52.8</b>	<b>46.7</b>	<b>99.5</b>

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

Unum Group and Subsidiaries

June 30, 2017

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			
	2017		2016	
	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 States, Municipalities, and Political Subdivisions	\$—	\$ 152.4	\$—	\$ —
Public Utilities	—	—	73.4	—
All Other Corporate Bonds	360.3	891.5	527.2	397.7
Total Fixed Maturity Securities	\$2,291.5	\$ 4,674.3	\$3,474.4	\$ 3,445.4
	Six Months Ended June 30			
	2017		2016	
	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 States, Municipalities, and Political Subdivisions	\$—	\$ 276.6	\$423.8	\$ —
Public Utilities	—	—	73.3	—
All Other Corporate Bonds	596.8	98.3	630.1	34.1
Total Fixed Maturity Securities	\$5,440.1	\$ 1,669.9	\$6,340.7	\$ 820.7

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, 2017

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, 2017							
	Total Realized and Unrealized Investment Gains (Losses) Included in							
	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	\$0.4	\$ —	\$ 0.3	\$ —	—\$(0.1)	\$36.6	\$(0.4)	\$36.8
Public Utilities	312.5	—	0.3	—	—	48.0	(168.3)	192.5
All Other Corporate Bonds	923.0	(0.6)	5.6	—	(29.1)	237.6	(283.3)	853.2
Redeemable Preferred Stocks	22.9	—	0.2	—	—	—	—	23.1
Total Fixed Maturity Securities	1,258.8	(0.6)	6.4	—	(29.2)	322.2	(452.0)	1,105.6
Equity Securities	1.2	—	—	—	—	—	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	(38.1)	6.2	—	—	—	—	—	(31.9)

	Three Months Ended June 30, 2016							
	Total Realized and Unrealized Investment Gains (Losses) Included in							
	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	\$88.7	\$ —	\$ 2.4	\$ —	—\$—	\$—	\$(29.5)	\$61.6
Foreign Governments	53.9	—	—	—	—	—	(53.9)	—
Public Utilities	270.2	—	1.2	—	(0.2)	232.2	(49.9)	453.5
All Other Corporate Bonds	1,074.7	3.4	19.8	58.0	(57.9)	641.2	(379.6)	1,359.6
Redeemable Preferred Stocks	23.4	—	0.2	—	—	—	—	23.6
Total Fixed Maturity Securities	1,510.9	3.4	23.6	58.0	(58.1)	873.4	(512.9)	1,898.3

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Equity Securities	1.2	—	—	—	—	—	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	(93.2 )	10.2	—	—	—	—	—	(83.0 )

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

	Six Months Ended June 30, 2017						
	Total Realized and Unrealized Investment Gains (Losses) Included in						
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	End of Period
						Out of	
	(in millions of dollars)						
Fixed Maturity Securities							
States, Municipalities, and Political Subdivisions	\$89.5	\$ —	\$ 0.3	\$ —	\$—	\$—(53.0)	\$36.8
Public Utilities	265.3	—	1.2	8.0	(4.8)	72(149.2)	192.5
All Other Corporate Bonds	1,459.7	(0.6)	10.9	—	(81.2)	318(848.6)	853.2
Redeemable Preferred Stocks	23.2	—	(0.1)	—	—	—	23.1
Total Fixed Maturity Securities	1,837.7	(0.6)	12.3	8.0	(86.0)	385(1050.8)	1,105.6
Equity Securities	1.2	—	—	—	—	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	(46.7)	) 14.8	—	—	—	—	(31.9)
	Six Months Ended June 30, 2016						
	Total Realized and Unrealized Investment Gains (Losses) Included in						
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	End of Period
						Out of	
	(in millions of dollars)						
Fixed Maturity Securities							
States, Municipalities, and Political Subdivisions	\$122.2	\$ —	\$ 1.7	\$ —	\$(0.1)	\$(62.2)	\$61.6
Foreign Governments	52.9	—	—	—	—	(52.9)	—
Public Utilities	274.1	—	10.9	—	(0.5)	27(103.1)	453.5
All Other Corporate Bonds	1,408.2	0.6	45.3	58.0	(45.1)	59(770.3)	1,359.6
Redeemable Preferred Stocks	23.8	—	(0.2)	—	—	—	23.6
Total Fixed Maturity Securities	1,881.2	0.6	57.7	58.0	(45.7)	86(590.8.5)	1,898.3
Equity Securities	1.4	—	—	—	—	(0.2)	1.2
Embedded Derivative in Modified Coinsurance Arrangement	(87.6)	) 4.6	—	—	—	—	(83.0)





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

Unum Group and Subsidiaries

June 30, 2017

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 which are included in earnings and are attributable to the change in fair value of assets or liabilities valued using significant unobservable inputs and still held at period end were \$6.2 million and \$14.8 million for the three and six months ended June 30, 2017, respectively, and \$10.2 million and \$4.6 million for the three and six months ended June 30, 2016, respectively. These amounts relate entirely to the change in fair value of an embedded derivative in a modified coinsurance arrangement and are reported as a component of realized investment gains and losses.

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, 2017			
	Fair Value	Unobservable Input	Range/Weighted Average
(in millions of dollars)			
Fixed Maturity Securities			
All Other Corporate Bonds - Private	\$248.3	Lack of Marketability Volatility of Credit Market Convention	(c) 0.25% - 0.25% / 0.25% (d) 0.20% - 6.34% / 0.72% (e) Priced at Par
Equity Securities - Private	1.1	Market Convention	(e) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(31.9 )	Projected Liability Cash Flows	(f) Actuarial Assumptions
December 31, 2016			
	Fair Value	Unobservable Input	Range/Weighted Average
(in millions of dollars)			
Fixed Maturity Securities			
All Other Corporate Bonds - Private	\$310.4	Comparability Adjustment Discount for Size Lack of Marketability Volatility of Credit Market Convention	(a) 0.50% - 0.50% / 0.50% (b) 0.50% - 0.50% / 0.50% (c) 0.20% - 0.25% / 0.23% (d) 0.20% - 6.04% / 0.70% (e) Priced at Par
Equity Securities - Private	1.1	Market Convention	(e) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(46.7 )	Projected Liability Cash Flows	(f) Actuarial Assumptions

- (a) Represents basis point adjustments for changes in benchmark spreads associated with various industry sectors
- (b) Represents basis point adjustments based on issue/issuer size relative to the benchmark
- (c) Represents basis point adjustments to apply a discount due to the illiquidity of an investment
- (d) Represents basis point adjustments for credit-specific factors
- (e) Represents a decision to price based on par value, cost, or owner's equity when limited data is available
- (f) Represents various actuarial assumptions required to derive the liability cash flows including incidence, termination, and lapse rates

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

Unum Group and Subsidiaries

June 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

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.

## Note 4 - Investments

## Fixed Maturity Securities

At June 30, 2017 and December 31, 2016, 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, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,246.7	\$ 192.0	\$ 2.7	\$1,436.0
States, Municipalities, and Political Subdivisions	1,906.0	348.2	1.8	2,252.4
Foreign Governments	740.4	193.6	—	934.0
Public Utilities	6,976.4	1,245.3	9.3	8,212.4
Mortgage/Asset-Backed Securities	1,984.9	123.8	6.2	2,102.5
All Other Corporate Bonds	26,733.0	3,505.9	99.7	30,139.2
Redeemable Preferred Stocks	39.0	3.1	—	42.1
Total Fixed Maturity Securities	\$39,626.4	\$ 5,611.9	\$ 119.7	\$45,118.6
	December 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,202.8	\$ 183.1	\$ 3.5	\$1,382.4
States, Municipalities, and Political Subdivisions	1,868.0	294.8	4.8	2,158.0
Foreign Governments	714.8	199.9	—	914.7
Public Utilities	6,916.1	1,123.5	16.9	8,022.7
Mortgage/Asset-Backed Securities	2,104.9	134.7	9.2	2,230.4
All Other Corporate Bonds	26,707.1	2,944.0	183.9	29,467.2
Redeemable Preferred Stocks	39.0	3.2	0.3	41.9
Total Fixed Maturity Securities	\$39,552.7	\$ 4,883.2	\$ 218.6	\$44,217.3

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

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

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

	June 30, 2017			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$133.7	\$ 2.7	\$—	\$ —
States, Municipalities, and Political Subdivisions	91.6	1.8	—	—
Public Utilities	219.3	5.8	32.8	3.5
Mortgage/Asset-Backed Securities	449.2	6.0	9.9	0.2
All Other Corporate Bonds	1,494.7	33.6	631.6	66.1
Total Fixed Maturity Securities	\$2,388.5	\$ 49.9	\$674.3	\$ 69.8
	December 31, 2016			
	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	\$132.8	\$ 3.5	\$—	\$ —
States, Municipalities, and Political Subdivisions	132.2	4.8	—	—
Public Utilities	260.2	15.3	15.6	1.6
Mortgage/Asset-Backed Securities	513.2	9.1	0.8	0.1
All Other Corporate Bonds	3,621.0	122.1	774.7	61.8
Redeemable Preferred Stocks	7.9	0.1	10.8	0.2
Total Fixed Maturity Securities	\$4,667.3	\$ 154.9	\$801.9	\$ 63.7

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

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

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, 2017				
	Total	Unrealized Gain Position		Unrealized Loss Position	
	Amortized Cost	Gross Gain	Fair Value	Gross Loss	Fair Value
	(in millions of dollars)				
1 year or less	\$1,715.2	\$ 41.8	\$ 1,753.1	\$ —	\$ 3.9
Over 1 year through 5 years	5,495.1	509.5	5,854.9	5.8	143.9
Over 5 years through 10 years	11,484.5	1,080.1	11,339.0	51.7	1,173.9
Over 10 years	18,946.7	3,856.7	21,465.4	56.0	1,282.0
	37,641.5	5,488.1	40,412.4	113.5	2,603.7
Mortgage/Asset-Backed Securities	1,984.9	123.8	1,643.4	6.2	459.1
Total Fixed Maturity Securities	\$39,626.4	\$ 5,611.9	\$ 42,055.8	\$ 119.7	\$ 3,062.8
	December 31, 2016				
	Total	Unrealized Gain Position		Unrealized Loss Position	
	Amortized Cost	Gross Gain	Fair Value	Gross Loss	Fair Value
	(in millions of dollars)				
1 year or less	\$1,338.8	\$ 28.6	\$ 1,355.6	\$ —	\$ 11.8
Over 1 year through 5 years	6,231.0	553.5	6,605.6	8.2	170.7
Over 5 years through 10 years	10,991.6	843.8	9,336.2	82.8	2,416.4
Over 10 years	18,886.4	3,322.6	19,734.3	118.4	2,356.3
	37,447.8	4,748.5	37,031.7	209.4	4,955.2
Mortgage/Asset-Backed Securities	2,104.9	134.7	1,716.4	9.2	514.0
Total Fixed Maturity Securities	\$39,552.7	\$ 4,883.2	\$ 38,748.1	\$ 218.6	\$ 5,469.2

At June 30, 2017, the fair value of investment-grade fixed maturity securities was \$41,764.5 million, with a gross unrealized gain of \$5,437.2 million and a gross unrealized loss of \$51.2 million. The gross unrealized loss on investment-grade fixed maturity securities was 42.8 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, 2017, the fair value of below-investment-grade fixed maturity securities was \$3,354.1 million, with a gross unrealized gain of \$174.7 million and a gross unrealized loss of \$68.5 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 57.2 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, 2017, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

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As of June 30, 2017, we held 226 individual investment-grade fixed maturity securities and 48 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 16 investment-grade fixed maturity securities and 30 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year. Of the 226 individual investment-grade securities in an unrealized loss position, 116 are held in the portfolio acquired through our 2016 purchase of H&J Capital, L.L.C., parent of Starmount Life Insurance Company and AlwaysCare Benefits (which collectively we refer to as Starmount). The fair value of the Starmount portfolio was \$39.0 million and had a net unrealized loss of \$0.7 million at June 30, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

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, 2017 or December 31, 2016 for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At June 30, 2017, we had commitments of \$113.2 million to fund private placement fixed maturity securities, the amount of which may or may not be funded.

#### Variable Interest Entities

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

As of June 30, 2017, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$543.3 million, comprised of \$146.8 million of tax credit partnerships and \$396.5 million of private equity partnerships. At December 31, 2016, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$509.3 million, comprised of \$165.2 million of tax credit

partnerships and \$344.1 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

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

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Income Tax Credits	\$10.5	\$10.4	\$20.9	\$20.9
Amortization, net of tax	(5.8 )	(5.8 )	(11.6 )	(11.6 )
Income Tax Benefit	\$4.7	\$4.6	\$9.3	\$9.3



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

Contractually, we are a limited partner in these tax credit partnerships, and our maximum exposure to loss is limited to the carrying value of our investment, which includes \$4.4 million of unfunded unconditional commitments at June 30, 2017. At June 30, 2017, we also have unfunded unconditional commitments of \$0.2 million to fund certain private equity partnerships as well as commitments of \$331.0 million, 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 which we contributed into the trust at the time it was established. There are no restrictions on the asset held in this trust, and the trust is free to dispose of the asset at any time. The fair values of the bond were \$153.5 million and \$151.9 million as of June 30, 2017 and December 31, 2016, respectively. The bond is reported as a component of fixed maturity securities in our consolidated balance sheets. At December 31, 2016, the trust also contained a private equity partnership which we contributed into the trust at the time it was established with a fair value of \$1.0 million. During the first quarter of 2017, we received the final distribution from the partnership and recorded a loss of \$0.2 million on the disposal. The loss is reported as a component of net realized investments gains and losses in our consolidated statements of income.

#### 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, 2017

Note 4 - Investments - Continued

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

	June 30, 2017		December 31, 2016	
	(in millions of dollars)			
	Carrying	Percent	Carrying	Percent
	Amount	of	Amount	of
Property Type	Total	Total	Total	Total
Apartment	\$309.0	14.8 %	\$288.4	14.1 %
Industrial	569.5	27.3	573.6	28.1
Office	702.5	33.8	700.1	34.4
Retail	467.7	22.5	455.4	22.4
Other	32.5	1.6	21.4	1.0
Total	\$2,081.2	100.0%	\$2,038.9	100.0%
Region				
New England	\$70.8	3.4 %	\$72.7	3.6 %
Mid-Atlantic	127.6	6.1	125.3	6.1
East North Central	249.4	12.0	230.1	11.3
West North Central	188.9	9.1	172.0	8.4
South Atlantic	435.7	20.9	438.3	21.5
East South Central	90.2	4.3	91.6	4.5
West South Central	260.3	12.5	268.7	13.2
Mountain	229.8	11.1	214.1	10.5
Pacific	428.5	20.6	426.1	20.9
Total	\$2,081.2	100.0%	\$2,038.9	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, 2017

Note 4 - Investments - Continued

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

	June 30 2017	December 31 2016
(in millions of dollars)		
<b>Internal Rating</b>		
Aa	\$0.5	\$ 0.7
A	487.2	488.2
Baa	1,556.5	1,506.6
Ba	37.0	43.4
<b>Total</b>	<b>\$2,081.2</b>	<b>\$ 2,038.9</b>
<b>Loan-to-Value Ratio</b>		
<= 65%	\$968.1	\$917.9
> 65% <= 75%	1,011.0	1,011.5
> 75% <= 85%	49.9	50.8
> 85%	52.2	58.7
<b>Total</b>	<b>\$2,081.2</b>	<b>\$2,038.9</b>

There were no troubled debt restructurings during the three and six months ended June 30, 2017 and 2016. At June 30, 2017 and December 31, 2016, we held no mortgage loans that were greater than 90 days past due regarding principal and/or interest payments.

There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans. As of June 30, 2017 and December 31, 2016, we had no allowance for credit losses, and there was no activity in the allowance for credit losses during the three and six months ended June 30, 2017 or 2016.

We did not hold any impaired mortgage loans during the three and six months ended June 30, 2017. Our average investment in impaired mortgage loans was \$5.4 million and \$2.7 million for the three and six months ended June 30, 2016, respectively. We did not recognize any interest income on mortgage loans subsequent to impairment during the three and six months ended June 30, 2017 or 2016.

At June 30, 2017, we had commitments of \$66.0 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

#### Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. We may 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, 2017, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$219.9 million, for which we received collateral in the form of cash and securities of \$33.4 million and \$195.8 million, respectively. As of December 31, 2016, the carrying amount of fixed maturity securities loaned to third parties under our

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

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

securities lending program was \$178.5 million, for which we received collateral in the form of cash and securities of \$29.9 million and \$155.3 million, respectively. We had no outstanding repurchase agreements at June 30, 2017 or December 31, 2016.

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

	June 30, 2017 Overnight and Continuous (in millions of dollars)	December 31, 2016
United States Government and Government Agencies and Authorities	\$ 1.1	\$ 0.1
Public Utilities	0.1	0.1
All Other Corporate Bonds	32.2	29.7
Total Borrowings	33.4	29.9
Gross Amount of Recognized Liability for Securities Lending Transactions	33.4	29.9
Amounts Related to Agreements Not Included in Offsetting Disclosure Contained Herein	\$ —	\$ —

Certain of our U.S. insurance subsidiaries are members of regional FHLBs. Membership, which requires that we purchase a minimum amount of FHLB common stock on which we receive dividends, provides access to low-cost funding. As of June 30, 2017 and December 31, 2016, we owned \$34.4 million and \$31.6 million, respectively, of FHLB common stock. Advances from the regional FHLBs for the purpose of purchasing fixed maturity securities totaled \$350.0 million as of June 30, 2017 and December 31, 2016. As of June 30, 2017, the carrying value of fixed maturity securities and commercial mortgage loans posted as collateral to the regional FHLBs was \$219.3 million and \$346.5 million, respectively. As of December 31, 2016, the carrying value of fixed maturity securities and commercial mortgage loans posted as collateral to the regional FHLBs was \$323.7 million and \$288.5 million, respectively. Additional common stock purchases may be required, based on the amount of funds we borrow from the FHLBs.

## Offsetting of Financial Instruments

We enter into master netting agreements with each of our derivatives counterparties. These agreements provide for conditional rights of set-off upon the occurrence of an early termination event. An early termination event is considered a default, and it allows the non-defaulting party to offset its contracts in a loss position against any gain

positions or payments due to the defaulting party. Under our agreements, default type events are defined as failure to pay or deliver as contractually agreed, misrepresentation, bankruptcy, or merger without assumption. See Note 5 for further discussion of collateral related to our derivative contracts.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

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, 2017					
	Gross			Gross Amount Not		
	Amount			Offset in Balance		
	of	Gross	Net	Sheet		
	Recognized	Amount	Amount			
	Financial	Offset in	Presented	Financial	Cash	Net
	Instruments	Balance	in	Instrument	Collateral	Amount
	Balance	Sheet	Balance	Collateral	Amount	
	Sheet	Sheet	Sheet	Amount		
	(in millions of dollars)					
<b>Financial Assets:</b>						
Derivatives	\$27.0	\$	—\$ 27.0	\$(6.0 )	\$(21.0 )	\$ —
Securities Lending	219.9	—	219.9	(186.5 )	(33.4 )	—
Total	\$246.9	\$	—\$ 246.9	\$(192.5 )	\$(54.4 )	\$ —
<b>Financial Liabilities:</b>						
Derivatives	\$52.6	\$	—\$ 52.6	\$(40.6 )	\$ —	\$ 12.0
Securities Lending	33.4	—	33.4	(33.4 )	—	—
Total	\$86.0	\$	—\$ 86.0	\$(74.0 )	\$ —	\$ 12.0
	December 31, 2016					
	Gross			Gross Amount Not		
	Amount			Offset in Balance		
	of	Gross	Net	Sheet		
	Recognized	Amount	Amount			
	Financial	Offset in	Presented	Financial	Cash	Net
	Instruments	Balance	in	Instrument	Collateral	Amount
	Balance	Sheet	Balance	Collateral	Amount	
	Sheet	Sheet	Sheet	Amount		
	(in millions of dollars)					
<b>Financial Assets:</b>						
Derivatives	\$32.7	\$	—\$ 32.7	\$(7.3 )	\$(25.4 )	\$ —
Securities Lending	178.5	—	178.5	(148.6 )	(29.9 )	—
Total	\$211.2	\$	—\$ 211.2	\$(155.9 )	\$(55.3 )	\$ —
<b>Financial Liabilities:</b>						
Derivatives	\$52.8	\$	—\$ 52.8	\$(37.6 )	\$ —	\$ 15.2
Securities Lending	29.9	—	29.9	(29.9 )	—	—
Total	\$82.7	\$	—\$ 82.7	\$(67.5 )	\$ —	\$ 15.2





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

Unum Group and Subsidiaries

June 30, 2017

Note 4 - Investments - Continued

## Net Investment Income

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

	Three Months		Six Months Ended	
	Ended June 30		June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Fixed Maturity Securities	\$572.0	\$579.6	\$1,135.7	\$1,143.4
Derivatives	14.0	12.4	27.4	24.3
Mortgage Loans	25.6	30.1	51.0	57.0
Policy Loans	4.5	4.3	8.8	8.4
Other Long-term Investments	13.4	6.3	19.5	16.3
Short-term Investments	2.6	2.1	4.5	3.6
Gross Investment Income	632.1	634.8	1,246.9	1,253.0
Less Investment Expenses	8.1	7.9	16.9	16.1
Less Investment Income on Participation Fund Account Assets	3.5	3.6	7.1	7.2
Net Investment Income	\$620.5	\$623.3	\$1,222.9	\$1,229.7

## Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Three		Six Months	
	Months		Ended June 30	
	Ended June	Ended June	Ended June	Ended June
	30	30	30	30
	2017	2016	2017	2016
	(in millions of dollars)			
Fixed Maturity Securities				
Gross Gains on Sales	\$1.9	\$10.9	\$4.3	\$27.8
Gross Losses on Sales	(1.2)	(4.0)	(2.3)	(13.6)
Other-Than-Temporary Impairment Loss	—	(9.4)	—	(30.5)
Mortgage Loans and Other Invested Assets				
Gross Gains on Sales	1.9	2.0	2.6	3.8
Gross Losses on Sales	—	(0.4)	(0.2)	(0.7)
Impairment Loss	—	(3.1)	—	(3.1)
Embedded Derivative in Modified Coinsurance Arrangement	6.2	10.2	14.8	4.6
All Other Derivatives	(0.3)	(1.1)	(0.5)	(3.6)
Foreign Currency Transactions	(0.4)	0.2	0.4	0.1
Net Realized Investment Gain (Loss)	\$8.1	\$5.3	\$19.1	\$(15.2)

## Note 5 - Derivative Financial Instruments

## Purpose of Derivatives

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 5 - Derivative Financial Instruments - Continued

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 paid, 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, credit losses on securities owned, and interest rate risk are as follows:

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

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

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

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

Unum Group and Subsidiaries

June 30, 2017

Note 5 - Derivative Financial Instruments - Continued

## 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. Credit exposure on derivatives is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held. 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 \$1.1 million at June 30, 2017. We held \$21.4 million and \$26.1 million cash collateral from our counterparties at June 30, 2017 and December 31, 2016, 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 \$40.2 million and \$35.2 million at June 30, 2017 and December 31, 2016, respectively. We had no cash posted as collateral to our counterparties at June 30, 2017 or December 31, 2016. 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 \$52.6 million and \$52.8 million at June 30, 2017 and December 31, 2016, respectively.

## Derivative Transactions

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

	Swaps			Credit Default	Forwards	Total
	Receive Variable/ Fixed	Receive Pay/ Fixed	Receive Pay/ Variable			
	(in millions of dollars)					
Balance at March 31, 2016	\$ 126.0	\$ 650.3	\$ 600.0	\$ 70.0	\$ —	\$ 1,446.3
Additions	—	—	—	—	—	—
Terminations	—	5.8	—	—	—	5.8
Balance at June 30, 2016	\$ 126.0	\$ 644.5	\$ 600.0	\$ 70.0	\$ —	\$ 1,440.5
Balance at December 31, 2015	\$ 150.0	\$ 650.3	\$ 600.0	\$ 70.0	\$ —	\$ 1,470.3
Additions	—	—	—	—	—	—
Terminations	24.0	5.8	—	—	—	29.8
Balance at June 30, 2016	\$ 126.0	\$ 644.5	\$ 600.0	\$ 70.0	\$ —	\$ 1,440.5

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Balance at March 31, 2017	\$ 105.4	\$ 596.2	\$ 250.0	\$ 70.0	\$ —	\$1,021.6
Additions	—	—	—	—	16.0	16.0
Terminations	3.4	4.5	—	—	16.0	23.9
Balance at June 30, 2017	\$102.0	\$ 591.7	\$ 250.0	\$ 70.0	\$ —	\$1,013.7
Balance at December 31, 2016	\$105.5	\$ 616.5	\$ 250.0	\$ 70.0	\$ 10.0	\$1,052.0
Additions	—	—	—	—	16.0	16.0
Terminations	3.5	24.8	—	—	26.0	54.3
Balance at June 30, 2017	\$102.0	\$ 591.7	\$ 250.0	\$ 70.0	\$ —	\$1,013.7

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 5 - Derivative Financial Instruments - Continued

Cash Flow Hedges

As of June 30, 2017 and December 31, 2016, we had \$369.3 million and \$394.1 million, respectively, notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.

For the three and six months ended June 30, 2017 and 2016, there was no material ineffectiveness related to our cash flow hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness.

As of June 30, 2017, we expect to amortize approximately \$60.6 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected by this amortization are net investment income and interest and debt expense. Additional amounts that may be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of June 30, 2017, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2038.

Fair Value Hedges

As of June 30, 2017 and December 31, 2016, we had \$102.0 million notional amount of receive variable, pay fixed interest rate swaps to hedge the changes in fair value of certain fixed rate securities held. These swaps effectively convert the associated fixed rate securities into floating rate securities, which are used to fund our floating rate long-term debt. The change in fair value of the hedged fixed maturity securities attributable to the hedged benchmark interest rate resulted in a loss of \$0.9 million and \$2.0 million for the three and six months ended June 30, 2017, and \$1.1 million and \$2.9 million for the three and six months ended June 30, 2016, respectively, with an offsetting gain on the related interest rate swaps. During the first quarter of 2016, we terminated \$24.0 million notional amount of receive variable, pay fixed interest rate swaps in connection with the sale of the hedged securities and recorded a loss on the swap terminations of \$1.2 million in our consolidated statements of income as a component of net realized investment gains and losses.

As of June 30, 2017 and December 31, 2016, we had \$250.0 million notional amount of receive fixed, pay variable interest rate swaps to hedge the changes in the fair value of certain fixed rate long-term debt. These swaps effectively convert the associated fixed rate long-term debt into floating rate debt and provide for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security. The change in fair value of the hedged debt attributable to the hedged benchmark interest rate resulted in a loss of \$1.1 million and \$0.6 million for the three and six months ended June 30, 2017, and \$1.0 million and \$6.6 million for the three and six months ended June 30, 2016 respectively, with an offsetting gain on the related interest rate swaps.

For the three and six months ended June 30, 2017 and 2016, there was no material ineffectiveness related to our fair value hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged



firm commitment no longer qualifying as a fair value hedge.

#### Derivatives not Designated as Hedging Instruments

As of June 30, 2017 and December 31, 2016, we held \$222.4 million notional amount of receive fixed, pay fixed, foreign currency interest rate swaps. These derivatives were not designated as hedges, and as such, changes in fair value related to these derivatives will be reported in earnings as a component of net realized investment gain or loss.

As of June 30, 2017 and December 31, 2016, we held \$70.0 million notional amount of single name credit default swaps. We entered into these swaps in order to mitigate the credit risk associated with specific securities owned.

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

Unum Group and Subsidiaries

June 30, 2017

## Note 5 - Derivative Financial Instruments - Continued

As of December 31, 2016, we held \$3.5 million notional amount of a receive variable, pay fixed interest rate swap acquired through our purchase of Starmount in the third quarter of 2016. This swap effectively converted Starmount's floating rate long-term debt into fixed rate debt. During the second quarter of 2017, we purchased and retired the debt and terminated the interest rate swap. We recorded a loss of \$0.1 million on the swap termination in our consolidated statements of income as a component of net realized investment gains and losses. See Note 12.

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

## Locations and Amounts of Derivative Financial Instruments

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

	June 30, 2017		Liability Derivatives	
	Asset Derivatives Balance Sheet Location (in millions of dollars)	Fair Value	Balance Sheet Location	Fair Value
<b>Designated as Hedging Instruments</b>				
Interest Rate Swaps	Other L-T Investments	\$—	Other Liabilities	\$4.3
Foreign Exchange Contracts	Other L-T Investments	27.0	Other Liabilities	16.4
Total		\$27.0		\$20.7
<b>Not Designated as Hedging Instruments</b>				
Credit Default Swaps			Other Liabilities	\$0.5
Foreign Exchange Contracts			Other Liabilities	31.4
Embedded Derivative in Modified Coinsurance Arrangement			Other Liabilities	31.9
Total				\$63.8
	December 31, 2016		Liability Derivatives	
	Asset Derivatives Balance Sheet Location (in millions of dollars)	Fair Value	Balance Sheet Location	Fair Value
<b>Designated as Hedging Instruments</b>				
Interest Rate Swaps and Forwards	Other L-T Investments	\$—	Other Liabilities	\$6.9
Foreign Exchange Contracts	Other L-T Investments	32.7	Other Liabilities	13.4
Total		\$32.7		\$20.3

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Not Designated as Hedging Instruments	
Credit Default Swaps	Other Liabilities \$0.4
Interest Rate Swaps	Other Liabilities 0.7
Foreign Exchange Contracts	Other Liabilities 31.4
Embedded Derivative in Modified Coinsurance Arrangement	Other Liabilities 46.7
Total	\$79.2

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

Unum Group and Subsidiaries

June 30, 2017

Note 5 - Derivative Financial Instruments - Continued

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

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives				
Foreign Exchange Contracts	\$(4.7)	\$(0.2)	\$(9.2)	\$(24.5)
Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income				
Net Investment Income				
Interest Rate Swaps and Forwards	\$14.8	\$13.6	\$29.1	\$26.8
Foreign Exchange Contracts	(0.2)	(0.4)	(0.5)	(0.5)
Net Realized Investment Gain (Loss)				
Interest Rate Swaps	—	—	—	3.2
Foreign Exchange Contracts	(0.3)	(0.5)	(1.5)	(0.5)
Interest and Debt Expense				
Interest Rate Swaps	(0.5)	(0.4)	(1.0)	(0.9)
Total	\$13.8	\$12.3	\$26.1	\$28.1

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

	Three Months		Six Months	
	Ended June		Ended June	
	30	30	30	30
	2017	2016	2017	2016
	(in millions of dollars)			
Net Realized Investment Gain (Loss)				
Credit Default Swaps	\$(0.1)	\$(0.4)	\$(0.4)	\$(0.4)
Interest Rate Swaps	(0.1)	—	(0.1)	—
Foreign Exchange Contracts	(0.2)	(0.7)	—	(2.0)
Embedded Derivative in Modified Coinsurance Arrangement	6.2	10.2	14.8	4.6
Total	\$5.8	\$9.1	\$14.3	\$2.2

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

Unum Group and Subsidiaries

June 30, 2017

Note 6 - Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized Gain on Securities	Net Gain on Cash Flow Hedges	Foreign Currency Translation Adjustment	Unrecognized Pension and Postretirement Benefit Costs	Total
	(in millions of dollars)				
Balance at March 31, 2017	\$483.0	\$316.8	\$ (336.9 )	\$ (462.5 )	\$0.4
Other Comprehensive Income (Loss) Before Reclassifications	76.6	(3.4 )	39.8	(1.4 )	111.6
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	(1.4 )	(8.9 )	—	3.2	(7.1 )
Net Other Comprehensive Income (Loss)	75.2	(12.3 )	39.8	1.8	104.5
Balance at June 30, 2017	\$558.2	\$304.5	\$ (297.1 )	\$ (460.7 )	\$104.9
Balance at March 31, 2016	\$438.4	\$351.8	\$ (200.0 )	\$ (389.5 )	\$200.7
Other Comprehensive Income (Loss) Before Reclassifications	222.0	(0.2 )	(79.4 )	1.5	143.9
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	0.7	(8.0 )	—	2.5	(4.8 )
Net Other Comprehensive Income (Loss)	222.7	(8.2 )	(79.4 )	4.0	139.1
Balance at June 30, 2016	\$661.1	\$343.6	\$ (279.4 )	\$ (385.5 )	\$339.8
Balance at December 31, 2016	\$440.6	\$327.5	\$ (354.0 )	\$ (465.1 )	\$ (51.0 )
Other Comprehensive Income (Loss) Before Reclassifications	121.3	(6.1 )	56.9	(2.0 )	170.1
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	(3.7 )	(16.9 )	—	6.4	(14.2 )
Net Other Comprehensive Income (Loss)	117.6	(23.0 )	56.9	4.4	155.9
Balance at June 30, 2017	\$558.2	\$304.5	\$ (297.1 )	\$ (460.7 )	\$104.9
Balance at December 31, 2015	\$204.3	\$378.0	\$ (173.6 )	\$ (392.6 )	\$16.1
Other Comprehensive Income (Loss) Before Reclassifications	445.8	(16.1 )	(105.8 )	2.0	325.9
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	11.0	(18.3 )	—	5.1	(2.2 )
Net Other Comprehensive Income (Loss)	456.8	(34.4 )	(105.8 )	7.1	323.7
Balance at June 30, 2016	\$661.1	\$343.6	\$ (279.4 )	\$ (385.5 )	\$339.8

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

	June 30	March 31	December 31	Change at June 30, 2017 Three Months	Six Months

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	2017	2017	2016	Ended	Ended
	(in millions of dollars)				
Fixed Maturity Securities	\$5,492.2	\$4,925.6	\$4,664.6	\$566.6	\$827.6
Other Investments	(4.6 )	(17.8 )	(22.7 )	13.2	18.1
Deferred Acquisition Costs	(45.8 )	(40.9 )	(38.9 )	(4.9 )	(6.9 )
Reserves for Future Policy and Contract Benefits	(4,948.2 )	(4,467.3 )	(4,253.2 )	(480.9 )	(695.0 )
Reinsurance Recoverable	360.7	335.6	321.3	25.1	39.4
Income Tax	(296.1 )	(252.2 )	(230.5 )	(43.9 )	(65.6 )
Total	\$558.2	\$483.0	\$440.6	\$75.2	\$117.6

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

Unum Group and Subsidiaries

June 30, 2017

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

	Change at June 30, 2016				
	June 30	March 31	December 31	Three Months	Six Months
	2016	2016	2015	Ended	Ended
	(in millions of dollars)				
Fixed Maturity Securities	\$6,299.5	\$4,894.5	\$3,695.7	\$1,405.0	\$2,603.8
Other Investments	(21.3 )	(18.1 )	(33.7 )	(3.2 )	12.4
Deferred Acquisition Costs	(52.5 )	(42.0 )	(29.4 )	(10.5 )	(23.1 )
Reserves for Future Policy and Contract Benefits	(5,578.6 )	(4,466.5 )	(3,578.4 )	(1,112.1 )	(2,000.2 )
Reinsurance Recoverable	366.0	310.2	263.2	55.8	102.8
Income Tax	(352.0 )	(239.7 )	(113.1 )	(112.3 )	(238.9 )
Total	\$661.1	\$438.4	\$204.3	\$222.7	\$456.8

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

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Net Unrealized Gain on Securities				
Net Realized Investment Gain (Loss)				
Net Gain on Sales of Securities and Other Invested Assets	\$2.2	\$8.1	\$5.6	\$13.7
Other-Than-Temporary Impairment Loss	—	(9.4 )	—	(30.5 )
	2.2	(1.3 )	5.6	(16.8 )
Income Tax Expense (Benefit)	0.8	(0.6 )	1.9	(5.8 )
Total	\$1.4	\$(0.7 )	\$3.7	\$(11.0)
Net Gain on Cash Flow Hedges				
Net Investment Income				
Gain on Interest Rate Swaps and Forwards	\$14.8	\$13.6	\$29.1	\$26.8
Loss on Foreign Exchange Contracts	(0.2 )	(0.4 )	(0.5 )	(0.5 )
Net Realized Investment Gain (Loss)				
Gain on Interest Rate Swaps	—	—	—	3.2
Loss on Foreign Exchange Contracts	(0.3 )	(0.5 )	(1.5 )	(0.5 )
Interest and Debt Expense				
Loss on Interest Rate Swaps	(0.5 )	(0.4 )	(1.0 )	(0.9 )
	13.8	12.3	26.1	28.1
Income Tax Expense	4.9	4.3	9.2	9.8
Total	\$8.9	\$8.0	\$16.9	\$18.3
Unrecognized Pension and Postretirement Benefit Costs				
Other Expenses				
Amortization of Net Actuarial Loss	\$(5.0 )	\$(4.0 )	\$(10.1 )	\$(8.1 )

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Amortization of Prior Service Credit	0.1	0.1	0.3	0.2
	(4.9 )	(3.9 )	(9.8 )	(7.9 )
Income Tax Benefit	(1.7 )	(1.4 )	(3.4 )	(2.8 )
Total	\$(3.2 )	\$(2.5 )	\$(6.4 )	\$(5.1 )

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

Unum Group and Subsidiaries

June 30, 2017

Note 7 - Liability for Unpaid Claims and Claim Adjustment Expenses

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

	2017	2016
	(in millions of dollars)	
Balance at January 1	\$23,249.5	\$23,796.1
Less Reinsurance Recoverable	2,163.6	2,064.6
Net Balance at January 1	21,085.9	21,731.5
Incurred Related to		
Current Year	2,772.2	2,732.7
Prior Years		
Interest	571.0	599.3
All Other Incurred	(170.6 )	(191.9 )
Foreign Currency	97.1	(202.2 )
Total Incurred	3,269.7	2,937.9
Paid Related to		
Current Year	(816.2 )	(767.1 )
Prior Years	(2,475.8 )	(2,490.2 )
Total Paid	(3,292.0 )	(3,257.3 )
Net Balance at June 30	21,063.6	21,412.1
Plus Reinsurance Recoverable	2,146.6	2,066.3
Balance at June 30	\$23,210.2	\$23,478.4

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

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

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

Unum Group and Subsidiaries

June 30, 2017

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

## Reconciliation

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

	June 30	
	2017	2016
	(in millions of dollars)	
Policy and Contract Benefits	\$1,552.5	\$1,486.4
Reserves for Future Policy and Contract Benefits	45,136.1	45,463.4
Total	46,688.6	46,949.8
Less:		
Life Reserves for Future Policy and Contract Benefits	8,136.5	7,970.5
Accident and Health Active Life Reserves	10,393.7	9,922.3
Adjustment Related to Unrealized Investment Gains and Losses	4,948.2	5,578.6
Liability for Unpaid Claims and Claim Adjustment Expenses	\$23,210.2	\$23,478.4

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

June 30, 2017

Note 8 - Segment Information

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

Segment information is as follows:

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Premium Income				
Unum US				
Group Disability				
Group Long-term Disability	\$437.7	\$432.9	\$872.1	\$863.5
Group Short-term Disability	158.3	156.2	316.2	313.7
Group Life and Accidental Death & Dismemberment				
Group Life	363.9	348.7	731.7	700.2
Accidental Death & Dismemberment	36.7	34.9	73.3	69.5
Supplemental and Voluntary				
Individual Disability	106.7	124.9	213.7	248.8
Voluntary Benefits	213.2	201.8	428.4	405.0
Dental and Vision	41.2	—	82.7	—
	1,357.7	1,299.4	2,718.1	2,600.7