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Unum Group  
Form 10-K  
February 25, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2014

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

Commission file number 1-11294

Unum Group  
(Exact name of registrant as specified in its charter)  
Delaware 62-1598430  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

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

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

The aggregate market value of the shares of the registrant's common stock held by non-affiliates (based upon the closing price of these shares on the New York Stock Exchange) as of the last business day of the registrant's most recently completed second fiscal quarter was \$8.9 billion. As of February 23, 2015, there were 251,422,589 shares of the registrant's common stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information required by Part III of this Form 10-K are incorporated herein by reference from the registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the registrant's fiscal year ended December 31, 2014.

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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 Annual Report on Form 10-K (including certain statements in the business description in Item 1, Management's Discussion and Analysis in Item 7, and the consolidated financial statements and related notes in Item 8), or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking statements within the meaning of the Act. Forward-looking statements are those not based on historical information, but rather relate to our outlook, future operations, strategies, financial results, or other developments. Forward-looking statements speak only as of the date made. We undertake no obligation to update these statements, even if made available on our website or otherwise. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, a practice which is known as "incorporation by reference." You can find many of these statements by looking for words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "plans," "assumes," "intends," "projects," "goals," "objectives," or similar expressions in this document or in documents incorporated herein.

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

• Sustained periods of low interest rates.

• Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality and morbidity rates, and policy benefit offsets due to, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of our claims operational processes, and changes in government programs.

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

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

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

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

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

• Changes in our financial strength and credit ratings.

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

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

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

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

• Effectiveness of our risk management program.

• Contingencies and the level and results of litigation.

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

• Ineffectiveness of our derivatives hedging programs due to changes in the economic environment, counterparty risk, ratings downgrades, capital market volatility, changes in interest rates, and/or regulation.

• Changes in accounting standards, practices, or policies.

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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.

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

### ITEM 1. BUSINESS

#### General

Unum Group, a Delaware general business corporation, and its insurance and non-insurance subsidiaries, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America (Unum America), Provident Life and Accident Insurance Company (Provident), The Paul Revere Life Insurance Company (Paul Revere Life), and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. We are the largest provider of disability insurance products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including employer- and employee-paid group benefits, life insurance, and other related services.

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Closed Block and Corporate segments. These segments are discussed more fully under "Reporting Segments" included herein in this Item 1.

#### Business Strategies

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

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

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

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength as we seek to capitalize on the growing and largely unfilled need for our products and services. We believe the need for our products and services remains strong, and we intend to continue protecting our solid margins and returns through our pricing and risk actions. We also continue to invest in our infrastructure and our employees, with a focus on quality and simplification of processes and offerings. Our strategy is centered on maintaining a strong customer focus while providing an innovative product portfolio of financial protection choices to deepen employee coverages, broaden employer relationships, and open new markets. The low interest rate environment continues to be

a challenge and may put pressure on our profitability and reserve levels for some products, but we continue to analyze and employ strategies that we believe will help us navigate this environment. We believe that consistent operating results, combined with the implementation of strategic initiatives and the effective deployment of capital, will allow us to meet our long-term financial objectives.

## Reporting Segments

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Closed Block, and Corporate. The percentage of consolidated premium income generated by each reporting segment for the year ended December 31, 2014 is as follows:

Unum US	59.8	%
Unum UK	7.8	
Colonial Life	16.3	
Closed Block	16.1	
Total	100.0	%

Financial information is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 and Note 13 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

## Unum US Segment

Our Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business. The supplemental and voluntary lines of business are comprised of individual disability and voluntary benefits products. Unum US products are issued primarily by Unum America and Provident. Paul Revere Life previously issued products reported in our Unum US segment and continues to service the in-force policies, but Paul Revere Life no longer actively markets new business. These products are marketed through our field sales personnel who work in conjunction with independent brokers and consultants. Our market strategy for Unum US is to effectively deliver an integrated offering of employee benefit products, with a focus on benefit offerings in the group core market segment, which we define for Unum US as employee groups with fewer than 2,000 lives, and the voluntary benefits market segment.

The percentage of Unum US segment premium income generated by each product line during 2014 is as follows:

Group Disability	45.3	%
Group Life and Accidental Death & Dismemberment	29.8	
Individual Disability	10.0	
Voluntary Benefits	14.9	
Total	100.0	%

## Group Long-term and Short-term Disability

We sell group long-term and short-term disability products to employers for the benefit of employees. Group long-term disability provides employees with insurance coverage for loss of income in the event of extended work absences due to sickness or injury. We offer services to employers and insureds to encourage and facilitate rehabilitation, retraining, and re-employment. Most policies begin providing benefits following 90 or 180 day waiting periods and continue providing benefits until the employee reaches a certain age, generally between 65 and 70. The benefits are limited to specified maximums as a percentage of income.

Group short-term disability insurance generally provides coverage from loss of income due to injury or sickness, effective immediately for accidents and after one week for sickness, for up to 26 weeks, limited to specified maximums as a percentage of income.

Premiums for group long-term and short-term disability are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses, investment income, and profit. In some cases, coverage for large

employers will include retrospective experience rating provisions or will be underwritten on an experience-rated basis. Premiums for experience-rated group long-term and short-term disability business are based on the expected experience of the client given its demographics, industry group, and location, adjusted for the credibility of the specific claim experience of the client. Both group long-term and short-term disability are sold primarily on a basis permitting periodic repricing to address the underlying claims experience. We also offer fee-based administrative services only (ASO) products, where the responsibility for funding claim payments remains with the customer, and fee-based family medical leave products.

We have defined underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability. Policies are typically issued, both at inception and renewal, with rate guarantees. For new group policyholders, the usual rate guarantee is one to three years. For group policies being renewed, the rate guarantee is generally one year, but may be longer. The profitability of the policy depends on the adequacy of the rate during the rate guarantee period. The contracts provide for certain circumstances in which the rate guarantees can be overridden.

Profitability of group long-term and short-term disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses. Morbidity is an important factor in disability claims experience, and many economic and societal factors can affect claim incidence for disability insurance. We routinely make pricing adjustments on our group insurance products, when contractually permitted, which take into account emerging experience and external factors.

#### Group Life and Accidental Death and Dismemberment

Group life and accidental death and dismemberment products are sold to employers as employee benefit products. Group life consists primarily of renewable term life insurance with the coverages frequently linked to employees' wages and includes a provision for waiver of premium, if disabled. Accidental death and dismemberment consists primarily of an additional benefit amount payable if death or severe injury is attributable to an accident.

Premiums are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses, investment income, and profit. Underwriting practices and rate guarantees are similar to those used for group disability products, and evidence of insurability is required for benefits in excess of a specified limit.

Profitability of group life and accidental death and dismemberment insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

#### Individual Disability

The policies included in this line of business were issued subsequent to the mid 1990s after substantial changes in product design were implemented to improve the overall risk profile of this type of product. Individual disability is offered primarily to multi-life employer groups to supplement their group disability plans and may be funded by the employer, but the policy is owned by the employee and is portable. Individual disability insurance provides the insured with a portion of earned income lost as a result of sickness or injury. The benefits, including the underlying group disability coverage, typically range from 30 percent to 75 percent of the insured's monthly earned income. We provide various options with respect to length of benefit periods, product features, and waiting periods before benefit payments begin, which permits tailoring of the multi-life plan to a specific employer's needs. We also market individual disability policies which include payments for the transfer of business ownership between partners and payments for business overhead expenses, also on a multi-life basis. Individual disability products do not provide for the accumulation of cash values.

Premium rates for individual disability products vary by age, product feature, and occupation based on assumptions concerning morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own experience. Our underwriting rules, issue limits, and plan designs reflect the financial circumstances of prospective insureds. Individuals in multi-life groups may be subject to limited medical underwriting. The majority of our individual disability policies are written on a noncancelable basis. Under a noncancelable policy, as long as the insured continues to pay the fixed annual premium for the policy's duration, we cannot cancel the policy or change the premium.

Profitability of individual disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

#### Voluntary Benefits

Voluntary benefits products are primarily sold to groups of employees through payroll deduction at the workplace and include life, disability, accident, hospital indemnity, cancer, and critical illness offered on both a group and individual basis.

Premium rates for voluntary benefits products are based on assumptions concerning morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own claims and persistency experience and published industry tables. Our underwriters evaluate the medical condition of prospective policyholders prior to

the issuance of a policy on a simplified basis. Underwriting requirements may be waived for cases that meet certain criteria, including participation levels. Individual voluntary benefits products other than life insurance are offered on a guaranteed renewable basis which allows us to re-price in-force policies, subject to regulatory approval. Group voluntary benefits products are offered primarily on an optionally renewable basis which allows us to re-price or terminate in-force policies.

Profitability of voluntary benefits products is affected by the level of employee participation, persistency, investment returns, claims experience, and the level of administrative expenses.

#### Unum UK Segment

Our Unum UK segment includes insurance for group long-term disability, group life, and supplemental lines of business which include individual disability and critical illness products. Unum UK's products are issued primarily by Unum Limited and are sold in the United Kingdom through field sales personnel and independent brokers and consultants. Our market strategy for Unum UK is to offer benefits to employers and employees through the workplace with a focus on expansion of the number of employers and employees covered in our core market segment, which we define for Unum UK as employee groups with fewer than 500 lives.

The percentage of Unum UK segment premium income generated by each product line during 2014 is as follows:

Group Long-term Disability	69.0	%
Group Life	21.9	
Individual Disability	5.5	
Critical Illness	3.6	
Total	100.0	%

#### Group Long-term Disability

Group long-term disability products are sold to employers for the benefit of employees. Group long-term disability provides employees with insurance coverage for loss of income in the event of extended work absences due to sickness or injury. Services are offered to employers and insureds to encourage and facilitate rehabilitation, retraining, and re-employment. Most policies begin providing benefits following 90 or 180 day waiting periods and continue providing benefits until the employee reaches a certain age, generally between 60 and 67. The benefits are limited to specified maximums as a percentage of income.

Premiums for group long-term disability are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses, investment income, and profit. Some cases carry experience rating provisions. Premiums for experience-rated group long-term disability business are based on the expected experience of the client given its demographics, industry group, and location, adjusted for the credibility of the specific claim experience of the client.

We have defined underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability. Policies are typically issued, both at inception and renewal, with rate guarantees. The usual rate guarantee is two years but may vary depending on circumstances. The profitability of the policy is dependent upon the adequacy of the rate during the rate guarantee period. The contracts provide for certain circumstances in which the rate guarantees can be overridden.

Profitability of group long-term disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses. Morbidity is an important factor in disability claims experience.

## Group Life

Group life products are sold to employers as employee benefit products. Group life consists of two types of products, a renewable term life insurance product and a group dependent life product. The renewable term life product provides a lump sum benefit to the beneficiary on death of an employee. The group dependent life product, which we discontinued offering to new customers in 2012, provides an annuity to the beneficiary upon the death of an employee. Both coverages are frequently linked to employees' wages. Premiums for group life are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses, investment income, and profit. Underwriting and rate guarantees are similar to those utilized for group long-term disability products.



Profitability of group life is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

#### Individual Disability

Individual disability is offered primarily to individual retail customers. Individual disability insurance provides the insured with a portion of earned income lost as a result of sickness or injury. Under an individual disability policy, monthly benefits generally are fixed at the time the policy is written. The benefits typically range from 30 percent to 50 percent of the insured's monthly earned income. Various options with respect to length of benefit periods and waiting periods before payment begins are available and permit tailoring of the policy to a specific policyholder's needs. Individual disability products do not provide for the accumulation of cash values.

Premium rates for individual disability products vary by age and occupation based on assumptions concerning morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own claims and persistency experience and published industry tables. Our underwriters evaluate the medical and financial condition of prospective policyholders prior to the issuance of a policy. Approximately one half of our individual disability policies are written on a noncancelable basis. The remainder is offered on a guaranteed renewable basis which allows us to re-price in-force policies.

Profitability of individual disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

#### Critical Illness

Group critical illness products are sold to groups of employees. Individual critical illness products are offered to individual retail customers. Critical illness products provide a lump-sum benefit on the occurrence of a covered critical illness event.

Premiums for group critical illness products are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses, investment income, and profit. Underwriting and rate guarantees are similar to those utilized for group long-term disability products. Premium rates for individual critical illness products vary by age and are based on assumptions concerning morbidity, persistency, administrative expenses, investment income, and profit. Individual critical illness insurance is offered on a guaranteed renewable basis which allows us to re-price in-force policies. We develop our assumptions based on our own claims experience and published industry tables. Our underwriters evaluate the medical condition of prospective policyholders prior to the issuance of a policy.

Profitability of these products is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

#### Colonial Life Segment

Our Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees, on both a group and an individual basis, at the workplace through an independent contractor agency sales force and brokers. Our market strategy for Colonial Life is to effectively deliver a broad set of voluntary products and services with a focus on the core market segment, which we define for Colonial Life as accounts with fewer than 1,000 lives, and in the commercial and public sector markets.

We have defined underwriting practices and procedures for each of our products. Most policies are issued on a simplified issue basis, based on answers to simple health and employment questions. If the amount applied for

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exceeds certain levels, the applicant may be asked to answer additional health questions or submit to additional medical examinations.

The percentage of Colonial Life segment premium income generated by each product line during 2014 is as follows:

Accident, Sickness, and Disability	59.7	%
Life	18.2	
Cancer and Critical Illness	22.1	
Total	100.0	%

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### Accident, Sickness, and Disability

The accident, sickness, and disability product line consists of short-term disability plans as well as accident-only plans providing benefits for injuries on a specified loss basis. It also includes accident and health plans covering hospital admissions, confinement, and surgeries on an indemnity basis.

Premiums for accident, sickness, and disability products are generally based on assumptions for morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own experience. Premiums are primarily individual guaranteed renewable for which we have the ability to change premiums on a state by state basis. A small percentage of the policies are written on a group basis for which we retain the right to change premiums at the individual account level.

Profitability is affected by the level of employee participation, persistency, investment returns, claims experience, and the level of administrative expenses.

The accident and health products qualify as fringe benefits that can be purchased with pre-tax employee dollars as part of a flexible benefits program pursuant to Section 125 of the Internal Revenue Code. Flexible benefits programs assist employers in managing benefit and compensation packages and provide policyholders the ability to choose benefits that best meet their needs. Laws could be changed to limit or eliminate fringe benefits available on a pre-tax basis, eliminating our ability to continue marketing our products this way. However, we believe our products provide value to our policyholders that will remain even if the tax advantages offered by flexible benefits programs are modified or eliminated.

### Life

Life products are primarily comprised of universal life, whole life, and term life policies.

Premium rates vary by age and are based on assumptions concerning mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own experience and published industry tables. Premiums for the whole life and level term products are guaranteed for the life of the contract. Premiums for the universal life products are flexible and may vary at the individual policyholder level. For the group term life products, we retain the right to change premiums at the account level based on the experience of the account.

Profitability is affected by the level of employee participation, persistency, investment returns, claims experience, and the level of administrative expenses.

### Cancer and Critical Illness

Cancer policies provide various benefits for the treatment of cancer including hospitalization, surgery, radiation, and chemotherapy. Critical illness policies provide a lump-sum benefit and/or fixed payments on the occurrence of a covered critical illness event.

Premiums are generally based on assumptions for morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own experience. Premiums are primarily individual guaranteed renewable wherein we have the ability to change premiums on a state by state basis.

Profitability of these products is affected by the level of employee participation, persistency, investment returns, claims experience, and the level of administrative expenses.

Closed Block Segment

Our Closed Block segment consists of individual disability, group and individual long-term care, and other insurance products no longer actively marketed. Closed Block segment premium income for 2014 was comprised of approximately 50 percent individual disability and 50 percent group and individual long-term care.

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### Individual Disability

We sold these types of policies on a limited basis subsequent to the mid-1990s and entirely discontinued issuing new policies in this closed block of business in 2004, other than through update features contractually allowable on existing policies.

The majority of the policies represent individual disability insurance which was written on a noncancelable basis and was marketed on a single-life customer basis. Profitability is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

### Group and Individual Long-term Care

We discontinued offering individual long-term care in 2009 and group long-term care in 2012, other than features contractually allowable on existing group policies. Group long-term care was previously offered to employers for the benefit of employees. Individual long-term care was previously marketed on a single-life customer basis.

Long-term care insurance pays a benefit upon the loss of two or more activities of daily living and the insured's requirement of standby assistance or cognitive impairment. Payment is generally made on an indemnity basis, regardless of expenses incurred, up to a lifetime maximum. Benefits begin after a waiting period, usually 90 days or less, and are generally paid for a period of three years, six years, or lifetime.

Our long-term care insurance was sold on a guaranteed renewable basis which allows us to re-price in-force policies, subject to regulatory approval. Premium rates for long-term care vary by age and are based on assumptions concerning morbidity, mortality, persistency, administrative expenses, investment income, and profit. We develop our assumptions based on our own claims and persistency experience and published industry tables.

Profitability is affected by premium rate increases, persistency, investment returns, claims experience, and the level of administrative expenses.

### Other

Other insurance products not actively marketed include group pension, individual life and corporate-owned life insurance, reinsurance pools and management operations, and other miscellaneous product lines. The majority of these products have been reinsured, with approximately 80 percent of reserves at December 31, 2014 ceded to other insurance companies.

### Corporate Segment

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

### Reinsurance

In the normal course of business, we assume reinsurance from and cede reinsurance to other insurance companies. In a reinsurance transaction, a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. We undertake reinsurance transactions for both risk management and capital management. If the assuming reinsurer in a reinsurance agreement is unable to meet its obligations, we remain contingently liable. In the event that reinsurers do not meet their obligations under the terms of the reinsurance agreement, reinsurance recoverable balances could become uncollectible. We evaluate the financial condition of reinsurers to whom we cede business and monitor concentration of credit risk to minimize our exposure. We may also

require assets to be held in trust, letters of credit, or other acceptable collateral to support reinsurance recoverable balances. The collectibility of our reinsurance recoverable is primarily a function of the solvency of the individual reinsurers. Although we have controls to minimize our exposure, the insolvency of a reinsurer or the inability or unwillingness of a reinsurer to comply with the terms of a reinsurance contract could have a material adverse effect on our results of operations.

In general, the maximum amount of life insurance risk retained by our U.S. insurance subsidiaries and not ceded is \$750,000 per covered life per policy under a group or individual life policy and under a group or individual accidental death and dismemberment policy. For Unum Limited life insurance risk, we have reinsurance agreements which provide 50 percent coverage up to £500,000 per covered life for group dependent life benefits and 25 percent coverage for lump sum benefits, as well as 100 percent coverage per covered life above that amount.

We have reinsurance agreements on approximately 77 percent of our Closed Block individual disability business. As of December 31, 2014, this reinsurance covers approximately 67 percent of that portion of the consolidated risk above a \$6.2 billion retention limit. The risk limit for the reinsurer grows over time to a maximum of \$2.2 billion, after which any further losses will revert to us.

We have global catastrophic reinsurance coverage which includes five layers of coverage to limit our exposure under life, accidental death and dismemberment, long-term care, and disability policies in regards to a catastrophic event. Each layer provides coverage for all catastrophic events up to \$1 million of coverage per person per policy for each U.S. covered line of business and up to £1 million of coverage for each Unum Limited covered line of business, including acts of war and any type of terrorism. We have the following coverage for 2015, after a \$50 million deductible:

Layer	Coverage (in millions)	Percent Coverage	
First	\$25.0	50	%
Second	50.0	50	%
Third	50.0	50	%
Fourth	82.5	55	%
Fifth	180.0	60	%
Total Catastrophic Coverage	\$387.5		

In addition to the global catastrophic reinsurance coverage noted above, Unum Limited has additional catastrophic coverage via an arms-length, inter-company reinsurance agreement with Unum America, under similar terms as the global catastrophic treaties. Unum Limited has the following additional coverage for 2015, after a £60 million deductible:

Layer	Coverage (in millions)	Percent Coverage	
First	£9.0	15	%
Second	18.0	30	%
Total Catastrophic Coverage	£27.0		

Events may occur which limit or eliminate the availability of catastrophic reinsurance coverage in future years.

We have a quota share reinsurance agreement under which we cede certain blocks of Unum US group long-term disability claims. The agreement is on a combination coinsurance with funds withheld and modified coinsurance basis and provides 80 percent quota share reinsurance on the ceded claims. We also have four reinsurance agreements that collectively cede approximately 55 percent of Unum US group life risk up to our per person retention limit for our U.S. insurance subsidiaries. These reinsurance agreements for Unum US group disability and group life allow us to more effectively manage capital in conformity with statutory accounting principles but do not meet insurance risk transfer in accordance with applicable U.S. generally accepted accounting principles (GAAP) and therefore are not accounted for as reinsurance in our consolidated GAAP financial statements.

Certain of our domestic insurance subsidiaries cede blocks of business to Northwind Reinsurance Company (Northwind Re), Tailwind Reinsurance Company (Tailwind Re), and Fairwind Insurance Company (Fairwind), all of which are affiliated captive reinsurance subsidiaries (captive reinsurers) domiciled in the United States, with Unum Group as the ultimate parent. These captive reinsurers were established for the limited purpose of reinsuring risks attributable to specified policies issued or reinsured by our insurance subsidiaries in order to effectively manage risks in connection with certain blocks of our business as well as to enhance our capital efficiency. On a consolidated reporting basis for Unum Group, financial statement impacts of these intercompany reinsurance arrangements are eliminated in accordance with GAAP.

For further discussion of our reinsurance activities, refer to "Risk Factors" contained herein in Item 1A; "Consolidated Operating Results," "Segment Results," and "Liquidity and Capital Resources - Cash Available from Subsidiaries" contained herein in Item 7, and Notes 1, 12, and 15 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.



## Reserves for Policy and Contract Benefits

The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding policies. These reserves are the amounts which, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates, and methods of valuation required for statutory accounting.

The reserves reported in our financial statements contained herein are calculated in conformity with GAAP and differ from those specified by the laws of the various states and reported in the statutory financial statements of our life insurance subsidiaries. These differences result from the use of mortality and morbidity tables and interest assumptions which we believe are more representative of the expected experience for these policies than those required for statutory accounting purposes and also result from differences in actuarial reserving methods.

The assumptions we use to calculate our reserves are intended to represent an estimate of experience for the period that policy benefits are payable. If actual experience is not less favorable than our reserve assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is less favorable than the reserve assumptions, additional reserves may be required. The key experience assumptions include claim incidence rates, claim resolution rates, mortality and morbidity rates, policy persistency, interest rates, premium rate increases, and any applicable policy benefit offsets, including those for social security and other government-based welfare benefits. We periodically review our experience and update our policy reserves for new issues and reserves for all claims incurred, as we believe appropriate.

The consolidated statements of income include the annual change in reserves for future policy and contract benefits. The change reflects a normal accretion for premium payments and interest buildup and decreases for policy terminations such as lapses, deaths, and benefit payments. If policy reserves using best estimate assumptions as of the date of a test for loss recognition are higher than existing policy reserves net of any deferred acquisition costs, the increase in reserves necessary to recognize the deficiency is also included in the change in reserves for future policy and contract benefits.

For further discussion of reserves, refer to "Risk Factors" contained herein in Item 1A, "Critical Accounting Estimates" and the discussion of segment operating results included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7, and Notes 1 and 6 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

## Investments

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

We actively manage our asset and liability cash flow match and our asset and liability duration match to limit interest rate risk. We may redistribute investments among our different lines of business, when necessary, to adjust the cash

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

the risk related to matching duration for our assets and liabilities. We do not use derivative financial instruments for speculative purposes.

Refer to "Risk Factors" contained herein in Item 1A; "Critical Accounting Estimates" and the discussion of investments in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7; and Notes 1, 2, 3, and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for information on our investments and derivative financial instruments.

## Ratings

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

Rating agencies assign an outlook statement of "positive," "negative," or "developing" to indicate an intermediate-term trend in credit fundamentals which could lead to a rating change. "Positive" means that a rating may be raised, "negative" means that a rating may be lowered, and "developing" means that a rating may be raised or lowered with equal probability. Alternatively, a rating may have a "stable" outlook to indicate that the rating is not expected to change.

"Credit watch" or "under review" highlights the potential direction of a short-term or long-term rating. It focuses on identifiable events and short-term trends that cause a rating to be placed under heightened surveillance by a rating agency. Events that may trigger this action include mergers, acquisitions, recapitalizations, regulatory actions, criteria changes, or operating developments. Ratings may be placed on credit watch or under review when an event or a change in an expected trend occurs and additional information is needed to evaluate the current rating level. This status does not mean that a rating change is inevitable, and ratings may change without first being placed on a watch list. A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the rating agency. Each rating should be evaluated independently of any other rating.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Ratings" contained herein in Item 7 for our current outlook, issuer credit, and financial strength ratings. See also further discussion in "Risk Factors" contained herein in Item 1A.

## Competition

There is significant competition among insurance companies for the types of products we sell. We believe that the principal competitive factors affecting our business are price, quality of customer service and claims management, integrated product choices, financial strength ratings, and claims-paying ratings. In the individual and group disability markets, we compete in the United States with a number of major companies and regionally with other companies offering specialty products. Our principal competitors for our other products, including group life and the product offerings sold to groups of employees through payroll deduction, include the largest insurance companies in the United States. Some of these companies have more competitive pricing or have higher claims-paying ratings. Some may also have greater financial resources with which to compete.

In the United Kingdom, we compete for the individual and group products we sell with a mix of large internationally recognized providers and strong local carriers. We have observed some of these providers aggressively trying to maintain or grow market share in a difficult economic environment, characterized by very low interest rates and expense pressures on employers and individuals.

We believe the need for the types of products we offer is significant. In both the United States and the United Kingdom, individuals and families often live paycheck to paycheck with a considerable chance of being out of work. Pressure is also mounting on governments as to the sustainability of public assistance. Based on current penetration levels, we believe there is substantial upside growth potential.

All areas of the employee benefits markets are highly competitive due to the yearly renewable term nature of the group products and the large number of insurance companies offering products in this market. There is a risk that purchasers of employee benefits products may be able to obtain more favorable terms from competitors in lieu of renewing coverage with us. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as our ability to sell products in the future.

We must attract and retain independent agents and brokers to actively market our products. Strong competition exists among insurers for agents and brokers. We compete with other insurers for sales agents and brokers primarily on the basis of our product offerings, financial strength, support services, and compensation. Sales of our products could be materially adversely affected if we are unsuccessful in attracting and retaining agents and brokers.

For further discussion, refer to "Risk Factors" contained herein in Item 1A.

## Regulation

We and our subsidiaries are subject to extensive and comprehensive supervision and regulation both in the United States and in the United Kingdom. The laws and regulations with which we must comply are complex and subject to change. New or existing laws and regulations may become more restrictive or otherwise adversely affect our operations. As a result of the financial market and economic challenges over the past few years, regulation and the cost of compliance with regulation has continued to increase.

### Insurance Regulation and Oversight

Our U.S. insurance subsidiaries are subject to regulation and oversight by insurance regulatory authorities in the jurisdictions in which they do business and by the U.S. Department of Labor (DOL) on a national basis, primarily for the protection of policyholders. State insurance departments in the U.S. generally have broad powers with respect to all aspects of the insurance business, including the power to: license and examine insurance companies; regulate and supervise sales practices and market conduct; license agents and brokers; approve policy forms; approve premium rates for certain insurance products; establish reserve requirements and solvency standards; place limitations on shareholder dividends; prescribe the form and content of required financial statements and reports; regulate the types and amounts of permitted investments; and regulate reinsurance transactions. Our U.S. insurance subsidiaries are examined periodically by their states of domicile and by other states in which they are licensed to conduct business. The domestic examinations have traditionally emphasized financial matters from the perspective of protection of policyholders, but they can and have covered other subjects that an examining state may be interested in reviewing, such as market conduct issues. Examinations in other states more typically focus on market conduct, such as a review of sales practices, including the content and use of advertising materials and the licensing and appointing of agents and brokers, as well as underwriting, claims, and customer service practices, and identification and handling of unclaimed property to determine compliance with state laws. Our U.S. insurance subsidiaries are also subject to assessments by state insurance guaranty associations to cover the proportional cost of insolvent or failed insurers. The DOL enforces a comprehensive federal statute which regulates claims paying fiduciary responsibilities and reporting and disclosure requirements for most employee benefit plans.

Our U.K. insurance subsidiary, Unum Limited, is subject to dual regulation by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA oversees the financial health and stability of financial services firms and is responsible for the prudential regulation and day-to-day supervision of insurance companies. The FCA seeks to protect consumers and oversees financial services products and practices, including those governing insurance companies in the U.K.

### Capital Requirements

Risk based capital (RBC) standards for U.S. life insurance companies are prescribed by the National Association of Insurance Commissioners (NAIC). The domiciliary states of our U.S. insurance subsidiaries have all adopted a version of the RBC model formula of the NAIC, which prescribes a system for assessing the adequacy of statutory capital and surplus for all life and health insurers. The basis of the system is a risk-based formula that applies prescribed factors to the various risk elements in a life and health insurer's business to report a minimum capital requirement proportional to the amount of risk assumed by the insurer. The life and health RBC formula is designed to measure annually (i) the risk of loss from asset defaults and asset value fluctuations, (ii) the risk of loss from adverse mortality and morbidity experience, (iii) the risk of loss from mismatching of asset and liability cash flow due to changing interest rates, and (iv) business risks. The formula is used as an early warning tool to identify companies that are potentially inadequately capitalized. The formula is intended to be used as a regulatory tool only and is not intended as a means to rank insurers generally.

The NAIC's Solvency Modernization Initiative (SMI) began in June 2008. The SMI is a self-examination of the United States' insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. The SMI is a wide-ranging initiative that, by its nature, will evolve to respond to national and international insurance regulatory and solvency developments. Current SMI goals and the principles developed through the SMI's exploration of capital requirements, governance and risk management, group supervision, statutory accounting and financial reporting, and reinsurance will likely result in significant changes to U.S. insurance regulation and solvency standards, including those for our U.S. insurance subsidiaries. Although the SMI has concluded, developments on these and related initiatives are expected to continue throughout 2015.

During 2012, the NAIC established a subgroup to study the insurance industry's use of captive reinsurers and special purpose vehicles to transfer insurance risk and is considering ways to promote uniformity in both the approval and supervision of such reinsurers. We are currently unable to predict the ultimate outcome of the NAIC's study. Although we believe it to be unlikely, a potential outcome of the NAIC study is that companies could be prohibited from using captive reinsurers. The expected effect of such prohibition would depend on the specific changes to state regulations that might be adopted as a result of the NAIC study, including whether current captive reinsurers would be allowed to continue in existence or, if not, the method and timing of their dissolution, as well as the cost and availability of alternative reinsurance vehicles. At this time, given the uncertainty around the ultimate outcome of these matters, we are unable to estimate the potential impact on our risk-based capital ratios and/or liquidity should the use of captive reinsurers be limited or prohibited. No changes in the use or regulation of captive reinsurers have been proposed by the NAIC, and it is too early to predict the extent of any changes that might be made. Accordingly, we expect to continue our strategy of using captive reinsurers to manage risks and enhance capital efficiency while monitoring the NAIC's study and proposed changes in regulations. See "Reinsurance" contained herein in this Item 1 for further discussion.

The PRA has statutory requirements, including capital adequacy and liquidity requirements and minimum solvency margins, to which Unum Limited must adhere. Current solvency standards require an insurance company to hold capital equal to the greater of (i) a formulaic calculation of capital related to liabilities or (ii) a risk-based assessment of capital which is company specific reflecting the insurance company's individual risk profile. Solvency II, a European Union directive that will prescribe new capital requirements and risk management standards that are the result of a fundamental review of the capital adequacy standards for the European insurance industry, will replace the current capital requirements for Unum Limited. Our European holding company will also be subject to the Solvency II requirements relevant to insurance holding companies, and its subsidiaries, including Unum Limited, will be subject to group supervision under Solvency II. Solvency II proposals, which are expected to be finalized during the first quarter of 2015, contain amended requirements on capital adequacy and risk management for insurers, including (i) requirements to demonstrate adequate financial resources, including quantitative requirements, technical provisions, and calculation of Solvency II capital requirements through either an approved full or partial internal model or the European standard formula approach, (ii) requirements to demonstrate an adequate system of governance, including effective risk management underpinned by prospective risk identification and quantification, and (iii) disclosure and regulatory reporting requirements. The effective adoption date is expected to be January 1, 2016. The impact of Solvency II on our U.K. subsidiaries that are applying for an internal model cannot be fully determined at this time, but the adoption of Solvency II will likely result in an increase in supervisory and disclosure requirements and could also result in increased capital requirements.

The International Association of Insurance Supervisors (IAIS) is developing a model framework (ComFrame) for the supervision of internationally active insurance groups (IAIGs) that contemplates group-wide supervision across national boundaries, including uniform standards for insurer corporate governance and enterprise risk management, a framework for group capital adequacy assessment that accounts for group-wide risks, and the establishment of ongoing supervisory colleges. We do not qualify as an IAIG under the current criteria for designating an IAIG.

However, we monitor the activities of the IAIS for the potential that ComFrame could apply to us in the future. In October 2013, the IAIS announced that it expects to develop a risk-based global insurance capital standard applicable to IAIGs with implementation scheduled to begin in 2019. At this time, we cannot predict what, if any, additional capital requirements, compliance costs, or other requirements this proposed standard might impose on us, if adopted.

See further discussion in "Risk Factors" contained herein in Item 1A and "Liquidity and Capital Resources" contained herein in Item 7 and Note 15 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.



## Insurance Holding Company Regulation

We and our U.S. insurance subsidiaries (excluding captive insurers) are subject to regulation under the insurance holding company laws in the states in which they are domiciled (or deemed to be commercially domiciled), which currently include Maine, Massachusetts, Tennessee, South Carolina, New York, and California. These laws generally require each insurance company that is domiciled in the state and a member of an insurance holding company system to register with the insurance department of that state and to furnish at least annually financial and other information about the operations of companies within the holding company system, including information concerning capital structure, ownership, management, financial condition, and certain intercompany transactions. Transactions between an insurer and affiliates in the holding company system generally must be fair and reasonable and, if material, require prior notice and approval by the domiciliary insurance regulator.

In addition, such laws and regulations restrict the amount of dividends that may be paid by our insurance subsidiaries to their respective shareholders, including our Company and certain of our intermediate holding company subsidiaries. See further discussion in "Risk Factors" contained herein in Item 1A and "Liquidity and Capital Resources - Cash Available from Subsidiaries" contained herein in Item 7.

There are a number of proposals to amend state insurance laws and regulations in ways that could affect us and our insurance subsidiaries. The NAIC has adopted or amended model laws on holding company regulation that provide for supervision of insurers at the corporate group level. Although these changes are only beginning to be adopted by individual state regulators, it can be expected that most will ultimately adopt them in some form. The various proposals to implement group supervision include uniform standards for insurer corporate governance, group-wide supervision of insurance holding companies, adjustments to RBC calculations to account for group-wide risks, and additional regulatory and disclosure requirements for insurance holding companies. A completed activity within the SMI includes the adoption by the NAIC of the Risk Management and Own Risk and Solvency Assessment Model Act and the Own Risk and Solvency Assessment (ORSA) Guidance Manual which require insurers to provide a group-level perspective on the risks of the current and future business plans and the sufficiency of capital to support those risks. We expect to file our ORSA summary report with the applicable insurance regulators in 2015.

The laws of most states, including the states in which our insurance subsidiaries are domiciled (or deemed to be commercially domiciled), require regulatory approval of a change in control of an insurance company or its holding company. Where these laws apply to us, there can be no effective change in control of our Company or of any of our insurance subsidiaries unless the person seeking to acquire control has filed a statement containing specified information with the appropriate insurance regulators and has obtained their prior approval of the proposed change. The usual measure for a presumptive change of control pursuant to these laws is the acquisition of 10 percent or more of the voting stock of an insurance company or its holding company, although this presumption is rebuttable. Consequently, a person acquiring 10 percent or more of the voting stock of an insurance company or its holding company without the prior approval of the insurance regulators in the state(s) of domicile of the insurance company(ies) sought to be acquired (or whose holding company is sought to be acquired) will be in violation of these laws. Such a person may also be subject to one or more of the following actions: (i) injunctive action requiring the disposition or seizure of those securities by the applicable insurance regulators; (ii) prohibition of voting of such shares; and (iii) other actions determined by the relevant insurance regulators. Further, many states' insurance laws require that prior notification be given to state insurance regulators of a change in control of a non-domiciled insurance company doing business in the state. These pre-notification statutes do not authorize the state insurance regulators to disapprove the change in control; however, they do authorize regulatory action in the affected state if particular conditions exist, such as undue market concentration. Any future transactions that would constitute a change in control of our Company or of any of our insurance subsidiaries may require prior notification in those states that have adopted pre-notification laws.

These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change in control of our Company, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable.

#### Federal Laws and Regulations

Enacted in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) effects comprehensive changes to the regulation of financial services in the United States. Dodd-Frank directs various government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years. Among other provisions, Dodd-Frank creates a new framework for regulation of the over-the-counter derivatives markets, including requiring that certain swaps be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse and subjecting major swap participants to capital and margin (i.e., collateral) requirements, which will likely have

the effect of increasing the costs of hedging generally and the credit risk posed by some counterparties. We use derivative transactions to help us manage certain risks in our business. New margin requirements for cleared and uncleared transactions are expected to require the posting of higher margin levels for our derivatives activities and also may narrowly restrict the range of eligible collateral, which may require us to hold more of our assets in cash or cash equivalents that generate lower yields than other investments.

Dodd-Frank also established a Financial Stability Oversight Council (FSOC) with authority to subject systemically important financial companies (including non-bank financial companies such as us) to supervision and stricter prudential regulation by the Board of Governors of the Federal Reserve Board, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity, stress testing, and credit exposure, and in certain circumstances limitations on acquisitions or combinations, restrictions on product offerings, and/or requirements to sell assets. In April 2012, the FSOC adopted final rules for evaluating whether a non-bank financial company should be designated as systemically important. We have not been designated as a systemically important financial company, and based on the quantitative criteria set forth in the final rules, at this time we believe it is unlikely that we will be subject to such designation.

In addition, Dodd-Frank established a Federal Insurance Office (FIO) within the Department of the Treasury to monitor all aspects of the insurance industry (other than with respect to health insurance, certain long-term care insurance, and crop insurance), including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system and recommending insurers (potentially including us) that should be designated for stricter regulation. In December 2013, the FIO released its report on how to modernize and improve the system of insurance regulation in the United States. The report concludes that modernization and improvement are possible through a combination of steps by states and certain actions by the federal government. The report makes recommendations for enhanced uniformity and efficiency by states in the areas of insolvency and marketplace regulation and for direct federal involvement in certain areas, such as for the FIO to engage in supervisory colleges and also to study and report on the manner in which personal information is used for insurance pricing and coverage purposes.

We are subject to the laws and regulations generally applicable to public companies, including the rules and regulations of the Securities and Exchange Commission and the New York Stock Exchange relating to public reporting and disclosure, accounting and financial reporting, corporate governance, and securities trading. Further, the Sarbanes-Oxley Act of 2002, and rules and regulations adopted under this regulation, have increased the requirements for us and other public companies in these and other areas.

The USA PATRIOT Act of 2001 (Patriot Act) contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the United States contain some similar provisions. Additionally, other federal laws and regulations, including the Foreign Corrupt Practices Act and regulations issued by the Office of Foreign Asset's Controls, as well as the U.K.'s Bribery Act of 2010, have increased requirements relating to identifying customers, prohibiting transactions with certain organizations or individuals, watching for and reporting suspicious transactions, responding to requests for information by regulatory authorities and law enforcement agencies, sharing information with other financial institutions, and requiring the implementation and maintenance of internal practices, procedures, and controls.

We are subject to income tax regulations in a number of jurisdictions wherein we operate. There are tax reform efforts underway in the United States, such as the Camp Tax Reform proposals introduced as legislation in 2014 that would, if enacted as proposed, increase our corporate taxes significantly. These proposals have not been adopted, but we continue to monitor these and other tax-related proposals in the United States and elsewhere to understand the

potential impact on our profitability.

For further discussion of regulation, refer to "Risk Factors" contained herein in Item 1A.

#### Geographic Areas

Operating revenue, which excludes net realized investment gains and losses, for our Unum UK segment was approximately 7 percent of our consolidated operating revenue for the years 2014 and 2013 and approximately 8 percent for 2012. As of December 31, 2014, total assets and total liabilities for our Unum UK segment each equaled approximately 6 percent of consolidated assets and liabilities. Fluctuations in the U.S. dollar relative to the local currency of our Unum UK segment will impact our reported operating results. See "Risk Factors" contained herein in Item 1A and "Quantitative and Qualitative Disclosures About Market Risk" contained herein in Item 7A for further discussion of fluctuations in foreign currency exchange

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rates. See "Reporting Segments" contained herein in Item 1; "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7; and Note 13 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of Unum UK's operating results.

#### Employees

At December 31, 2014, we had approximately 9,500 full-time employees.

#### Available Information

Our internet website address is [www.unum.com](http://www.unum.com). We make available, free of charge, on or through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material with the Securities and Exchange Commission.

#### Executive Officers of the Registrant

Our executive officers, all of whom are also executive officers of certain of our principal subsidiaries, were appointed by Unum Group's board of directors to serve until their successors are chosen and qualified or until their earlier resignation or removal.

Name	Age	Position
Thomas R. Watjen	60	President and Chief Executive Officer and a Director
Timothy G. Arnold	52	Executive Vice President, President and Chief Executive Officer, Colonial Life
Liston Bishop III	68	Executive Vice President, Senior Executive Counsel
Breege A. Farrell	55	Executive Vice President, Chief Investment Officer
Lisa G. Iglesias	49	Executive Vice President, General Counsel
Christopher J. Jerome	53	Executive Vice President, Global Services
John F. McGarry	57	Executive Vice President, President and Chief Executive Officer, Closed Block Operations
Richard P. McKenney	46	Executive Vice President and Chief Financial Officer
Peter G. O'Donnell	48	President and Chief Executive Officer, Unum UK
Michael Q. Simonds	41	Executive Vice President, President and Chief Executive Officer, Unum US

Mr. Watjen became President and Chief Executive Officer in March 2003. He served as Vice Chairman and Chief Operating Officer from May 2002 until March 2003. He became Executive Vice President, Finance in June 1999 and assumed the additional Risk Management responsibilities in November 1999. Mr. Watjen originally joined a Unum Group predecessor company as Executive Vice President and Chief Financial Officer in 1994. Mr. Watjen will retire as President effective April 1, 2015 and as Chief Executive Officer effective upon the conclusion of our annual meeting of shareholders to be held on May 21, 2015.

Mr. Arnold was named Executive Vice President, President and Chief Executive Officer, Colonial Life in January 2015, after having served as Executive Vice President, President, Colonial Life from July 2014. He previously served as Senior Vice President, Sales and Marketing, Colonial Life from August 2012, as Senior Vice President, Chief Operations Officer, Colonial Life from July 2011, and as Senior Vice President, Integrated Underwriting, Unum US from May 2010. Mr. Arnold originally

joined a Unum Group predecessor company in 1985.

Mr. Bishop was named Executive Vice President, Senior Executive Counsel in January 2015, after having served as Executive

Vice President and General Counsel since October 2008. From August 1979 through September 2008, Mr. Bishop practiced corporate and securities law as a member of the law firm of Miller & Martin PLLC, except during the period from January 2005 through July 2007 when he was employed as deputy general counsel and corporate secretary of Coca-Cola Enterprises Inc. Mr. Bishop has announced his intention to retire from the Company in 2015.

Ms. Farrell was named Executive Vice President, Chief Investment Officer in August 2013, after having joined the Company as Senior Vice President and Chief Investment Officer in April 2011. Before joining the Company, she held a number of executive-level investment positions within The Allstate Corporation, a personal lines insurer, including as Senior Managing Director of

Allstate Investments, LLC and certain affiliated companies from January 2010 to April 2011, and as Managing Director of these companies from August 2004 to January 2010.

Ms. Iglesias was named Executive Vice President, General Counsel upon joining the Company in January 2015. She served as Senior Vice President, General Counsel and Secretary of WellCare Health Plans, Inc., a managed care company, from February 2012 to December 2014, having first joined WellCare in February 2010 as Vice President, Securities and Assistant General Counsel. Prior to that, she served as General Counsel and Corporate Secretary for Nordstrom, Inc., a fashion specialty retailer, from 2007 to 2008, and as General Counsel and Secretary of Spherion Corporation, a recruiting and staffing company, from 1999 to 2007.

Mr. Jerome was named Executive Vice President, Global Services in July 2013, after having served as Senior Vice President, Global Services from January 2012. He previously served as Senior Vice President, Risk Operations from July 2010, as Senior Vice President, Underwriting & Service Operations, Unum US from May 2010, and as Senior Vice President, Group Underwriting Operations from August 2006. Mr. Jerome originally joined a Unum Group predecessor company in 1983.

Mr. McGarry was named Executive Vice President, President and Chief Executive Officer, Closed Block Operations in August 2013, after having served as Executive Vice President, Individual Disability and Long-term Care Closed Block Operations from September 2012. He previously served as Executive Vice President, President and Chief Executive Officer, Unum UK from July 2010, and as Senior Vice President, Benefits, Individual Disability, and National Client Group Business, Unum US from January 2010. Prior to that, he served in various other capacities within Unum US, including as Senior Vice President, Benefits Operations and Risk Management from March 2008 to January 2010, and as Senior Vice President, Benefits Operations from January 2006 to March 2008. Mr. McGarry originally joined a Unum Group predecessor company in 1986. Mr. McGarry will succeed Mr. McKenney as Chief Financial Officer effective April 1, 2015.

Mr. McKenney was named Executive Vice President and Chief Financial Officer in August 2009, having joined the Company in July 2009. Before joining the Company, Mr. McKenney served as Executive Vice President and Chief Financial Officer of Sun Life Financial Inc., an international financial services company, from February 2007, having joined that company as Executive Vice President in September 2006. He served as Senior Vice President and Chief Financial Officer of Genworth Financial, Inc., a global financial security company, from May 2004 until August 2006. Mr. McKenney will succeed Mr. Watjen as President effective April 1, 2015, and as Chief Executive Officer effective May 21, 2015.

Mr. O'Donnell was named President and Chief Executive Officer, Unum UK, in September 2012, after having joined the Company as Unum Limited's Chief Financial Officer in 2010. Prior to joining Unum Limited, Mr. O'Donnell served as Director of Group Finance at Prudential plc, an international financial services company, from May 2008 to May 2010. He served as Finance director at Royal & SunAlliance plc, an international financial services company, from May 2005 to May 2008.

Mr. Simonds was named Executive Vice President, President and Chief Executive Officer, Unum US in July 2013, after having served as Senior Vice President and Chief Operating Officer, Unum US from June 2012. He previously served as Senior Vice President, Growth Operations, Unum US from July 2010, and as Senior Vice President and Chief Marketing Officer, Unum US from March 2008. Mr. Simonds originally joined a Unum Group predecessor company in 1994, left the Company in 2000 to further his education and to serve as a consultant with McKinsey & Company, a global management consulting firm, and rejoined the Company in 2003.





## ITEM 1A. RISK FACTORS

We face a wide range of risks, and our continued success depends on our ability to identify and appropriately manage our risk exposures. Discussed below are certain factors that may adversely affect our business, results of operations, or financial condition. Any one or more of the following factors may cause our actual results for various financial reporting periods to differ materially from those expressed in any forward looking statements made by or on behalf of the Company, including those in this document or made by us elsewhere, such as in earnings release investor calls, investor conference presentations, or press releases. See "Cautionary Statement Regarding Forward-Looking Statements" contained herein on page 1.

Sustained periods of low interest rates in the long-term investment market may adversely affect our reported net investment income and the discount rates used in reserving for our insurance products and projecting our pension obligations, which may adversely affect our results of operations or financial condition.

Further declines in interest rates and/or the continuance of the current level of low interest rates and yields on fixed income investments may cause the rates of return on our investment portfolio to decrease more than expected, leading to lower net investment income than assumed in the pricing and reserving for our insurance products. An interest, or discount, rate is used in calculating reserves for our insurance products. We set our reserve discount rate assumptions based on our current and expected future investment yield for assets supporting the reserves, considering current and expected future market conditions. If the discount rate assumed in our reserve calculations is higher than our future investment returns, our invested assets will not earn enough investment income to support our future claim payments. In that case, the reserves may eventually be insufficient, resulting in the need to increase our reserves and/or increase our capital contributions to our insurance subsidiaries, either of which could have a material adverse effect on our results of operations or financial condition.

Our net periodic benefit costs and the value of our benefit obligations for our pension plans are determined based on a set of economic and demographic assumptions that represent our best estimate of future expected experience. Major assumptions used in accounting for these plans include the expected discount (interest) rate and the long-term rate of return on plan assets. We set the discount rate assumption at the measurement date for each of our plans to reflect the yield of a portfolio of high quality fixed income debt instruments matched against the timing and amounts of projected future benefits. A lower discount rate increases the present value of benefit obligations and increases our costs. Our expectations for the future investment returns on plan assets are based on a combination of historical market performance, current market conditions, and future capital market assumptions obtained from external consultants and economists. The actual rate of return on plan assets is determined based on the fair value of the plan assets at the beginning and end of the measurement period. Increases or decreases in long-term interest rates as well as equity market volatility will impact the fair value of our plan assets and may result in a decrease in the funded status of our pension plans and/or increased pension costs, which may adversely affect our results of operations, financial condition, or liquidity.

See "Reserves for Policy and Contract Benefits" contained herein in Item 1, "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7, "Interest Rate Risk" contained herein in Item 7A, and Note 9 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

Actual experience may differ from our reserve assumptions which may adversely affect our results of operations or financial condition.

Historical results may not be indicative of future performance due to, among other things, changes in our mix of business, re-pricing of certain lines of business, or any number of economic cyclical effects on our business. Reserves, whether calculated under GAAP or statutory accounting principles, do not represent an exact calculation of future

benefit liabilities but are instead estimates made by us using actuarial and statistical procedures. Actual experience may differ from our reserve assumptions. There can be no assurance that our reserves will be sufficient to fund our future liabilities in all circumstances. Future loss development may require reserves to be increased, which would adversely affect earnings in current and future periods. Life expectancies may continue to increase, which could lengthen the time a claimant receives disability or long-term care benefits and could result in a change in mortality assumptions and an increase in reserves for these and other long-tailed products. Adjustments to reserve amounts may also be required in the event of changes from the assumptions regarding future morbidity (the incidence of claims and the rate of recovery, including the effects thereon of inflation and other societal and economic factors); premium rate increases; persistency; policy benefit offsets, including those for social security and other government-based welfare benefits; and interest rates used in calculating the reserve amounts, which could have a material adverse effect on our results of operations or financial condition.

See "Reserves for Policy and Contract Benefits" contained herein in Item 1, "Executive Summary" and "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7, and Notes 1 and 6 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

Unfavorable economic conditions may result in lower sales, lower premium growth and persistency, higher claims incidence, and longer claims duration, which may adversely affect our results of operations or financial condition.

We are affected by conditions in the capital markets and the general economy, both in the United States, the United Kingdom, and to a lesser extent, the broader global financial markets. Economic conditions began to improve during 2014, and we expect that there will be gradual continued improvement in 2015, but negative developments in the capital markets and/or the general economy could adversely affect our business and results of operations.

In particular, factors such as unemployment levels, consumer confidence levels, consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our businesses. Given the nature of our products, in an economic environment characterized by higher unemployment, lower personal income, reduced consumer spending, and lower corporate earnings and investment, new product sales may be adversely affected. Our premium growth may also be negatively impacted by lower premium growth from existing customers due to lower salary growth and lower growth in the number of employees covered under an existing policy. In addition, during such periods we may experience higher claims incidence, longer claims duration, and/or an increase in policy lapses, any of which could have a material adverse effect on our results of operations or financial condition.

We and our insurance subsidiaries are subject to extensive supervision and regulation, which may affect the cost or demand for our products, increase capital requirements for our insurance subsidiaries, and adversely affect our profitability, liquidity, or growth.

Our insurance subsidiaries are subject to extensive supervision and regulation in the United States and abroad. The primary purpose of insurance regulation is to protect policyholders, not stockholders. To that end, applicable laws establish regulatory authorities, including state insurance departments in the United States and the PRA in the United Kingdom, with broad administrative powers over many aspects of the insurance business. For example, our insurance subsidiaries may not be able to obtain or maintain necessary licenses, permits, authorizations, or accreditations, or may be able to do so only at great cost. In addition, we and our insurance subsidiaries may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance companies and insurance holding companies. These laws and regulations can be complex and subject to differing interpretations and are regularly re-examined. Existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. For example, they may restrict or prohibit the payment of dividends by our subsidiaries to us, restrict transactions between subsidiaries and/or between us and our subsidiaries, and may require contributions of capital by us to our insurance subsidiaries even if we are otherwise in compliance with stated requirements. Failure to comply with or to obtain appropriate exemptions under any applicable laws or regulations could result in restrictions on the ability of our insurance subsidiaries to do business in one or more of the jurisdictions in which they operate and could result in fines and other sanctions, which may have a material adverse effect on our business or results of operations.

It is possible that there will be heightened oversight of insurers by regulatory authorities in the jurisdictions in which our insurance subsidiaries are domiciled and operate. We cannot predict specific proposals that might be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, results of operations, or financial condition. The NAIC or state regulators may adopt revisions to the RBC formula, the PRA may revise its capital adequacy requirements and minimum solvency margins, the IAIS may adopt capital requirements to which we could be subject, or rating agencies may incorporate higher capital thresholds into their quantitative analyses, thus

requiring additional capital contributions by us to our insurance subsidiaries. Increased financial services regulation, which could include activities undertaken by the NAIC and the European Commission's Solvency II directive, may impose greater quantitative requirements, supervisory review, and disclosure requirements and may impact the business strategies, capital requirements, and profitability of our insurance subsidiaries. The United Kingdom's Financial Ombudsman Service, which was established to help settle disputes between consumers and businesses providing financial services, and the FCA, which has rule-making, investigative, and enforcement powers to protect consumers, may hamper our ability to do business, which could have a material adverse effect on our U.K. operations. New programs, including healthcare reform and financial services sector reform, may compete with or diminish the need or demand for our products, particularly as it may affect our ability to sell our products through employers or in the workplace. The United

States social security disability insurance program may not be sustainable, which may adversely affect the level of our disability claim payments and reserves.

We use affiliated captive reinsurers for the limited purpose of reinsuring risks attributable to specified policies issued or reinsured by our insurance subsidiaries in order to effectively manage risks in connection with certain blocks of our business as well as to enhance our capital efficiency. If we were required to discontinue use of the captive reinsurers or to alter the structure of the captive reinsurance arrangements, our ability to maintain current RBC ratios and/or our capital deployment activities could be adversely affected. No changes in the use or regulation of captive reinsurers have been proposed by the NAIC, and it is too early to predict the potential impact of any changes that might be made.

Legislative changes related to pension funding requirements could negatively impact our cash flows from operations and our profitability. Changes in tax laws such as the Camp Tax Reform proposals which were introduced as legislation in 2014 could increase our corporate taxes significantly. Furthermore, the value of deferred tax assets could be impacted by our future earnings levels. Changes in tax laws could also make some of our products less attractive to consumers. We cannot predict whether any tax legislation impacting corporate taxes or insurance products will be enacted, what the specific terms of any such legislation will be, or whether, if at all, any legislation would have a material adverse effect on our financial condition or results of operations.

Dodd-Frank directs existing and recently created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years. As a result of the regulations implemented thus far, regulations directed at some derivative activities and the implementation of central clearing rules have increased the cost of some hedging activities primarily as a result of more restrictive collateral requirements. We cannot predict the requirements of the remaining regulations that will ultimately be adopted or how or whether such regulations will affect our businesses, results of operations, cash flows, or financial condition, require us to raise additional capital, or result in a downgrade of our credit ratings.

Most group long-term and short-term disability plans we administer are governed by the Employee Retirement Income Security Act (ERISA). Changes to ERISA enacted by Congress or through judicial interpretations may adversely affect the risk to us of managing employee benefit plans, increase the premiums associated with such plans, and ultimately affect their affordability and our profitability.

The insurance departments in jurisdictions wherein our insurance subsidiaries conduct business may limit our ability to obtain rate increases under guaranteed renewable contracts or could require changes in rates and/or benefits to meet minimum loss ratio requirements which could negatively impact the profitability of our products. Many regulatory and governmental bodies have the authority to review our products and business practices and those of our agents and employees. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices are improper. These actions could result in substantial fines or restrictions on our business activities and could have a material adverse effect on our business or results of operations.

Regulatory examinations or investigations could result in, among other things, changes in our claims handling or other business practices, changes in procedures for the identification and payment to the states of benefits and other property that is not claimed by the owners, changes in the use and oversight of reinsurance, increases to reserving requirements, changes in governance and other oversight procedures, assessments by tax authorities or other governing agencies, fines, and other administrative action, which could injure our reputation, adversely affect our issuer credit ratings and financial strength ratings, place us at a competitive disadvantage in marketing or administering our products, impair our ability to sell or retain insurance policies, and/or have a material adverse effect on our results of operations or financial condition. Determination by regulatory authorities that we have engaged in improper conduct may also adversely affect our defense of various lawsuits.

See "Regulation" contained herein in Item 1 and Notes 7 and 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

In addition to interest rate risk as previously discussed, we are exposed to other risks related to our investment portfolio which may adversely affect our results of operations, financial condition, or liquidity.

#### Default Risk

Our investment portfolio consists primarily of fixed maturity securities. These securities are issued by both domestic and foreign entities and are backed either by collateral or the credit of the underlying issuer. Factors such as an economic downturn or political change in the country of the issuer, a regulatory change pertaining to the issuer's industry, a significant deterioration in the cash flows of the issuer, unforeseen accounting irregularities or fraud committed by the issuer, widening risk spreads, ratings downgrades, a change in the issuer's marketplace or business prospects, or other events that adversely affect the issuers of these securities may result in the issuer defaulting on its obligations.

Our mortgage loan portfolio has default risk. Events or developments, such as economic conditions that impact the ability of tenants to pay their rents or limit the availability of refinancing, may have a negative effect on our mortgage loan portfolio. Events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on an investment portfolio to the extent that the portfolio is concentrated in that region or sector.

A default results in the recognition of an other-than-temporary impairment loss on the investment. A default may also adversely affect our ability to collect principal and interest due to us. The probability of credit downgrades and defaults increases when the fixed income markets experience periods of volatility and illiquidity.

#### Credit Spread Risk

Our exposure to credit spreads, which is the yield above comparable U.S. Treasury securities, primarily relates to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads may unfavorably impact the net unrealized gain or loss position of the investment portfolio and may adversely impact liquidity. Credit spread tightening may reduce net investment income associated with new purchases of fixed income securities.

#### Valuation Risk

We report our fixed maturity securities and certain other financial instruments at fair value. Valuations may include inputs and assumptions that are less observable or require greater estimation, particularly during periods of market disruption, resulting in values which may be less than the value at which the investments may ultimately be sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported in our financial statements, and the period to period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

We evaluate our investment portfolio for impairments. There can be no assurance that we have accurately assessed the level of impairments taken. Additional impairments may need to be taken in the future, and historical trends may not be indicative of future impairments. Any event reducing the value of our securities other than on a temporary basis may have a material adverse effect on our business, results of operations, or financial condition.

#### Market Timing and Liquidity Risk

While we attempt to match our asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of our business, there may at times be a lack of appropriate investments in the market which can be acquired. In addition, we may in certain circumstances need to sell investments due to changes in regulatory or

capital requirements, changes in tax laws, rating agency decisions, and/or unexpected changes in liquidity needs. There may also be a limited market for certain of our investments, such as our private placement fixed maturity securities, mortgage loans, and policy loans, which makes them more illiquid. In periods of market volatility or disruption, other of our securities may also experience reduced liquidity. If events occur wherein we need to sell securities in an unfavorable interest rate or credit environment or need to quickly sell securities which are illiquid, market prices may be lower than what we might realize under normal circumstances, with a resulting adverse effect on our results of operations, financial condition, or liquidity.

See "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 and Notes 1, 2, 3, and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our investments and derivatives.



The failure of cyber or other information security systems, as well as the occurrence of events unanticipated in our disaster recovery systems, could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively, which could adversely affect our results of operations or financial condition.

We rely heavily on the effective operation of our information technology systems to administer almost every aspect of our business. We also store confidential policyholder and employee information and other proprietary information on our systems as a part of our normal business operations. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. We maintain security systems and implement measures to protect our information technology systems and data, but they may be insufficient to prevent physical and electronic break-ins, computer viruses or other malicious code, cyber attacks, and similar disruptions from unauthorized tampering. We also have contractual and governance safeguards in place with our third-party outsourcing partners and cloud computing providers to manage security as part of the service they deliver to us, but these measures may not prevent attackers from exploiting weaknesses in their networks to access our data. Threats to our systems or those of third-party providers may originate externally, such as from cyber criminals or other hackers, or internally from within our company, such as from employee error or malfeasance. In some cases we may be unaware of emerging threats and the magnitude of their effects, or we may not become aware of a cyber incident for some time after it occurs, which could increase our exposure.

In the event of a disaster such as a natural catastrophe, an epidemic, a cyber attack, cyber security breach or other information technology systems failure, a terrorist attack, or war, unanticipated problems with our disaster recovery systems could have a material adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those problems affect our information technology systems and destroy valuable data. In addition, in the event that a significant number of our employees were unavailable in the event of a disaster, our ability to effectively conduct business could be severely compromised.

The failure of our information technology and/or disaster recovery systems for any reason could cause significant interruptions or malfunctions in our or our customers' operations and result in the loss, theft, or failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to our customers. Such a failure could harm our reputation, subject us to regulatory sanctions, legal claims, and increased expenses, lead to a loss of customers and revenues, and otherwise adversely impact our profitability and our business. While we maintain cyber liability insurance that provides coverage for network security, privacy liability, technology errors and omissions, media liability, first party network business interruption, electronic restoration, and cyber extortion (including sub-limits for credit monitoring, notification costs, regulatory expense, and investigative expense), our insurance may not provide adequate loss coverage in all circumstances.

Competition may adversely affect our market share or profitability.

All of our businesses are highly competitive. We believe that the principal competitive factors affecting our business are price, quality of customer service and claims management, integrated product choices, financial strength, and claims-paying ratings. We compete for new product sales, the retention of existing business, and the ability to attract and retain independent agents and brokers to market our products, all of which affect our profitability. The level and intensity of competition may grow due to existing competitors becoming more aggressive, new competitors entering the market, including those who enter the market as a result of healthcare reform, and an increase in merger and acquisition activity which may result in larger competitors with greater financial resources. There are many insurance companies which actively compete with us in our lines of business, and there is no assurance that we will be able to compete effectively against these companies and new competitors in the future, which may adversely affect our market share or profitability. See "Competition" contained herein in Item 1 for further discussion.

A decrease in our financial strength or issuer credit ratings may adversely affect our competitive position, our ability to hedge our risks, and our cost of capital or ability to raise capital, which may adversely affect our results of operations, financial condition, or liquidity.

We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings may adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital and our ability to raise additional capital. If we are downgraded significantly, ratings triggers in our derivatives financial instrument contracts may result in our counterparties enforcing their option to terminate the derivative contracts. Such an event may have a material adverse effect on our financial condition or our ability to hedge our risks.

See "Ratings" contained herein in Item 1 and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 for further discussion.

Events that damage our reputation may adversely affect our business, results of operations, or financial condition.

There are many events which may harm our reputation, including, but not limited to, those discussed in this Item 1A regarding regulatory investigations, legal proceedings, and cyber or other information security incidents.

In addition, as an insurance company, we are paid to accept certain risks. Those who conduct our business, including executive officers and members of management, sales managers, investment professionals, and to some extent, independent agents and brokers, do so in part by making decisions that involve exposing us to risk. These include decisions such as maintaining effective underwriting and pricing discipline, maintaining effective claim management and customer service performance, managing our investment portfolio and derivatives trading activities, delivering effective technology solutions, complying with established sales practices, executing our capital management strategy, exiting a line of business and/or pursuing strategic growth initiatives, and other decisions. Although we employ controls and procedures designed to monitor business decisions and prevent us from taking excessive risks or unintentionally failing to comply with internal policies and practices such that errors occur, there can be no assurance that these controls and procedures will be effective. If our employees and business associates take excessive risks and/or fail to comply with internal policies and practices, the impact of those events may damage our market position and reputation.

Depending on the severity of the damage to our reputation, we may be unable to effectively compete for new products or retain our existing business, which could adversely affect our results of operations or financial condition. Damage to our reputation may also hinder our ability to raise new capital and/or increase our cost of capital. See "Regulation" contained herein in Item 1 and Note 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information on regulatory matters and legal proceedings.

We provide a broad array of disability, long-term care, group life, and voluntary insurance products that are affected by many factors, and changes in any of those factors may adversely affect our results of operations, financial condition, or liquidity.

#### Disability Insurance

Disability insurance may be affected by a number of social, economic, governmental, competitive, and other factors. Changes in societal attitudes, such as work ethic, motivation, or stability, can significantly affect the demand for and underwriting results from disability products.

Both economic and societal factors can affect claim incidence and recoveries for disability insurance. Claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Claim incidence and claim recovery rates may also be influenced by the emergence of new infectious diseases or illnesses. Claim durations may be extended by medical improvements which could extend life expectancies. The relationship between these and other factors and overall incidence is very complex and will vary due to contract design features and the degree of expertise within the insuring organization to price, underwrite, and adjudicate the claims.

Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates. However, these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. The pricing actions available in the individual disability market differ among product classes. Our individual noncancelable disability policies, in which the policy is guaranteed to be renewable through the life of the

policy at a fixed premium, do not permit us to adjust premiums on our in-force business. Guaranteed renewable contracts that are not noncancelable can be re-priced to reflect adverse experience, but rate changes cannot be implemented as quickly as in the group disability market.

#### Long-term Care Insurance

Long-term care insurance can be affected by a number of demographic, medical, economic, governmental, competitive, and other factors. Because long-term care insurance is a relatively new product for the insurance industry and is long-duration in nature, there is not as much historical data as is available for our other products. This creates a level of uncertainty in properly pricing the product and using appropriate assumptions when establishing reserves. Long-term care insurance is guaranteed renewable and can be re-priced to reflect adverse experience, but the re-pricing is subject to regulatory approval by our states of

domicile and may also be subject to approval by jurisdictions in which our policyholders reside. The rate approval process can affect the length of time in which the re-pricing can be implemented, if at all, and the rate increases ultimately approved may be favorable or unfavorable relative to assumptions used to establish our reserves. We monitor our own experience and industry studies concerning morbidity, mortality, and policyholder terminations to understand emerging trends. Changes in actual experience relative to our expectations may adversely affect our profitability and reserves. Mortality continues to improve for the general population, and life expectancy has increased, which could lengthen the time a claimant receives long-term care benefits and may subject more policyholders to advanced aging and an associated increase in claims incidence. Medical advances may continue to have an impact on claim incidence and duration, both favorable and unfavorable. Due to the long duration of the product, the timing and/or amount of our investment cash flows may not match those of our maturing liabilities. Sustained periods of low or declining interest rates could result in increases in reserves and adversely affect our results of operations.

#### Group Life Insurance

Group life insurance may be affected by the characteristics of the employees insured, the amount of insurance employees may elect voluntarily, our risk selection process, our ability to retain employer groups with favorable risk characteristics, the geographical concentration of employees, and mortality rates. Claim incidence may also be influenced by unexpected catastrophic events such as terrorist attacks, natural disasters, and pandemic health events, which may also affect the cost of and availability of reinsurance coverage. There are a series of lawsuits challenging the use of retained asset accounts in group life plans that are governed by ERISA. If these challenges are upheld by the courts, our ability to use such accounts for the beneficiaries of these plans may be adversely affected.

#### Voluntary Products

Voluntary products sold in the workplace may be affected by the characteristics of the employees insured, the level of employee participation and the amount of insurance the employees elect, our risk selection process, and our ability to retain employer groups with favorable risk characteristics. Our voluntary life insurance products generally include interest-sensitive forms of insurance which contain a guaranteed minimum interest crediting rate. It is possible that our investment returns could be lower than the guaranteed crediting rate. The non-life contracts are guaranteed renewable and can be repriced to reflect adverse experience, but rate changes cannot be implemented as quickly as for group disability and group life products.

See "Reserves for Policy and Contract Benefits" contained herein in Item 1 and "Executive Summary" and "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 for further discussion.

Our risk management program may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business.

We have devoted significant resources to develop our enterprise risk management program, which has the objective of managing our strategic, market, credit, insurance, operations, and reputational risks. However, our program may not be comprehensive, and our methods for monitoring and managing risk may not fully predict or mitigate future exposures. See "Quantitative and Qualitative Disclosures About Market Risk" contained herein in Item 7A for further information about our risk management program.

Litigation and contingencies are common in our businesses and may result in financial losses and/or harm to our reputation.

We are, and in the future may be, defendants in a number of litigation matters, and the outcome of this litigation is uncertain. Some of these proceedings have been brought on behalf of various alleged classes of complainants. Plaintiffs in class action and other lawsuits against us may seek very large and/or indeterminate amounts, including punitive and treble damages. An estimated loss is accrued when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An adverse outcome in one or more of these actions may, depending on the nature, scope and amount of the ruling, materially and adversely affect our results of operations or financial condition, encourage other litigation, and limit our ability to write new business, particularly if the adverse outcomes negatively impact certain of our ratings.

As part of our normal operations in managing claims, we are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Typically those lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For

our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages may, from time to time, have a material adverse effect on our results of operations. We are unable to estimate a range of reasonably possible punitive losses.

See "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 and Note 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information on legal proceedings.

Reinsurance may not be available or affordable, or reinsurers may be unwilling or unable to meet their obligations under our reinsurance contracts, which may adversely affect our results of operations or financial condition.

As part of our overall risk management and capital management strategies, we purchase reinsurance for certain risks underwritten by our various businesses. Market conditions beyond our control determine the availability and cost of reinsurance. Any decrease in the amount of reinsurance will increase our risk of loss and may impact the level of capital requirements for our insurance subsidiaries, and any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce our results of operations. Accordingly, we may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, which may adversely affect our ability to write future business, result in the assumption of more risk with respect to the policies we issue, and increase our capital requirements. The collectibility of our reinsurance recoverable is primarily a function of the solvency of the individual reinsurers. We cannot provide assurance that our reinsurers will pay the reinsurance recoverables owed to us or that they will pay these recoverables on a timely basis. The insolvency of a reinsurer or the inability or unwillingness of a reinsurer to comply with the terms of a reinsurance contract may have an adverse effect on our results of operations or financial condition.

The effectiveness of our hedging programs may be affected by changes in the economic environment, changes in interest rates, capital market volatility, non-performance by our counterparties, changes in the level of required collateral, or regulation, which may adversely affect our results of operations, financial condition, or liquidity.

We use derivative financial instruments to help us manage certain risks related to our business operations, primarily interest rate risk, risk related to matching duration for our assets and liabilities, and foreign currency risk. Factors associated with derivative financial instruments could adversely affect our results of operations, financial condition, or liquidity. Ineffectiveness of our hedges due to changes in expected future events, such as the risk created by uncertainty in the economic environment or if our counterparties fail or refuse to honor their obligations under these derivative instruments, may have a material adverse effect on our results of operations or financial condition. Capital market turmoil may result in an increase in the risk of non-performance by our counterparties, many of which are financial institutions. Non-performance by our counterparties may force us to unwind hedges, and we may be unable to replace the hedge, thereby leaving the risk unhedged. Under the terms of our hedging contracts, we are required to post collateral and to maintain a certain level of collateral, which may adversely affect our liquidity and could subject us to the credit risk of the counterparty to the extent it holds such collateral. Changes in regulations may have an adverse effect on our ability to execute hedging strategies due to the increased economic cost of derivatives, primarily as a result of more restrictive collateral requirements.

Changes in accounting standards may materially affect our financial statements.

Our financial statements are subject to the application of generally accepted accounting principles, in both the United States and the United Kingdom, which are periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the U.S. Financial

Accounting Standards Board (FASB), the U.K. Accounting Standards Board (ASB), and the NAIC. Accounting standards issued by the FASB and ASB may be influenced by the International Accounting Standards Board (IASB). These authoritative bodies have several ongoing projects regarding accounting standards that will likely be issued in the near future. Future accounting standards we adopt will change current accounting and disclosure requirements applicable to our financial statements. Such changes may have a material effect on our reported results of operations or financial condition.



Currency translation could materially impact our reported operating results.

The functional currency of our U.K. operations is the British pound sterling. Fluctuations in the pound to dollar exchange rate have an effect on our reported financial results. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Our ability to finance our ongoing operations may not always be possible solely from internal sources of capital and liquidity. If we need to seek external capital, there is the risk that adverse market conditions may significantly affect our access to capital or our cost of capital.

A change in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. Deterioration in the credit market, which could delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner, could also negatively impact our cash flows. Regulatory changes such as those discussed herein in this Item 1A may impose higher capital or reserve requirements on our insurance subsidiaries, increase collateral requirements for certain of our derivatives transactions, and/or implement other requirements which could unfavorably affect our liquidity. Without sufficient liquidity, our ability to maintain and grow our operations would be limited. If our internal sources of liquidity prove to be insufficient, we may be unable to successfully obtain additional financing and capital on favorable terms, or at all, which may adversely affect us.

If our financial results are unfavorable, we may need to increase our capital in order to maintain our credit ratings or satisfy regulatory requirements. Maintaining appropriate levels of statutory surplus is considered important not only by us but by insurance regulatory authorities in the U.S., the PRA in the U.K., and the rating agencies that rate insurers' claims-paying abilities and financial strength. Failure to maintain certain levels of statutory surplus could result in increased regulatory scrutiny, action by regulatory authorities, or a downgrade by the rating agencies. Need for additional capital may limit a subsidiary's ability to distribute funds to our holding companies.

Obtaining financing for even a small amount of capital could be challenging in unfavorable market conditions and during periods of economic uncertainty. The markets may exert downward pressure on availability of liquidity and credit capacity for certain issuers. The availability of financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, and the possibility that customers or lenders could develop a negative perception of our financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. Raising capital in unfavorable market conditions could increase our interest expense or negatively impact our shareholders through increased dilution of their common stock in Unum Group.

We rely on our credit facility as a potential source of liquidity. Our right to borrow funds under this facility is subject to financial covenants, negative covenants, and events of default. Our ability to borrow under this facility is also subject to the continued willingness and ability of the lenders to provide funds. Our failure to comply with the covenants in the credit facility or the failure of lenders to fund their lending commitments would restrict our ability to access this facility when needed, with a resulting adverse effect on our results of operations, financial condition, or liquidity.

See "Liquidity and Capital Resources" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 and Notes 8 and 15 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

As a holding company, Unum Group depends on the ability of its subsidiaries to transfer funds to it so that it can meet its obligations and pay dividends.

Unum Group is a holding company for insurance and other subsidiaries and has no significant operations of its own. Our insurance subsidiaries are subject to insurance laws and regulatory limitations on the payment of dividends and on other transfers of funds or other assets to affiliates, including to Unum Group. The level of earnings and capital in our subsidiaries, as well as business conditions and rating agency considerations, could impact our insurance and other subsidiaries' ability to pay dividends or to make other transfers of funds to Unum Group, which could impair our ability to pay dividends to Unum Group's common stockholders, meet our debt and other payment obligations, and/or repurchase shares of Unum Group's common stock.

See "Regulation" contained herein in Item 1, "Liquidity and Capital Resources" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7, and Note 15 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

We have assets which may not be fully recoverable or realizable, which could adversely affect our results of operations or financial condition.

If our business does not perform well or as initially anticipated in our assumptions, we may be required to accelerate amortization or recognize an impairment loss on intangible assets or long-lived assets or to establish a valuation allowance against the deferred income tax asset.

We have intangible assets such as deferred acquisition costs (DAC), value of business acquired (VOBA), and goodwill. DAC and VOBA are amortized based primarily upon expected future premium income of the related insurance policies. Recoverability testing for DAC and VOBA is performed on an annual basis. Insurance contracts are grouped on a basis consistent with our manner of acquiring, servicing, and measuring profitability of the contracts. If recoverability testing indicates that either DAC and/or VOBA are not recoverable, the deficiency is charged to expense.

Goodwill is not amortized, but on an annual basis, or more frequently if necessary, we review the carrying amount of goodwill for indications of impairment, considering in that review the financial performance and other relevant factors. In accordance with accounting guidance, we test for impairment at either the operating segment level or one level below. In addition, certain events including, but not limited to, a significant adverse change in legal factors or the business environment, an adverse action by a regulator or rating agency, or unanticipated competition would cause us to review goodwill for impairment more frequently than annually.

Long-lived assets, including assets such as real estate and information technology software, also require impairment testing to determine whether changes in circumstances indicate that we may be unable to recover the carrying amount.

We assess our deferred tax assets to determine if they are realizable. Factors in our determination include the performance of the business, including the ability to generate future taxable income. If based on available information, it is more likely than not that the deferred income tax asset will not be realized, a valuation allowance is established with a corresponding charge to net income.

Charges such as accelerated amortization, impairment losses, or the establishment of valuation allowances could have a material adverse effect on our results of operations or financial condition.

See "Executive Summary" and "Critical Accounting Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7 and Notes 1, 7, and 13 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

The continued threat of terrorism and ongoing military actions may adversely affect the value of certain assets in our investment portfolio, disrupt our operations, or result in higher claim costs.

The continued threat of terrorism, both within the U.S. and abroad, ongoing military actions, and heightened security measures in response to these types of threats may cause significant volatility in the global financial markets and result in loss of life, property damage, business disruption, and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the credit and equity markets and reduced economic activity caused by the continued threat of terrorism. Terrorist actions also could disrupt our operations centers in the U.S. or abroad. In addition, the occurrence of terrorist actions could result in higher claims under our insurance policies than anticipated. Beyond obtaining insurance coverage for our facilities, there are few, if any, commercial

options through which to transfer the exposure from extreme events away from us. We purchase reinsurance protection against catastrophic disaster events, including terrorism. The continued threat of terrorism could result in increased reinsurance prices and reduced insurance coverage and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. See "Reinsurance" contained herein in Item 1 for further discussion.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

As of December 31, 2014, we owned approximately 2.3 million square feet of office space, with approximately 0.9 million square feet in Chattanooga, Tennessee, approximately 0.8 million square feet in Portland, Maine, approximately 0.5 million square feet in Columbia, South Carolina, and approximately 0.1 million square feet in Dorking in the United Kingdom. In addition, as of December 31, 2014, we leased approximately 0.2 million square feet in Worcester, Massachusetts, approximately 0.7 million square feet at various locations throughout the United States, and approximately 0.1 million square feet at various locations in the United Kingdom and in Ireland. All of the properties owned or leased are used by one or more of all five reporting segments, depending on the location. We believe our properties and facilities are suitable and adequate for current operations.

ITEM 3. LEGAL PROCEEDINGS

Refer to Note 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for information on legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common stock of Unum Group is traded on the New York Stock Exchange. The stock symbol is UNM. Quarterly market prices and dividends declared and paid per share of common stock are as follows:

	Market Price		Dividend
	High	Low	
2014			
4th Quarter	\$35.77	\$31.25	\$0.165
3rd Quarter	37.15	33.60	0.165
2nd Quarter	35.78	32.07	0.145
1st Quarter	36.30	30.66	0.145
2013			
4th Quarter	\$35.40	\$29.45	\$0.145
3rd Quarter	32.94	29.14	0.145
2nd Quarter	29.92	25.55	0.130
1st Quarter	28.34	21.18	0.130

Our board of directors has the authority to declare cash dividends on shares of our common stock. In determining dividends, the board takes into account a number of factors including our financial condition and results of operations, regulatory limitations on the payment of dividends from subsidiaries, cash requirements, general economic conditions, and other factors the board may deem relevant. For information on restrictions relating to our subsidiaries' ability to pay dividends to Unum Group and certain of its intermediate holding company subsidiaries, see "Liquidity and Capital Resources - Cash Available from Subsidiaries" contained herein in Item 7 and Note 15 of the "Notes to Consolidated Financial Statements" contained herein in Item 8. For information relating to compensation plans under which Unum Group's equity securities are authorized for issuance, see Item 12 contained herein.

As of February 23, 2015, there were 11,545 registered holders of common stock.

In December 2013, our board of directors authorized the repurchase of up to \$750 million of Unum Group's common stock through June 12, 2015. No shares were purchased during the fourth quarter of 2014. At December 31, 2014, the approximate dollar value of shares that may yet be purchased under the program was \$429.5 million.

## ITEM 6. SELECTED FINANCIAL DATA

(in millions of dollars, except share data)

	At or for the Year Ended December 31				
	2014	2013	2012	2011	2010
<b>Income Statement Data</b>					
Revenue					
Premium Income	\$7,797.2	\$7,624.7	\$7,716.1	\$7,514.2	\$7,431.4
Net Investment Income	2,477.4	2,492.1	2,515.2	2,519.6	2,495.5
Net Realized Investment Gain (Loss)	16.1	6.8	56.2	(4.9)	24.7
Other Income	219.0	230.2	227.9	249.1	241.6
Total	10,509.7	10,353.8	10,515.4	10,278.0	10,193.2
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits (1)	7,310.8	6,595.7	6,722.2	7,209.5	6,354.1
Commissions	935.3	909.5	917.2	879.2	855.4
Interest and Debt Expense	167.5	149.4	145.4	143.3	141.8
Other Expenses (2)	1,568.9	1,494.0	1,481.1	1,712.7	1,522.0
Total	9,982.5	9,148.6	9,265.9	9,944.7	8,873.3
Income Before Income Tax	527.2	1,205.2	1,249.5	333.3	1,319.9
Income Tax	113.8	347.1	355.1	49.1	441.2
Net Income	\$413.4	\$858.1	\$894.4	\$284.2	\$878.7
<b>Balance Sheet Data</b>					
Assets	\$62,497.1	\$59,403.6	\$62,236.1	\$59,555.2	\$56,602.7
Long-term Debt	\$2,628.7	\$2,612.0	\$2,755.4	\$2,570.2	\$2,631.3
Accumulated Other Comprehensive Income	\$166.4	\$255.0	\$628.0	\$461.8	\$351.4
Other Stockholders' Equity	8,386.0	8,404.1	7,984.6	7,707.9	8,133.5
Total Stockholders' Equity	\$8,552.4	\$8,659.1	\$8,612.6	\$8,169.7	\$8,484.9
<b>Per Share Data</b>					
Net Income					
Basic	\$1.62	\$3.24	\$3.18	\$0.94	\$2.70
Assuming Dilution	\$1.61	\$3.23	\$3.17	\$0.94	\$2.69
Stockholders' Equity	\$33.90	\$33.30	\$31.87	\$27.91	\$26.80
Cash Dividends	\$0.620	\$0.550	\$0.470	\$0.395	\$0.350
<b>Weighted Average Common Shares Outstanding</b>					
Basic (000s)	255,525.9	264,725.8	281,355.9	302,399.8	325,839.0
Assuming Dilution (000s)	256,652.8	265,949.2	281,756.8	303,571.0	327,221.1

(1) Included are reserve increases of \$698.2 million in 2014 and \$573.6 million in 2011 related to our long-term care closed block business and a reserve increase of \$183.5 million in 2011 related to our individual disability closed block business. See Note 6 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of the 2014 reserve increase.



(2) Includes the net change in deferred acquisition costs as well as compensation expense and other expenses. Included in these expenses is \$64.4 million in 2014 related to a settlement loss for a pension plan amendment and \$196.0 million in 2011 related to the impairment of long-term care closed block deferred acquisition costs. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of the 2014 settlement loss.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis presented in this section should be read in conjunction with the "Cautionary Statement Regarding Forward-Looking Statements" included below the Table of Contents, "Risk Factors" included in Item 1A, "Selected Financial Data" included in Item 6, and the Consolidated Financial Statements and notes thereto included in Item 8.

### Executive Summary

#### 2014 Operating Performance and Capital Management

For 2014, we reported net income of \$413.4 million, or \$1.61 per diluted common share, compared to net income of \$858.1 million, or \$3.23 per diluted common share, in 2013. Included in our results for both years are net realized investment gains and losses and non-operating retirement-related gains or losses. Included in our 2014 results is a reserve increase related to our long-term care block of business (\$698.2 million before tax and \$453.8 million after tax, or \$1.77 per diluted common share) and costs related to the early retirement of debt (\$13.2 million before tax and \$10.4 million after tax, or \$0.04 per diluted common share). Included in our 2013 results is a reserve increase related to unclaimed death benefits (\$95.5 million before tax and \$62.1 million after tax, or \$0.24 per diluted common share) and a reserve reduction related to group life waiver of premium benefits (\$85.0 million before tax and \$55.2 million after tax, or \$0.21 per diluted common share). Adjusting for these items, after-tax operating income was \$910.4 million, or \$3.55 per diluted common share, in 2014, compared to \$882.5 million, or \$3.32 per diluted common share, in 2013. The growth in after-tax operating income per diluted common share is aided by our capital management strategy of returning capital to shareholders through repurchases of our common stock. See "Reconciliation of Non-GAAP Financial Measures" contained in this Item 7 for further discussion of these items.

Operating revenue, which excludes net realized investment gains and losses, increased in 2014 relative to the prior year, driven by growth in premium income. Net investment income, also a significant source of revenue for us, was lower than the prior year. Before-tax operating income, which excludes net realized investment gains and losses and non-operating retirement-related gains or losses, declined relative to 2013. Before-tax operating income, when also excluding the reserve adjustments and costs related to the early retirement of debt, as discussed in the preceding paragraph, increased relative to 2013, with favorable earnings in all of our reporting segments except Unum US where we experienced slightly less favorable earnings in the group disability line of business.

Our Unum US segment reported a decrease in operating income of 1.4 percent in 2014 compared to 2013. Operating income, excluding the 2013 reserve adjustments related to unclaimed death benefits and group life waiver of premium benefits, decreased slightly by 0.3 percent, with lower net investment income and higher expenses offset partially by growth in premium income and overall favorable risk results. Premium income increased 3.2 percent in 2014 compared to 2013. The benefit ratio for our Unum US segment for 2014 was 70.6 percent, compared to 71.3 percent, or 71.6 percent excluding the reserve adjustments, in 2013. Unum US sales increased 21.0 percent in 2014 compared to 2013. Persistency remains strong and is generally consistent with our expectations.

Our Unum UK segment reported an increase in operating income, as measured in Unum UK's local currency, of 6.5 percent in 2014 compared to 2013, with an increase in premium income and overall favorable risk results. Premium income in local currency increased 3.6 percent in 2014 relative to 2013. The benefit ratio for Unum UK was 71.0 percent in 2014 compared to 74.3 percent in 2013. Unum UK sales in 2014 increased 7.2 percent, in local currency, compared to 2013. Persistency is favorable relative to the prior year, but group life persistency continues to be lower than our long-term expectations as a result of pursuing rate increases on renewing business.

Our Colonial Life segment reported an increase in operating income of 13.4 percent in 2014 compared to 2013. Operating income, excluding the 2013 reserve increase related to unclaimed death benefits, increased 5.4 percent in 2014, with growth in premium income and favorable risk results. Premium income grew 3.4 percent in 2014 compared to 2013. The 2014 benefit ratio for Colonial Life was 51.9 percent compared to 54.1 percent, or 52.5 percent excluding the reserve increase, in 2013. Colonial Life sales increased 11.6 percent in 2014 compared to 2013. Persistency is generally stable relative to the prior year.

Our Closed Block segment reported a loss in 2014 as a result of the reserve increase for long-term care. Excluding the reserve increase, operating income increased 12.1 percent in 2014 relative to 2013, with an increase in net investment income and favorable risk results in our long-term care line of business offset partially by less favorable risk results in our individual disability line of business.

Although the low interest rate environment and tighter credit spreads continue to place pressure on our profit margins by impacting our net investment income yields, our invested asset quality remains strong. The net unrealized gain on our fixed maturity securities was \$6.3 billion at December 31, 2014 compared to \$4.1 billion at December 31, 2013, with the increase due primarily to a decline in U.S. Treasury rates during 2014. The earned book yield on our investment portfolio was 5.48 percent for 2014 compared to a yield of 5.57 percent for 2013.

We believe our capital and financial positions are strong. At December 31, 2014, the RBC ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was in excess of 400 percent and generally consistent with the prior year. During 2014, we repurchased 8.7 million shares of Unum Group common stock at a cost of approximately \$301 million under our share repurchase program. Cash equivalents and marketable securities held at Unum Group and our other intermediate holding companies, which are a significant source of liquidity for us, were approximately \$575 million at December 31, 2014.

#### 2014 Long-term Care Reserve Increase

Policy reserves for our long-term care block of business are determined using the gross premium valuation method and, prior to the fourth quarter of 2014, were valued based on assumptions established as of December 31, 2011, the date of the initial loss recognition. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We undertake a review of policy reserve adequacy annually during the fourth quarter of each year, or more frequently if appropriate, using best estimate assumptions as of the date of the review.

Included in our fourth quarter of 2014 review was an analysis of our reserve assumptions, including those for the discount rate, mortality and morbidity rates, persistency, and premium rate increases. Our analysis of reserve discount rate assumptions considered the continued historic low interest rate environment, future market expectations, and our view of future portfolio yields. The assumptions we established in 2011 were set at a level that we estimated would be sustainable in a low interest rate environment for three to five years, with improvements in market yields beginning after the third year. Since that time, however, interest rates have continued to hover near historic lows, and credit spreads have tightened. Our assumption update for mortality incorporates the last three years of Company-specific experience and emerging trends as well as industry data, where available and appropriate, and reflects improvements in life expectancies beyond what was initially anticipated in 2011. Our morbidity assumptions were updated to reflect trends from our own emerging Company experience in claim incidence and terminations, as well as trends based on available and appropriate industry data and studies. Our premium rate increase assumptions were updated to reflect progress-to-date and our on-going rate increase strategy.

Based on our analysis, as of December 31, 2014 we lowered the discount rate assumption to reflect the low interest rate environment and our revised expectation of future investment portfolio yield rates. Our revised assumptions anticipate the low interest rate environment persisting for the next three to five years, with a return to more historical averages over the following five year period. We updated our mortality assumptions to reflect emerging experience due to an increase in life expectancies which increases the ultimate number of people who will utilize long-term care benefits and also lengthens the amount of time a claimant may receive long-term care benefits. We changed our morbidity assumptions to reflect emerging industry experience as well as our own company experience, and we updated our projection of future premium rate increase approvals. Using our revised best estimate assumptions, as of December 31, 2014 we determined that our policy and claim reserves should be increased \$698.2 million to reflect our current estimate of future benefit obligations. This charge decreased our 2014 net income \$453.8 million. We do not expect these reserve charges to have a material impact on future cash flows available from our subsidiaries or on our capital management plans.

#### 2014 and 2013 Retirement Benefit Changes

In 2014, we amended our U.S. qualified defined benefit pension plan to allow a limited-time offer of benefit payouts to eligible former employees with a vested right to a pension benefit. The offer provided eligible former employees, regardless of age, with an option to elect to receive a lump-sum settlement of his or her entire accrued pension benefit in December 2014 or to elect receipt of monthly pension benefits commencing in January 2015. We recognized a settlement loss of \$64.4 million before tax, or \$41.9 million after tax, during the fourth quarter of 2014. This non-operating retirement-related loss represented the applicable portion of the unrecognized actuarial loss which had previously been included in accumulated other comprehensive income and which pertained to the settled benefit obligation.

In 2013, we adopted plan amendments which froze participation and benefit accruals in our defined benefit pension plans in the U.S. and U.K., effective December 31, 2013 for the U.S. plans and June 30, 2014 for the U.K. plan. As a result of these plan amendments we recognized a net before-tax curtailment gain of \$3.0 million during 2013. Because the amendments eliminated all future service accruals subsequent to the effective dates of the amendments, we were also required to remeasure the benefit obligations of our pension plans, which decreased our net pension liability approximately \$330 million during 2013, with a corresponding increase in other comprehensive income, less applicable income tax of approximately \$115 million. Concurrent with our amendments to our defined benefit pension plans, we adopted amendments to increase the benefits under our defined contribution plans commensurate with the effective dates of the pension plan amendments.

#### 2013 Unclaimed Death Benefits Reserve Increase

Beginning in 2011, a number of state regulators began requiring insurers to cross-check specified insurance policies with the Social Security Administration's Death Master File to identify potential matches. If a potential match was identified, insurers were requested to determine if benefits were due, locate beneficiaries, and make payments where appropriate. We initiated this process where requested, and in 2012 we began implementing this process in all states on a forward-looking basis. We believe adopting this process, which reflects an evolving regulatory and industry practice, is in the best interest of our customers. Therefore, in addition to implementing this on a forward-looking basis, in 2013 we began an initiative to search for potential claims from previous years.

During the fourth quarter of 2013, we completed our assessment of benefits which we estimate will be paid under this initiative, and as such, established additional reserves for payment of these benefits. Claim reserves were increased \$49.1 million for Unum US group life, \$26.3 million for Unum US voluntary life, and \$20.1 million for Colonial Life voluntary life, for a total reserve increase of \$95.5 million. These reserve adjustments decreased 2013 net income \$62.1 million.

Although the legal and regulatory environment continues to evolve, we believe our decision to adopt this claims practice and establish additional reserves is in the best interests of our customers.

#### 2013 Group Life Waiver of Premium Benefit Reserve Reduction

Within our Unum US segment, we offer group life insurance coverage which consists primarily of renewable term life insurance and includes a provision for waiver of premium, if disabled. The group life waiver of premium benefit (group life waiver) provides for continuation of life insurance coverage when an insured, or the employer on behalf of the insured, is no longer paying premium because the employee is not actively at work due to a disability. The group life waiver claim reserve is the present value of future anticipated death benefits reflecting the probability of death while remaining disabled. Claim reserves are calculated using assumptions based on past experience adjusted for current trends and any other factors that would modify past experience and are subject to revision as current claim experience emerges and alters our view of future expectations.

The two fundamental assumptions in the development of the group life waiver reserve are mortality and recovery. Our emerging experience and that which continues to emerge within the industry indicate an increase in life expectancies, which decreases the ultimate anticipated death benefits to be paid under the group life waiver benefit. Emerging experience also reflects an improvement in claim recovery rates, which also lessens the likelihood of payment of a death benefit while the insured is disabled.

During the fourth quarter of 2013, we completed a review of our assumptions and modified our mortality and claim recovery assumptions for our Unum US group life waiver reserves and, as a result, reduced the applicable claim reserves by \$85.0 million and increased 2013 net income \$55.2 million.

Consolidated Company Outlook for 2015

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength as we seek to capitalize on the growing and largely unfilled need for our products and services. We believe the need for our products and services remains strong, and we intend to continue protecting our solid margins and returns through our pricing and risk actions. We continue to invest in our infrastructure and our employees, with a focus on quality and simplification of processes and offerings. Our strategy is centered on maintaining a strong customer focus while providing an innovative product portfolio of financial protection choices to deepen employee coverages, broaden employer relationships, and open new markets. The low interest rate environment continues to be a challenge and may put pressure on our profitability and reserve levels for some products, but we continue to analyze and employ strategies that we believe will help us navigate this environment. We

believe that consistent operating results, combined with the implementation of strategic initiatives and the effective deployment of capital, will allow us to meet our long-term financial objectives.

Further discussion is included in "Reconciliation of Non-GAAP Financial Measures," "Consolidated Operating Results," "Segment Results," "Investments," and "Liquidity and Capital Resources" contained in this Item 7 and in the "Notes to Consolidated Financial Statements" contained herein in Item 8.

#### Reconciliation of Non-GAAP Financial Measures

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

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

The amortization of prior period actuarial gains or losses, a component of the net periodic benefit cost for our pensions and other postretirement benefit plans, is driven by market performance as well as plan amendments and is not indicative of the operational results of our businesses. We believe that excluding the amortization of prior period gains or losses, as well as the settlement loss from our pension plan amendment, from operating income or loss provides investors with additional information for comparison and analysis of our operating results. Although we manage our non-operating retirement-related gains or losses separately from the operational performance of our business, these gains or losses impact the overall profitability of our company and have historically increased or decreased over time, depending on plan amendments and market conditions and the resulting impact on the actuarial gains or losses in our pensions and other postretirement benefit plans.

We believe that excluding the 2014 costs related to the early retirement of debt is appropriate because in conjunction with the debt redemption, we recognized in realized investment gains and losses a deferred gain from previously terminated derivatives which were associated with the hedge of this debt. The amount recognized as a realized investment gain, which basically offsets the cost of the debt redemption, is also excluded from our non-GAAP financial measures since we analyze our performance excluding amounts reported as realized investment gains or losses. We believe it provides investors with a more realistic view of our overall profitability if we are consistent in excluding both the cost of the debt retirement as well as the gain on the hedge of the debt.

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





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

(in millions of dollars)

	Year Ended December 31		
	2014	2013	2012
Operating Revenue	\$10,493.6	\$10,347.0	\$10,459.2
Net Realized Investment Gain	16.1	6.8	56.2
Total Revenue	\$10,509.7	\$10,353.8	\$10,515.4
Before-tax Operating Income	\$1,292.5	\$1,241.8	\$1,239.7
Net Realized Investment Gain	16.1	6.8	56.2
Non-operating Retirement-related Loss	(70.0	) (32.9	) (46.4
Costs Related to Early Retirement of Debt	(13.2	) —	—
Long-term Care Reserve Increase	(698.2	) —	—
Unclaimed Death Benefits Reserve Increase	—	(95.5	) —
Group Life Waiver of Premium Benefit Reserve Reduction	—	85.0	—
Income Before Income Tax	\$527.2	\$1,205.2	\$1,249.5

The after-tax impacts of these items are reflected in the following reconciliation of after-tax operating income to net income.

	Year Ended December 31					
	2014		2013		2012	
	(in millions)	per share *	(in millions)	per share *	(in millions)	per share *
After-tax Operating Income	\$910.4	\$3.55	\$882.5	\$3.32	\$887.5	\$3.15
Net Realized Investment Gain, Net of Tax	12.8	0.05	3.9	0.02	37.1	0.13
Non-operating Retirement-related Loss, Net of Tax	(45.6	) (0.18	) (21.4	) (0.08	) (30.2	) (0.11
Costs Related to Early Retirement of Debt, Net of Tax	(10.4	) (0.04	) —	—	—	—
Long-term Care Reserve Increase, Net of Tax	(453.8	) (1.77	) —	—	—	—
Unclaimed Death Benefits Reserve Increase, Net of Tax	—	—	(62.1	) (0.24	) —	—
Group Life Waiver of Premium Benefit Reserve Reduction, Net of Tax	—	—	55.2	0.21	—	—
Net Income	\$413.4	\$1.61	\$858.1	\$3.23	\$894.4	\$3.17

\* Assuming Dilution

#### Critical Accounting Estimates

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements. The accounting estimates deemed to be most critical to our financial position and results of operations are those related to reserves for policy and contract benefits, deferred acquisition costs, valuation of investments, pension and postretirement benefit plans,

income taxes, and contingent liabilities. For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

## Reserves for Policy and Contract Benefits

Reserves for policy and contract benefits are our largest liabilities and represent claims that we estimate we will eventually pay to our policyholders. The two primary categories of reserves are policy reserves for claims not yet incurred and claim reserves for claims that have been incurred or are estimated to have been incurred but not yet reported to us. Reserves for policy and contract benefits equaled \$41.3 billion and \$40.5 billion at December 31, 2014 and 2013, respectively, or approximately 76.6 percent and 79.8 percent of our total liabilities, respectively. Reserves ceded to reinsurers were \$6.9 billion and \$6.8 billion at December 31, 2014 and 2013, respectively, and are reported as a reinsurance recoverable in our consolidated balance sheets.

## Policy Reserves

Policy reserves are established in the same period we issue a policy and equal the difference between projected future policy benefits and future premiums, allowing a margin for expenses and profit. These reserves relate primarily to our non interest-sensitive products, including our individual disability and voluntary benefits products in our Unum US segment; individual disability products in our Unum UK segment; disability and cancer and critical illness policies in our Colonial Life segment; and individual disability, long-term care, and other products in our Closed Block segment. The reserves are calculated based on assumptions that were appropriate at the date the policy was issued and are not subsequently modified unless the policy reserves become inadequate (i.e. loss recognition occurs).

• Persistence assumptions are based on our actual historical experience adjusted for future expectations.

• Claim incidence and claim resolution rate assumptions related to mortality and morbidity are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations.

• Discount rate assumptions are based on our current and expected net investment returns.

In establishing policy reserves, we use assumptions that reflect our best estimate while considering the potential for adverse variances in actual future experience, which results in a total policy reserve balance that has an embedded reserve for adverse deviation. We do not, however, establish an explicit and separate reserve as a provision for adverse deviation from our assumptions.

We perform loss recognition tests on our policy reserves annually, or more frequently if appropriate, using best estimate assumptions as of the date of the test, without a provision for adverse deviation. We group the policy reserves for each major product line within a segment when we perform the loss recognition tests. If the policy reserves determined using these best estimate assumptions are higher than our existing policy reserves net of any deferred acquisition cost balance, the existing policy reserves are increased or deferred acquisition costs are reduced to immediately recognize the deficiency. Thereafter, the policy reserves for the product line are calculated using the same method we used for the loss recognition testing, referred to as the gross premium valuation method, wherein we use our best estimate as of the gross premium valuation (loss recognition) date rather than the initial policy issue date to determine the expected future claims, commissions, and expenses we will pay and the expected future gross premiums we will receive.

Because the key policy reserve assumptions for policy persistency, mortality and morbidity, and discount rates are all locked in at policy issuance based on assumptions appropriate at that time, policy reserve assumptions are generally not changed due to a change in claim status from active to disabled subsequent to policy issuance. Depending on the funding mechanism, a full policy reserve is held during disability reflecting continued funding of the full policy reserve during a disability claim, or a fractional policy reserve is held reflecting that the individual policyholder would need to recover before he or she can again generate future claims for a separate occurrence. The policy reserves build up and release over time based on assumptions made at the time of policy issuance such that the reserve is eliminated as policyholders either reach the terminal age for coverage, die, or voluntarily lapse the policy. Policy reserves for

Unum US, Unum UK, and Colonial Life products are determined using the net level premium method as prescribed by GAAP. In applying this method, we use, as applicable by product type, morbidity and mortality incidence rate assumptions, claim resolution rate assumptions, and policy persistency assumptions, among others, to determine our expected future claim payments and expected future premium income. We then apply an interest, or discount, rate to determine the present value of the expected future claims and claim expenses we will pay and the expected future premiums we will receive, with a provision for profit allowed.

Policy reserves for our Closed Block segment include certain older policy forms for individual disability, individual and group long-term care, and certain other products, all of which are no longer actively marketed. The reserves for individual disability and individual and group long-term care are determined using the gross premium valuation method. Key assumptions are persistency, mortality and morbidity, claim incidence, claim resolution rates, commission rates, and maintenance expense rates. For long-term care, premium rate increases are also a key assumption. We apply an interest, or discount, rate to determine the

present value of the expected future claims, commissions, and expenses we will pay as well as the expected future premiums we will receive, with no provision for future profit. The interest rate is based on our expected net investment returns on the investment portfolio supporting the reserves for these blocks of business. Under the gross premium valuation method, we do not include an embedded provision for the risk of adverse deviation from these assumptions. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We perform loss recognition tests on the policy reserves for this block of business annually, or more frequently if appropriate.

Policy reserves for certain other products, excluding individual disability and individual and group long-term care, which are no longer actively marketed and are reported in our Closed Block segment represent \$5.8 billion on a gross basis. We have ceded \$4.7 billion of these other products' policy reserves to reinsurers. The ceded reserve balance is reported in our consolidated balance sheets as a reinsurance recoverable. We continue to service a block of group pension products, which we have not ceded, and the policy reserves for these products are based on expected mortality rates and retirement rates. Expected future payments are discounted at interest rates reflecting the anticipated investment returns for the assets supporting the liabilities.

### Claim Reserves

Claim reserves are established when a claim is incurred or is estimated to have been incurred but not yet reported (IBNR) to us and, as prescribed by GAAP, equals our long-term best estimate of the present value of the liability for future claim payments and claim adjustment expenses. A claim reserve is based on actual known facts regarding the claim, such as the benefits available under the applicable policy, the covered benefit period, the age, and, as appropriate, the occupation and cause of disability of the claimant, as well as assumptions derived from our actual historical experience and expected future changes in experience for factors such as the claim duration, discount rate, and policy benefit offsets, including those for social security and other government-based welfare benefits. Reserves for IBNR claims, similar to incurred claim reserves, include our assumptions for claim duration and discount rates, but because we do not yet know the facts regarding the specific claims, these reserves are also established based on historical incidence rate assumptions, including claim reporting patterns, the average cost of claims, and the expected volumes of incurred claims. Our incurred claim reserves and IBNR claim reserves do not include any provision for the risk of adverse deviation from our assumptions.

Claim reserves, unlike policy reserves, are subject to revision as current claim experience and projections of future factors affecting claim experience change. Each quarter we review our emerging experience to ensure that our claim reserves are appropriate. If we believe, based on our actual experience and our view of future events, that our long-term assumptions need to be modified, we adjust our reserves accordingly with a charge or credit to our current period income.

Multiple estimation methods exist to establish claim reserve liabilities, with each method having its own advantages and disadvantages. Available reserving methods utilized to calculate claim reserves include the tabular reserve method, the paid development method, the incurred loss development method, the count and severity method, and the expected claim cost method. No single method is better than the others in all situations and for all product lines. The estimation methods we have chosen are those that we believe produce the most reliable reserves.

We use a tabular reserve methodology for our Unum US group and individual long-term disability claims and for our Closed Block group and individual long-term care claims that have been reported. Under the tabular reserve methodology, reserves for reported claims are based on certain characteristics of the actual reported claimants, such as age, length of time disabled, and medical diagnosis, as well as assumptions regarding claim duration, discount rate, and policy benefit offsets. We believe the tabular reserve method is the most accurate to calculate long-term liabilities and allows us to use the most available known facts about each claim. IBNR claim reserves for our long-term products

are calculated using the count and severity method using historical patterns of the claims to be reported and the associated claim costs. For Unum US group short-term disability products, an estimate of the value of future payments to be made on claims already submitted, as well as on IBNR claims, is determined in aggregate using a paid development method rather than on the individual claimant basis that we use for reported claims on long-term products. The average length of time between the event triggering a claim under a policy and the final resolution of those claims is much shorter for these products than for our long-term liabilities and results in less estimation variability.

Claim reserves for Unum US group life and accidental death and dismemberment products are related primarily to death claims reported but not yet paid, IBNR death claims, and a liability for waiver of premium benefits. The death claim reserve is based on the actual face amount to be paid, the IBNR reserve is calculated using the paid development method, and the waiver of premium benefits reserve is calculated using the tabular reserve methodology.

Claim reserves supporting our Unum UK segment are calculated using generally the same methodology that we use for Unum US disability and group life reserves. The assumptions used in calculating claim reserves for this line of business are based on standard United Kingdom industry experience, adjusted for Unum UK's own experience.

The majority of the Colonial Life segment lines of business have short-term benefits, which generally have less estimation variability than our long-term products because of the shorter claim payout period. Our claim reserves for Colonial Life's lines of business are predominantly determined using the incurred loss development method based on our own experience. The incurred loss development method uses the historical patterns of payments by loss date to predict future claim payments for each loss date. Where the incurred loss development method may not be appropriate, we estimate the incurred claims using an expected claim cost per policy or other measure of exposure. The key assumptions for claim reserves for the Colonial Life lines of business are: (1) the timing, rate, and amount of estimated future claim payments; and (2) the estimated expenses associated with the payment of claims.

The following table displays policy reserves, incurred claim reserves, and IBNR claim reserves by major product line, with the summation of the policy reserves and claim reserves shown both gross and net of the associated reinsurance recoverable. Incurred claim reserves represent the expected benefits payable under each incurred claim, along with other expenses associated with the payment of the claims. IBNR claim reserves include provisions for incurred but not reported claims and a provision for reopened claims for our disability products. The IBNR and reopened claim reserves for our disability products are developed and maintained in aggregate based on historical monitoring. Impacting year over year comparability of policy and claim reserves in the following chart is the 2014 long-term care reserve increase. See "Executive Summary" contained in this Item 7 and Note 6 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion.

(in millions of dollars)	December 31, 2014						Total Reinsurance Ceded	Total Net
	Gross Policy Reserves	%	Claim Reserves			Total		
			Incurred	IBNR	%			
Group Disability	\$—	—	% \$6,558.4	\$581.1	29.5	% \$7,139.5	\$ 66.9	\$7,072.6
Group Life and Accidental Death & Dismemberment	68.8	0.4	712.6	195.4	3.7	976.8	3.9	972.9
Individual Disability	555.6	3.2	1,201.5	127.3	5.5	1,884.4	112.5	1,771.9
Voluntary Benefits	1,366.4	8.0	52.3	58.4	0.5	1,477.1	29.1	1,448.0
Unum US Segment	1,990.8	11.6	8,524.8	962.2	39.2	11,477.8	212.4	11,265.4
Unum UK Segment	22.8	0.1	2,168.2	145.2	9.6	2,336.2	112.3	2,223.9
Colonial Life Segment	1,670.4	9.8	279.4	127.3	1.7	2,077.1	9.9	2,067.2
Individual Disability	735.0	4.3	10,150.9	285.6	43.1	11,171.5	1,551.7	9,619.8
Long-term Care	6,884.2	40.2	1,083.3	111.9	4.9	8,079.4	42.5	8,036.9
Other	5,811.4	34.0	214.3	140.7	1.5	6,166.4	4,959.8	1,206.6
Closed Block Segment	13,430.6	78.5	11,448.5	538.2	49.5	25,417.3	6,554.0	18,863.3
Subtotal	\$17,114.6	100.0	% \$22,420.9	\$1,772.9	100.0	% 41,308.4	6,888.6	34,419.8
Adjustment to Reserves for Unrealized Gain on Securities						6,150.3	365.0	5,785.3



Consolidated

\$47,458.7 \$ 7,253.6 \$40,205.1

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	December 31, 2013						Total Reinsurance Ceded	Total Net
	Gross Policy Reserves		Claim Reserves			Total		
	Reserves	%	Inurred	IBNR	%	%		
Group Disability	\$—	—	% \$6,810.3	\$569.1	30.1	% \$7,379.4	\$ 66.6	\$7,312.8
Group Life and Accidental Death & Dismemberment	72.3	0.5	713.2	201.1	3.7	986.6	2.5	984.1
Individual Disability	558.3	3.5	1,155.7	124.4	5.2	1,838.4	104.3	1,734.1
Voluntary Benefits	1,298.4	8.1	48.9	73.2	0.5	1,420.5	29.2	1,391.3
Unum US Segment	1,929.0	12.1	8,728.1	967.8	39.5	11,624.9	202.6	11,422.3
Unum UK Segment	24.9	0.1	2,286.0	171.7	10.0	2,482.6	130.1	2,352.5
Colonial Life Segment	1,577.6	9.9	274.1	134.1	1.7	1,985.8	13.9	1,971.9
Individual Disability	859.3	5.4	10,346.8	281.9	43.3	11,488.0	1,545.0	9,943.0
Long-term Care	5,791.4	36.3	865.7	94.8	3.9	6,751.9	42.6	6,709.3
Other	5,783.8	36.2	234.4	150.2	1.6	6,168.4	4,915.2	1,253.2
Closed Block Segment	12,434.5	77.9	11,446.9	526.9	48.8	24,408.3	6,502.8	17,905.5
Subtotal	\$15,966.0	100.0	% \$22,735.1	\$1,800.5	100.0	% 40,501.6	6,849.4	33,652.2
Adjustment to Reserves for Unrealized Gain on Securities						4,108.5	263.8	3,844.7
Consolidated						\$44,610.1	\$ 7,113.2	\$37,496.9

### Key Assumptions

The calculation of policy and claim reserves involves numerous assumptions, but the primary assumptions used to calculate reserves are (1) the discount rate, (2) the claim resolution rate, and (3) the claim incidence rate for policy reserves and IBNR claim reserves. Of these assumptions, our discount rate and claim resolution rate assumptions have historically had the most significant effects on our level of reserves because many of our product lines provide benefit payments over an extended period of time.

1. The discount rate, which is used in calculating both policy reserves and incurred and IBNR claim reserves, is the interest rate that we use to discount future claim payments to determine the present value. A higher discount rate produces a lower reserve. If the discount rate is higher than our future investment returns, our invested assets will not earn enough investment income to support our future claim payments. In this case, the reserves may eventually be insufficient. We set our assumptions based on our current and expected future investment yield of the assets supporting the reserves, considering current and expected future market conditions. If the investment yield on new investments that are purchased is below or above the investment yield of the existing investment portfolio, it is likely that the discount rate assumption on claims will be established to reflect the effect of the new investment yield.

2. The claim resolution rate, used for both policy reserves and incurred and IBNR claim reserves, is the probability that a disability or long-term care claim will close due to recovery or death of the insured. It is important because it

is used to estimate how long benefits will be paid for a claim. Estimated resolution rates that are set too high will result in reserves that are lower than they need to be to pay the claim benefits over time. Claim resolution assumptions involve many factors, including the cause of disability, the policyholder's age, the type of contractual benefits provided, and the time since initially becoming disabled. We primarily use our own claim experience to develop our claim resolution assumptions. These assumptions are established for the probability of death and the probability of recovery from disability. Our studies review actual claim resolution experience over a number of years, with more weight placed on our experience in the more recent years. We also consider any expected future changes in claim resolution experience.

The incidence rate, used for policy reserves and IBNR claim reserves, is the rate at which new claims are submitted to us. The incidence rate is affected by many factors, including the age of the insured, the insured's occupation or industry, the benefit plan design, and certain external factors such as consumer confidence and levels of unemployment. We establish our incidence assumption using a historical review of actual incidence results along with an outlook of future incidence expectations.

Establishing reserve assumptions is complex and involves many factors. Reserves, particularly for policies offering insurance coverage for long-term disabilities and long-term care, are dependent on numerous assumptions other than just those presented in the preceding discussion. The impact of internal and external events, such as changes in claims operational procedures, economic trends such as the rate of unemployment and the level of consumer confidence, the emergence of new diseases, new trends and developments in medical treatments, and legal trends and legislative changes, including changes to social security and other government-based welfare benefits programs which provide policy benefit offsets, among other factors, will influence claim incidence rates, claim resolution rates, and claim costs. In addition, for policies offering coverage for disability or long-term care at advanced ages, the level and pattern of mortality rates at advanced ages will impact overall benefit costs. Reserve assumptions differ by product line and by policy type within a product line. Additionally, in any period and over time, our actual experience may have a positive or negative variance from our long-term assumptions, either singularly or collectively, and these variances may offset each other. We test the overall adequacy of our reserves using all assumptions and with a long-term view of our expected experience over the life of a block of business rather than test just one or a few assumptions independently that may be aberrant over a short period of time. Therefore, it is not possible to bifurcate the assumptions to evaluate the sensitivity of a change in each assumption, but rather in the aggregate by product line. The following section presents an overview of our trend analysis for key assumptions and the results of variability in our assumptions, in aggregate, for the reserves which we believe are reasonably possible to have a material impact on our future financial results if actual claims yield a materially different amount than what we currently expect and have reserved for, either favorable or unfavorable.

#### Trends in Key Assumptions

Generally, we do not expect our mortality and morbidity claim incidence trends or our persistency trends to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time. We have historically experienced an increase in our group long-term disability morbidity claim incidence trends during and following a recessionary period, particularly in our Unum US operations. During 2014, claim incidence rates for Unum US group long-term disability were stable relative to the prior year, continuing to benefit from the gradual improvement in the economy. During 2013, claim incidence rates for Unum US group long-term disability improved slightly compared to the slightly elevated level of incidence rates in 2012. We expect that claim incidence trends for Unum US group long-term disability may continue to somewhat follow general economic conditions and demographics of the general U.S. workforce.

During 2014, our claim incidence rates for our Closed Block long-term care line of business improved slightly relative to the levels of 2013 and 2012, when we experienced claim incidence rates higher than the long-term assumptions we established at the time of loss recognition in 2011. We undertook a thorough review of our reserve assumptions related to our long-term care line of business during 2014 and updated our reserves using best estimate assumptions as of the date of the review. See "2014 Long-term Care Reserve Increase" contained in this Item 7.

Interest rates improved somewhat during 2013 and early 2014 before returning to levels well below historical norms in the latter part of 2014, and the assumptions we used to discount our reserves during these periods generally trended downward slightly for all segments and product lines. Reserve discount rate assumptions for new policies and new claims are adjusted to reflect our current and expected net investment returns. Changes in our average discount rate assumptions tend to occur gradually over a longer period of time because of the long-duration investment portfolios

which support the reserves for the majority of our lines of business.

Claim resolution rates have a greater chance of significant variability in a shorter period of time than our other reserve assumptions. These rates are reviewed on a quarterly basis for the death and recovery components separately. Claim resolution rates in our Unum US group and individual long-term disability product lines and our Closed Block individual disability product line have over the last several years exhibited some variability. Relative to the resolution rate we expect to experience over the life of the block of business, actual quarterly rates during 2013 and 2014 have varied by +3 and -2 percent in our Unum US group long-term disability line of business, between +10 and -13 percent in our Unum US individual disability line of business, and between +7 and -6 percent in our Closed Block individual disability line of business. Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. Throughout the period 2012 to 2014, our claim resolution rates were fairly consistent with or slightly favorable to our long-term assumptions. 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.

Regarding experience for our older age, longer duration disabled claimants in our Closed Block individual disability line of business, the claim resolution rates, primarily as pertaining to life expectancy of the insured, showed a reduction in the number of deaths at these older ages during 2014, which we believe is temporary in nature. During 2013 and 2012, mortality assumptions remained relatively consistent with the assumptions that we updated in 2011 for this particular claim block.

We monitor and test our reserves for adequacy relative to all of our assumptions in the aggregate. In our estimation, scenarios based on reasonably possible variations in each of our reserve assumptions, when modeled together in aggregate, could produce potential results as illustrated in the chart below. The major contributor to the variance for both the Unum US group long-term disability line of business and the Closed Block individual disability line of business is the claim resolution rate.

	Potential impact, positive or negative, of variations in reserve assumptions on our December 31, 2014 claim reserve balance (in millions of dollars)	
Unum US group long-term disability	3.6%	\$250
Closed Block individual disability	2.5%	\$245

In addition, we consider variability in our reserve assumptions related to long-term care policy reserves. These reserves are held under the gross premium valuation method with assumptions established as of December 31, 2014, the date of loss recognition. Assumptions for policy reserves do not change after the date of loss recognition unless reserves are again determined to be deficient. As such, positive developments will result in the accumulation of reserve margin, while adverse developments would result in an additional reserve charge. Policy reserves for long-term care are based upon a number of key assumptions, and each assumption has various factors which may impact the long-term outcome. Key assumptions with respect to morbidity, mortality, persistency, interest rates, and future premium rate increases must incorporate extended views of expectations for many years into the future. Reserves are highly sensitive to these estimates. For example, a 25 basis point change in the assumed discount rate over the lifetime of this business would impact reserves by approximately \$475 million, assuming all other factors held constant.

Key assumptions and related impacts are also heavily interrelated in both their outcome and in their effects on reserves. For example, changes in the view of morbidity and mortality might be mitigated by either potential future premium rate increases and/or morbidity improvements due to general improvement in health and/or medical breakthroughs. There is potentially a wide range of outcomes for each assumption and in totality.

We believe that these ranges provide a reasonable estimate of the possible changes in reserve balances for those product lines where we believe it is possible that variability in the assumptions, in the aggregate, could result in a material impact on our reserve levels, but we record our reserves based on our long-term best estimate. Because these product lines have long-term claim payout periods, there is a greater potential for significant variability in claim costs, either positive or negative. We closely monitor emerging experience and use these results to inform our view of long-term assumptions.

#### Deferred Acquisition Costs (DAC)

We defer incremental direct costs associated with the successful acquisition of new or renewal insurance contracts and amortize (expense) these costs over the life of the related policies. Deferred costs include certain commissions, other

agency compensation, selection and policy issue expenses, and field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral.

Approximately 83.7 percent of our DAC relates to non interest-sensitive products, and we amortize DAC for these products in proportion to the premium income we expect to receive over the life of the policies. DAC related to interest-sensitive policies is amortized over the lives of the policies in relation to the present value of estimated gross profits from surrender charges, mortality margins, investment returns, and expense margins. Key assumptions used in developing the future amortization of DAC are persistency, premium income, and for our interest-sensitive products, mortality margins and investment returns. We use our own historical experience and expectation of the future performance of our businesses in determining our assumptions. For non-interest sensitive products, the estimated premium income in the early years of the amortization period is generally higher than in the later years due to the anticipated cumulative effect of policy persistency in the early years, which results in a greater proportion of the costs being amortized in the early years of the life of the policy. During 2014, our key assumptions

used to develop the future amortization of acquisition costs deferred during 2014 did not change materially from those used in 2013. Generally, we do not expect our key assumptions to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time.

The following are our current assumptions regarding the length of our amortization periods, the approximate DAC balance that remains at the end of years 3, 10, and 15 as a percentage of the cost initially deferred, and our DAC balances as of December 31, 2014 and 2013.

	Amortization Period	Balance Remaining as a % of Initial Deferral			DAC Balances at December 31	
		Year 3	Year 10	Year 15	2014	2013
(in millions of dollars)						
Unum US						
Group Disability	6	30%	0%	0%	\$69.8	\$55.9
Group Life and Accidental Death & Dismemberment	6	31%	0%	0%	59.8	49.9
Supplemental and Voluntary:						
Individual Disability	20	71%	44%	21%	423.6	433.4
Voluntary Benefits	20	58%	23%	8%	543.3	512.3
Unum UK						
Group Long-term Disability	3	0%	0%	0%	5.1	5.1
Group Life	3	0%	0%	0%	1.3	1.2
Supplemental	20	57%	17%	7%	24.0	28.0
Colonial Life						
Accident, Sickness, and Disability	15	46%	12%	2%	378.2	350.6
Life	25	70%	33%	16%	215.2	218.7
Cancer and Critical Illness	19	59%	26%	10%	181.0	174.1
Totals					\$1,901.3	\$1,829.2

Amortization of DAC is adjusted to reflect actual experience for assumptions which deviate compared to the anticipated experience. Any deviations from projections may result in a change to the rate of amortization in the period such events occur. As an example, for our non-interest sensitive products, we may experience accelerated amortization if policies terminate earlier than projected, or we may experience a slower rate of amortization if policies persist longer than projected. Our actual experience has not varied materially from our assumptions during the last three years.

See Note 1 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our DAC accounting policy.

#### Fair Value of Investments

All of our fixed maturity securities are classified as available-for-sale and are reported at fair value. Our derivative financial instruments, including certain derivative instruments embedded in other contracts, are reported as either assets or liabilities and measured at fair value. We hold an immaterial amount of equity securities, which are also reported at fair value.



Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and therefore represents an exit price, not an entry price. The exit price objective applies regardless of our intent and/or ability to sell the asset or transfer the liability at the measurement date. We generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities and the income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. We believe the market approach valuation technique provides more observable data than the income approach, considering the types of investments we hold.

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. The market sources from which we obtain or derive the fair values of our assets and liabilities carried at market value include quoted market prices for actual trades, price quotes from third party pricing vendors, price quotes we obtain from outside brokers, matrix pricing, discounted cash flow, and observable prices for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer. Our fair value measurements could differ significantly based on the valuation technique and available inputs.

Inputs to valuation techniques refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value and/or the risk inherent in the inputs to the valuation technique. We use observable and unobservable inputs in measuring the fair value of our financial instruments. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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.

As of December 31, 2014, the key assumptions we generally used to estimate the fair value of these types of securities included those listed below. Where appropriate, we have noted the assumption used for the prior period as well as the reason for the change.

Risk free interest rates of 1.65 percent for five-year maturities to 2.75 percent for 30-year maturities were derived from the December 31, 2014 yield curve for U.S. Treasury Bonds with similar maturities. This compares to interest rates of 1.74 percent for five-year maturities to 3.97 percent for 30-year maturities used at December 31, 2013. Baa corporate bond spread adjustments ranging from 1.21 percent to 2.54 percent were added to the risk free rate to reflect additional credit risk and the lack of liquidity. We used spread adjustments ranging from 1.01 percent to 2.10 percent at December 31, 2013. The changes were based on observable market spreads. Newly issued private placement securities have historically offered yield premiums higher than a similar interest rate spread on comparable newly issued public securities.

Additional basis points were added as deemed appropriate for foreign investments, certain industries, and individual securities in certain industries that are considered to be of greater risk.

As of December 31, 2014, approximately 6.6 percent of our fixed maturity securities were categorized as Level 1, 89.0 percent as Level 2, and 4.4 percent as Level 3. Level 1 is 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 Level 2 category includes assets or liabilities valued using inputs (other than those included in the Level 1 category) 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. The Level 3 category 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 using unobservable inputs to extrapolate

an estimated fair value.

Rapidly changing credit and equity market conditions can materially impact the valuation of securities, and the period to period changes in value can vary significantly.

See Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

## Investment Impairments

One of the significant estimates related to investments is our impairment valuation. 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

We evaluate available information, including the factors noted above, both positive and negative, in reaching our conclusions. In particular, we also consider the strength of the issuer's balance sheet, its debt obligations and near term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a 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 use a comprehensive rating system to evaluate the investment and credit risk of our mortgage loans and to identify specific properties for inspection and reevaluation. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We establish an allowance for probable losses on mortgage loans based on a review of individual loans, considering the value of the underlying collateral, the value of which is periodically assessed. Mortgage loans are not reported at fair value in our consolidated balance sheets unless the mortgage loan is considered impaired, in which case the impairment is recognized as a realized investment loss in our consolidated statements of income.



There are a number of significant risks inherent in the process of monitoring our investments for impairments and determining when and if an impairment is other than temporary. These risks and uncertainties include the following possibilities:

- The assessment of a borrower's ability to meet its contractual obligations will change.
- The economic outlook, either domestic or foreign, may be less favorable or may have a more significant impact on the borrower than anticipated, and as such, the investment may not recover in value.
- New information may become available concerning the security, such as disclosure of accounting irregularities, fraud, or corporate governance issues.
- Significant changes in credit spreads may occur in the related industry.
- Significant increases in interest rates may occur and may not return to levels similar to when securities were initially purchased.
- Adverse rating agency actions may occur.

See Notes 1 and 3 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

#### Pension and Postretirement Benefit Plans

We sponsor several defined benefit pension and other postretirement benefit (OPEB) plans for our employees, including non-qualified pension plans. The U.S. qualified and non-qualified defined benefit pension plans comprise the majority of our total benefit obligation and benefit cost. We have a separate defined benefit plan for eligible employees in our U.K. operation.

During 2013, our U.S. defined benefit pension plans were closed to new entrants and were amended to freeze participation and benefit accruals as of December 31, 2013. In 2014, we further amended our U.S. qualified defined benefit pension plan to allow a limited-time offer of benefit payouts to eligible former employees with a vested right to a pension benefit. The offer provided eligible former employees, regardless of age, with an option to elect to receive a lump-sum settlement of his or her entire accrued pension benefit in December 2014 or to elect receipt of monthly pension benefits commencing in January 2015. For those who elected to receive lump-sum settlements, distributions from plan assets were made on or before December 31, 2014.

The U.K. defined benefit pension plan was closed to new entrants effective December 31, 2002 and was amended in 2013 to freeze participation effective June 30, 2014 and to reduce the maximum rate of inflation indexation from 5.0 percent to 2.5 percent for pension benefits which were earned prior to April 1997 effective at the date of adoption in 2013.

#### Assumptions

Our net periodic benefit costs and the value of our benefit obligations for these plans are determined based on a set of economic and demographic assumptions that represent our best estimate of future expected experience. Major assumptions used in accounting for these plans include the expected discount (interest) rate, the long-term rate of return on plan assets, and mortality rates. We also use, as applicable, expected increases in compensation levels and a weighted average annual rate of increase in the per capita cost of covered benefits, which reflects a health care cost trend rate, and the U.K. pension plan also uses expected cost of living increases to plan benefits.

The assumptions chosen for our pension and OPEB plans are reviewed annually, using a December 31 measurement date for each of our plans unless we are required to perform an interim remeasurement. The discount rate, expected long-term rate of return, and mortality rate assumptions have the most significant effect on our net periodic benefit costs associated with these plans. In addition to the effect of changes in our assumptions, the net periodic cost or

benefit obligation under our pension and OPEB plans may change due to factors such as plan amendments, actual experience being different from our assumptions, special benefits to terminated employees, and/or changes in benefits provided under the plans.

Discount rate - This interest assumption is based on the yield derived from a portfolio of high quality fixed income corporate debt instruments that reasonably match the timing and amounts of projected future benefits for each of our retirement-related benefit plans. The rate is determined at the measurement date. A lower discount rate increases the present value of benefit obligations and increases our net periodic benefit cost.

Long-term rate of return - This assumption is our best estimate of the average annual assumed return on plan assets until current benefits are paid. The market-related value as it relates to our estimate of long-term rate of return equals the fair value of plan assets, determined as of the measurement date. The return on plan assets recognizes all asset gains and losses, including changes in fair value, through the measurement date. Our expectations for the future

investment returns of the asset categories are based on a combination of historical market performance, evaluations of investment forecasts obtained from external consultants and economists, and current market yields. The expected return for the total portfolio is calculated based on the plan's current asset holdings. The actual rate of return on plan assets is determined based on the fair value of the plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments. A lower long-term rate of return on plan assets increases our net periodic benefit cost.

Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of the investment portfolios for our plans.

Mortality rate - This assumption reflects our best estimate, as of the measurement date, of the life expectancies of plan participants in order to determine the expected length of time for benefit payments. We derive our assumptions from industry mortality tables. The Society of Actuaries released updated mortality tables during the fourth quarter of 2014 which show that longevity in the United States is increasing, thereby establishing a new benchmark for mortality rates of private pension plan participants in the United States. Our mortality assumptions, which reflect the updated mortality tables, increased the benefit obligation of our U.S. defined benefit pension plans by approximately \$125 million and of our OPEB plan by approximately \$14 million. These updated tables do not impact the calculation of the benefit obligation for our U.K. defined benefit pension plan.

The weighted average assumptions used in the measurement of our net periodic benefit costs for the years ended December 31 are as follows:

Assumption	Pension Benefits						
	U.S. Plans		U.K. Plan		OPEB		
	2015	2014	2015	2014	2015	2014	
Discount Rate	4.40	% 5.30	% 3.60	% 4.40	% 4.30	% 5.00	%
Expected Long-term Rate of Return on Plan Assets	7.50	% 7.50	% 5.20	% 6.10	% 5.75	% 5.75	%

The following illustrates the sensitivity of the below items to a 50 basis point change in the discount rate or the expected long-term rate of return on plan assets:

Assumption	Change	At or for the Year Ended December 31, 2014		
		Net Periodic Benefit Cost, Before Tax	Benefit Obligation	Stockholders' Equity, After Tax
Discount Rate	+ 50 bp	\$(3.5	) \$(181.9	) \$121.4
Discount Rate	- 50 bp	2.6	205.9	(137.5
Expected Long-term Rate of Return on Plan Assets	+ 50 bp	(9.1	) N/A	N/A
Expected Long-term Rate of Return on Plan Assets	- 50 bp	9.1	N/A	N/A

#### Benefit Obligation and Fair Value of Plan Assets

During 2014, the fair value of plan assets in our U.S. qualified defined benefit pension plan decreased \$117.0 million, or approximately 7.4 percent, due primarily to the payment of \$214.5 million in benefit payments related to our limited-time offer for benefit payouts, offset partially by an appreciation in the fair value of the remaining plan assets. The fair value of plan assets in our U.K. pension plan increased £21.7 million, or approximately 15.9 percent.



Although the effect of these changes in fair value had no impact on our 2014 net periodic pension costs, the favorable rate of return on these U.S. plan assets during 2014, in excess of our assumed rate of return for 2014, will have a favorable impact on our net periodic pension costs for 2015. This favorable impact on costs is offset by a decrease in the discount rate for all of our plans and a decrease in the expected long-term rate of return assumption for our U.K. pension plan assets. We believe our assumptions appropriately reflect the impact of the current economic environment.

Our pension and OPEB plans have an aggregate unrecognized net actuarial loss of \$631.0 million and an unrecognized prior service credit of \$0.7 million, which together represent the cumulative liability and asset gains and losses as well as the portion of prior service credits that have not been recognized in pension expense. As of December 31, 2014, the unrecognized net loss for these two items combined was \$630.3 million.

The unrecognized gains or losses are amortized as a component of the net benefit cost. Our 2014, 2013, and 2012 pension and OPEB expense includes \$3.9 million, \$27.9 million, and \$43.4 million, respectively, of amortization of the unrecognized net actuarial loss and prior service credit. Our 2014 net periodic benefit cost for our U.S. qualified defined benefit pension plan also includes a \$64.4 million settlement loss related to our 2014 plan amendment, with a corresponding reduction in the unrecognized net actuarial loss in accumulated other comprehensive income. The unrecognized net actuarial loss for our pension plans, which is \$628.4 million at December 31, 2014, will be amortized over the average remaining life expectancy of the plan participants, which is approximately 35 years for U.S. participants and 34 years for U.K. participants, to the extent that it exceeds the 10 percent corridor, as described below. The unrecognized net actuarial loss of \$2.6 million for our OPEB plan will be amortized over the average future working life of OPEB plan participants, estimated at five years, to the extent the loss is outside of a corridor established in accordance with GAAP. The corridor for the pension and OPEB plans is established based on the greater of 10 percent of the plan assets or 10 percent of the benefit obligation. At December 31, 2014, \$403.7 million of the actuarial loss was outside of the corridor for the U.S. plans and £6.9 million was outside of the corridor for the U.K. plan. At December 31, 2014, none of the actuarial loss was outside of the corridor for the OPEB plan.

The fair value of plan assets in our U.S. qualified defined benefit pension plan was \$1,473.7 million at December 31, 2014, compared to \$1,590.7 million at December 31, 2013. The plan was in a \$245.1 million underfunded position at December 31, 2014 compared to an overfunded position of \$13.4 million at December 31, 2013. This year-over-year change was due primarily to the decrease in the discount rate and the adoption of updated mortality assumptions.

The fair value of plan assets in our U.K. pension plan was £158.1 million at December 31, 2014, compared to £136.4 million at December 31, 2013. The U.K. pension plan was in an overfunded position of £12.4 million and £10.3 million at December 31, 2014 and 2013, respectively.

The fair value of plan assets in our OPEB plan was \$11.3 million at December 31, 2014, compared to \$11.4 million at December 31, 2013. These assets represent life insurance contracts to fund the life insurance benefit portion of our OPEB plan. Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan.

See Executive Summary contained herein in Item 7 and Note 9 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our plans.

#### Income Taxes

We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. In evaluating the ability to recover deferred tax assets, we have considered all available positive and negative evidence including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine that we most likely would not be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. As of December 31, 2014 and 2013, we had no valuation allowance.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws in a multitude of jurisdictions, both domestic and foreign. The amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect profitability.

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in income tax returns. The evaluation of a tax position is a two step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure a position that satisfies the recognition threshold at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not threshold but that now satisfy the recognition threshold are recognized in the first

subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. If a previously recognized tax position is settled for an amount that is different from the amount initially measured, the difference will be recognized as a tax benefit or expense in the period the settlement is effective.

See Note 7 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

#### Contingent Liabilities

On a quarterly basis, we review relevant information with respect to litigation and contingencies to be reflected in our consolidated financial statements. An estimated loss is accrued when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. See Note 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

#### Accounting Developments

For information on new accounting standards and the impact, if any, on our financial position or results of operations, see Note 1 of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

Consolidated Operating Results  
(in millions of dollars)

	Year Ended December 31					
	2014	% Change	2013	% Change	2012	
<b>Revenue</b>						
Premium Income	\$7,797.2	2.3	% \$7,624.7	(1.2)	% \$7,716.1	
Net Investment Income	2,477.4	(0.6)	) 2,492.1	(0.9)	) 2,515.2	
Net Realized Investment Gain	16.1	136.8	6.8	(87.9)	) 56.2	
Other Income	219.0	(4.9)	) 230.2	1.0	227.9	
Total Revenue	10,509.7	1.5	10,353.8	(1.5)	) 10,515.4	
<b>Benefits and Expenses</b>						
Benefits and Change in Reserves for Future Benefits	7,310.8	10.8	6,595.7	(1.9)	) 6,722.2	
Commissions	935.3	2.8	909.5	(0.8)	) 917.2	
Interest and Debt Expense	167.5	12.1	149.4	2.8	145.4	
Deferral of Acquisition Costs	(524.0)	) 12.3	(466.8)	) (0.1)	) (467.3)	)
Amortization of Deferred Acquisition Costs	440.8	5.2	418.9	10.6	378.7	
Compensation Expense	820.9	3.9	790.4	0.5	786.8	
Other Expenses	831.2	10.6	751.5	(4.0)	) 782.9	
Total Benefits and Expenses	9,982.5	9.1	9,148.6	(1.3)	) 9,265.9	
Income Before Income Tax	527.2	(56.3)	) 1,205.2	(3.5)	) 1,249.5	
Income Tax	113.8	(67.2)	) 347.1	(2.3)	) 355.1	
Net Income	\$413.4	(51.8)	) \$858.1	(4.1)	) \$894.4	

In describing our results, we may at times note certain items and exclude the impact on financial ratios and metrics to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur. See "Reconciliation of Non-GAAP Financial Measures" contained in this Item 7 for additional discussion of these items.

The comparability of our financial results between years is affected by the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound weakens relative to the preceding period, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results relative to the prior period. Our weighted average pound/dollar exchange rate was 1.646, 1.566, and 1.584 for years ended 2014, 2013, and 2012, respectively. If the 2013 and 2012 results for our U.K. operations had been translated at the higher exchange rate of 2014, our operating revenue by segment in 2013 and 2012 would have been higher by approximately \$37.0 million and \$32.9 million, respectively, and our operating income in 2013 and 2012 would have been higher by approximately \$6.7 million and \$5.1 million, respectively. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Premium income for 2014 increased relative to the prior year, with premium growth in each of our principal operating business segments due to increased sales, premium rate increases, and favorable persistency in most of our product lines. While we are pleased with the improvement we saw throughout 2014, our premium growth rates remain below our long-term expectations for each of our principal operating business segments. For 2013, we reported premium

growth in our Unum US and Colonial Life segments relative to 2012, but premium income in total declined for 2013, as we believe growth in many of our product lines was unfavorably impacted during 2013 by the weak pace of economic growth, low levels of employment growth, the competitive environment, and the distraction caused by political instability and the implementation of healthcare reform. Also unfavorably impacting year over year comparisons for 2013 relative to 2012 were the reinsurance agreements we entered into during 2013 to cede a portion of certain product lines in Unum US individual disability and in Unum UK group life. Premium income continues to decline year over year, as expected, in our Closed Block segment.

Net investment income declined in 2014 relative to 2013 due primarily to a decrease in yield on invested assets and lower miscellaneous income, which includes income from bond call premiums, mortgage fees and payoffs, and partnership investments, partially offset by an increase in the level of invested assets. Net investment income was lower in 2013 relative to 2012 due primarily to a decline in the yield on invested assets, partially offset by a higher level of invested assets.

We recognized net realized investment gains of \$16.1 million, \$6.8 million, and \$56.2 million in 2014, 2013, and 2012, respectively. The net realized investment gain for 2014 includes a \$13.1 million hedge gain associated with the early retirement of a portion of the outstanding debt issued by one of our U.K. subsidiaries and an other-than-temporary impairment loss on fixed maturity securities of \$13.5 million. The 2013 net realized investment gain includes a \$30.0 million loss related to the sale of lower yielding securities during a period when interest rates increased, and we advantageously reinvested the proceeds into higher yielding investments, thereby increasing our investment yield and also improving the credit quality of our fixed maturity securities portfolio. Also included in net realized investment gains is the change in the fair value of an embedded derivative in a modified coinsurance arrangement, which resulted in realized gains of \$3.3 million, \$30.7 million, and \$51.8 million in 2014, 2013, and 2012, respectively. See Notes 4 and 8 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of the hedge gain related to the retirement of debt in 2014.

The consolidated benefit ratios were 93.8 percent in 2014 compared to 86.5 percent in 2013 and 87.1 percent in 2012. Excluding the 2014 and 2013 reserve adjustments, the benefit ratios for 2014 and 2013 were 84.8 percent and 86.4 percent, respectively. The underlying risk results in 2014 for each of our principal operating business segments, as well as for the majority of our product lines within those segments, were favorable or consistent with the prior year periods.

Interest and debt expense for 2014 was higher than the prior year due primarily to the first quarter of 2014 issuance of \$350 million of 4.00% senior notes, partially offset by the second quarter of 2014 retirement of \$145 million of principal outstanding on 6.85% debt. Interest and debt expense for 2014 also includes \$13.2 million of costs related to the second quarter of 2014 early retirement of debt. Interest and debt expense for 2013 was higher than 2012 due primarily to the issuance of \$250 million of 5.75% senior notes in the third quarter of 2012, offset partially by lower interest expense on our floating rate debt and the purchase and retirement of the debt held by Tailwind Holdings, LLC (Tailwind Holdings) in the first quarter of 2013. See Note 8 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our debt.

The deferral of acquisition costs increased in 2014 due primarily to sales growth in each of our principal operating business segments. The deferral of acquisition costs in 2013 was generally consistent with 2012. Amortization of acquisition costs was higher year-over-year in both 2014 and 2013 due to growth in the level of the deferred assets in our Unum US and Colonial Life businesses. Also contributing to the increase in amortization of acquisition costs in 2013 compared to 2012 was a higher level of policy terminations experienced in 2013 relative to assumptions for certain issue years within some of our Unum US supplemental and voluntary product lines.

Other expenses, including compensation expense, increased in 2014 compared to 2013 due to an increase in acquisition-related expenses, including sales compensation, resulting from higher sales in certain of our product lines, higher expenses related to technology and other growth-related investments, increased contributions to our defined contribution plans as a result of amendments to these plans which became effective in 2014, and the settlement loss related to our 2014 pension plan amendment. Partially offsetting these expense increases is a lower level of net actuarial loss amortization in 2014 compared to 2013 due to pension plan amendments adopted during 2013. Other expenses, including compensation expense, were in aggregate lower in 2013 relative to 2012 due to active expense management, the impact of the mid-year 2013 pension plan amendments, and expense reductions associated with reinsurance agreements entered into during 2013. See Note 9 in the "Notes to Consolidated Financial Statements"

contained herein in Item 8 for further discussion of our employee benefit plans.

Our income tax for 2014 was 21.6 percent of income before income tax, compared to 28.8 percent and 28.4 percent in 2013 and 2012, respectively. Our effective tax rate differs from the U.S. statutory rate of 35 percent primarily due to tax credits for tax credit partnerships and foreign earnings taxed at lower rates than the U.S. statutory rate. Our overall rate for 2014 was favorably impacted because a larger proportion of our 2014 earnings was derived from our foreign operations and taxed at that lower rate due to the long-term care reserve charge which is taxed at the higher U.S. rate. Our income tax for 2013 and 2012 includes reductions of \$6.3 million and \$9.3 million, respectively, to reflect the impact of the decrease in the U.K. corporation tax rate changes on our net deferred tax liability related to our U.K. operations. Our 2012 income tax also includes a release of an \$11.0 million tax liability related to unrecognized tax benefits. See Note 7 in the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further information on our income tax.

Further discussion of operating results for each of our segments and major product lines is included in "Segment Operating Results" herein in Item 7.



## Consolidated Sales Results

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

	Year Ended December 31				
	2014	% Change		2013	% Change
Unum US	\$902.1	21.0	% \$745.6	(2.0	)% \$760.5
Unum UK	£51.9	7.2	% £48.4	(18.7	)% £59.5
Colonial Life	\$410.1	11.6	% \$367.6	1.6	% \$361.9

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

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

Segment Results

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Closed Block, and Corporate. Financial information for each of our reporting segments is as follows.

Unum US Segment

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

Unum US Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31					
	2014	% Change	2013	% Change	2012	
Operating Revenue						
Premium Income	\$4,659.7	3.2	% \$4,517.1	1.4	%	\$4,456.5
Net Investment Income	890.3	(4.2)	) 929.6	(2.4)	)	952.3
Other Income	122.1	(4.8)	) 128.3	3.0		124.6
Total	5,672.1	1.7	5,575.0	0.8		5,533.4
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	3,288.1	2.0	3,222.4	(0.5)	)	3,238.6
Commissions	528.7	4.7	505.2	(0.5)	)	507.5
Deferral of Acquisition Costs	(292.7)	) 16.2	(252.0)	) 1.1	)	(249.2)
Amortization of Deferred Acquisition Costs	248.1	7.9	230.0	17.0		196.5
Other Expenses	1,043.6	4.3	1,000.8	0.8		992.9
Total	4,815.8	2.3	4,706.4	0.4		4,686.3
Income Before Income Tax and Net Realized Investment Gains and Losses	856.3	(1.4)	) 868.6	2.5		847.1
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	75.4	—		—
Group Life Waiver of Premium Benefit (Waiver) Reserve Reduction	—	—	(85.0)	) —		—
Operating Income	\$856.3	(0.3)	) \$859.0	1.4		\$847.1
Operating Ratios (% of Premium Income):						
Benefit Ratio	70.6	%	71.3	%		72.7
Benefit Ratio Excluding the UDB and Waiver Reserve Adjustments			71.6	%		
Other Expense Ratio	22.4	%	22.2	%		22.3
Income Ratio	18.4	%	19.2	%		19.0
Operating Income Ratio	18.4	%	19.0	%		19.0



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Unum US Group Disability Operating Results

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

	Year Ended December 31		2013	% Change	2012	
	2014	% Change				
<b>Operating Revenue</b>						
<b>Premium Income</b>						
Group Long-term Disability	\$1,553.5	—	% \$1,553.9	(1.6	)% \$1,578.8	
Group Short-term Disability	558.1	7.4	519.6	9.0	476.7	
Total Premium Income	2,111.6	1.8	2,073.5	0.9	2,055.5	
Net Investment Income	519.1	(5.6	) 550.1	(4.6	) 576.9	
Other Income	91.0	(4.8	) 95.6	2.0	93.7	
Total	2,721.7	0.1	2,719.2	(0.3	) 2,726.1	
<b>Benefits and Expenses</b>						
<b>Benefits and Change in Reserves for Future Benefits</b>						
Commissions	1,746.4	0.8	1,732.9	(0.5	) 1,741.6	
Deferral of Acquisition Costs	161.2	(1.7	) 164.0	3.0	159.3	
Amortization of Deferred Acquisition Costs	(40.2	) 35.8	(29.6	) 12.5	(26.3	)
Other Expenses	26.3	24.6	21.1	15.3	18.3	
Total	550.0	3.3	532.4	(1.4	) 540.1	
Total	2,443.7	0.9	2,420.8	(0.5	) 2,433.0	
Operating Income	\$278.0	(6.8	) \$298.4	1.8	\$293.1	
<b>Operating Ratios (% of Premium Income):</b>						
Benefit Ratio	82.7	%	83.6	%	84.7	%
Other Expense Ratio	26.0	%	25.7	%	26.3	%
Operating Income Ratio	13.2	%	14.4	%	14.3	%
<b>Persistency:</b>						
Group Long-term Disability	90.6	%	87.2	%	90.7	%
Group Short-term Disability	89.6	%	88.0	%	88.0	%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 compared to 2013, driven by favorable persistency, premium rate increases, and sales growth for both group long-term and group short-term disability. Net investment income declined in 2014 relative to 2013 due to a decrease in the level of invested assets and a decline in yield. Other income is comprised primarily of fees from administrative services products, which declined slightly in 2014 relative to 2013. Also included in other income for 2013 is a gain of \$4.0 million on the purchase and retirement of the debt issued by Tailwind Holdings.

Risk results were favorable in 2014 compared to 2013 due primarily to favorable claim recovery experience, partially offset by slightly higher claim incidence rates and a 50 basis point decrease in the discount rate which we implemented during the fourth quarter of 2014 for group long-term disability new claim incuralls.

The deferral of acquisition costs was higher in 2014 relative to the prior year due to an increase in deferrable expenses related to sales growth. The amortization of acquisition costs increased in 2014 compared to 2013 due to growth in the

level of the deferred asset. The other expense ratio for 2014 was higher compared to 2013 due to an increase in other expenses driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased slightly in 2013 compared to 2012 primarily due to growth from rate increases, partially offset by a decline in persistency in the group long-term disability product line. We believe the weak pace of economic growth, low levels of employment growth, and competitive environment hampered our premium income growth in 2013, including growth from existing customers. Net investment income declined in 2013 relative to 2012 due to decreases in the level of invested assets, lower miscellaneous income, and a decrease in the yield on invested assets. Other income increased slightly in 2013 compared to 2012 due to the gain of \$4.0 million on the purchase and retirement of the debt issued by Tailwind Holdings, partially offset by a decrease in fees from administrative services products.

Risk results were favorable in 2013 compared to 2012 due to favorable claim incidence rates and continued strong claim recovery experience. These results were partially offset by the 50 basis point decrease in the discount rate which we implemented during the third quarter of 2012 for group long-term disability new claim incurrrals.

The deferral and amortization of acquisition costs were both higher in 2013 relative to 2012 due to an increase in deferrable expenses and the resulting continued growth in the level of the deferred asset. The other expense ratio for 2013 was lower compared to 2012 as we continued to focus on operating effectiveness and expense management relative to our premium income level.

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Unum US Group Life and Accidental Death and Dismemberment Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31		2013	% Change		2012
	2014	% Change		% Change		
<b>Operating Revenue</b>						
<b>Premium Income</b>						
Group Life	\$1,262.3	4.0	% \$1,213.9	2.7	%	\$1,182.1
Accidental Death & Dismemberment	125.9	3.5	121.6	5.5		115.3
Total Premium Income	1,388.2	3.9	1,335.5	2.9		1,297.4
Net Investment Income	139.2	(2.4 )	142.6	(2.9 )		146.9
Other Income	1.4	(22.2 )	1.8	(5.3 )		1.9
Total	1,528.8	3.3	1,479.9	2.3		1,446.2
<b>Benefits and Expenses</b>						
Benefits and Change in Reserves for Future Benefits	975.8	7.2	909.9	(2.8 )		936.4
Commissions	113.3	4.0	108.9	4.1		104.6
Deferral of Acquisition Costs	(31.3 )	26.7	(24.7 )	10.3		(22.4 )
Amortization of Deferred Acquisition Costs	21.4	37.2	15.6	14.7		13.6
Other Expenses	205.2	3.5	198.2	2.6		193.1
Total	1,284.4	6.3	1,207.9	(1.4 )		1,225.3
Income Before Income Tax and Net Realized Investment Gains and Losses	244.4	(10.1 )	272.0	23.1		220.9
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	49.1	—		—
Group Life Waiver of Premium Benefit (Waiver) Reserve Reduction	—	—	(85.0 )	—		—
Operating Income	\$244.4	3.5	\$236.1	6.9		\$220.9
<b>Operating Ratios (% of Premium Income):</b>						
Benefit Ratio	70.3	%	68.1	%		72.2 %
Benefit Ratio Excluding the UDB and Waiver Reserve Adjustments			70.8	%		
Other Expense Ratio	14.8	%	14.8	%		14.9 %
Income Ratio	17.6	%	20.4	%		17.0 %
Operating Income Ratio	17.6	%	17.7	%		17.0 %
<b>Persistency:</b>						
Group Life	90.8	%	88.1	%		90.6 %
Accidental Death & Dismemberment	91.1	%	88.8	%		90.0 %

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 compared to 2013 primarily due to continued growth in the block of business resulting from sales and favorable persistency. Net investment income was lower in 2014 relative to the prior year due to a decrease in the yield on invested assets and lower miscellaneous income, partially offset by an increase in the

level of invested assets.

Risk results were unfavorable in 2014 compared to the prior year due to the net favorable impact of the 2013 reserve adjustments for group life waiver of premium benefits and unclaimed death benefits. Excluding these two reserve adjustments, risk results were slightly favorable in 2014 compared to 2013 due to lower claim incidence rates, partially offset by a higher average claim size.



The deferral of acquisition costs was higher in 2014 relative to the prior year due to sales growth. The amortization of acquisition costs increased in 2014 compared to 2013 due to growth in the level of the deferred asset. The other expense ratio in 2014 was consistent with the prior year as the increase in premium income more than offset expense increases driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased in 2013 compared to 2012 primarily due to growth in the block of business which resulted from sales and premium rate increases, partially offset by a decline in persistency. Net investment income was lower in 2013 compared to 2012 primarily due to a decrease in the yield on invested assets, partially offset by an increase in the level of invested assets.

Risk results were favorable in 2013 compared to 2012 as a result of the 2013 reserve reduction for group life waiver of premium benefits, partially offset by the reserve increase for unclaimed death benefits. Excluding these two reserve adjustments, risk results were favorable in 2013 compared to 2012 due primarily to more favorable experience related to the group life waiver of premium benefits.

The deferral and amortization of acquisition costs were both higher in 2013 relative to the prior year due to an increase in deferrable expenses and the resulting continued growth in the level of the deferred asset. The other expense ratio in 2013 was consistent with 2012.

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Unum US Supplemental and Voluntary Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31								
	2014	% Change	2013	% Change	2012				
<b>Operating Revenue</b>									
<b>Premium Income</b>									
Individual Disability	\$466.1	0.2	% \$465.3	(2.6	)%	\$477.6			
Voluntary Benefits	693.8	7.9	642.8	2.7		626.0			
Total Premium Income	1,159.9	4.7	1,108.1	0.4		1,103.6			
Net Investment Income	232.0	(2.1	)	236.9	3.7	228.5			
Other Income	29.7	(3.9	)	30.9	6.6	29.0			
Total	1,421.6	3.3	1,375.9	1.1		1,361.1			
<b>Benefits and Expenses</b>									
<b>Benefits and Change in Reserves for Future Benefits</b>									
Commissions	254.2	9.4	232.3	(4.6	)	243.6			
Deferral of Acquisition Costs	(221.2	)	11.9	(197.7	)	(1.4	)	(200.5	)
Amortization of Deferred Acquisition Costs	200.4	3.7	193.3	17.4		164.6			
Other Expenses	288.4	6.7	270.2	4.0		259.7			
Total	1,087.7	0.9	1,077.7	4.8		1,028.0			
<b>Income Before Income Tax and Net Realized Investment Gains and Losses</b>									
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	26.3	—		—			
Operating Income	\$333.9	2.9	\$324.5	(2.6	)	\$333.1			
<b>Interest Adjusted Loss Ratio:</b>									
Individual Disability	30.0	%	29.6	%		31.2	%		
<b>Operating Ratios (% of Premium Income):</b>									
<b>Benefit Ratios:</b>									
Individual Disability	51.6	%	51.3	%		52.4	%		
Voluntary Benefits	46.9	%	53.0	%		49.5	%		
<b>Benefit Ratio Excluding the UDB Reserve Increase</b>									
Voluntary Benefits			48.9	%					
Other Expense Ratio	24.9	%	24.4	%		23.5	%		
Income Ratio	28.8	%	26.9	%		30.2	%		
Operating Income Ratio	28.8	%	29.3	%		30.2	%		
<b>Persistency:</b>									
Individual Disability	90.0	%	90.5	%		91.4	%		
Voluntary Benefits	77.6	%	77.0	%		78.9	%		

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income was higher in 2014 compared to 2013, driven primarily by higher sales and stable to favorable persistency. Net investment income was lower in 2014 relative to 2013 due to decrease in yield on invested assets and lower miscellaneous income, partially offset by an increase in the level of invested assets.

Risk results for the individual disability product line were slightly less favorable during 2014 compared to 2013 due to lower claim recoveries and higher claim incidence rates. Risk results for voluntary benefits were favorable compared to 2013 due to the 2013 reserve increase for unclaimed death benefits. Excluding this reserve increase, risk results were favorable due to improved claim experience in the disability and life product lines.

Commissions and deferral of acquisition costs were higher in 2014 relative to 2013 due primarily to higher sales. The amortization of deferred acquisition costs was higher in 2014 compared to the prior year due to growth in the level of the deferred asset. The other expense ratio for 2014 increased compared to 2013 due to an increase in other expenses driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

The individual disability product line had goodwill of approximately \$187.5 million at December 31, 2014, none of which is currently believed to be at risk for future impairment.

#### Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income was generally consistent in 2013 compared to 2012, with growth in voluntary benefits offset by a decrease in the individual disability product line due to a reinsurance contract entered into during the second quarter of 2013 to cede a small block of individual disability business. Persistency for both individual disability and voluntary benefits declined relative to 2012 due to a higher level of policy terminations in the early part of 2013. Net investment income was higher in 2013 compared to 2012 due to an increase in the level of invested assets, an increase in miscellaneous income, partially offset by a decline in the yield on invested assets.

Risk results for the individual disability product line were favorable during 2013 compared to 2012 due to higher claim recoveries and the impact of a release of active life reserves related to the termination of a large in-force policy in 2013. Risk results for voluntary benefits were unfavorable compared to 2012 as a result of the 2013 reserve increase for unclaimed death benefits. Excluding this reserve increase, risk results for voluntary benefits were slightly favorable in 2013 compared to 2012 due to favorable experience in the life and critical illness product lines.

Commissions were lower in 2013 relative to 2012 due primarily to amounts ceded under the individual disability reinsurance contract previously discussed. The deferral of acquisition costs was generally consistent in 2013 compared to 2012. The amortization of deferred acquisition costs was higher in 2013 compared to 2012 due to a less favorable year-over-year impact from the prospective unlocking for expected future experience relative to assumptions for our interest-sensitive voluntary life products as well as a higher level of policy terminations relative to assumptions for certain issue years within certain of our product lines. The other expense ratio in 2013 was higher than 2012 due primarily to lower premium income resulting from the reinsurance contract entered into during 2013 in our individual disability product line as well as higher expenses associated with our voluntary benefits products.

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Sales

(in millions of dollars)

	Year Ended December 31		2013	% Change	2012
	2014	% Change			
<b>Sales by Product</b>					
<b>Group Disability and Group Life and AD&amp;D</b>					
Group Long-term Disability	\$223.6	29.0	% \$173.3	(4.9	)% \$182.2
Group Short-term Disability	118.8	16.6	101.9	4.6	97.4
Group Life and AD&D	264.8	32.8	199.4	(3.9	) 207.5
Subtotal	607.2	27.9	474.6	(2.6	) 487.1
<b>Supplemental and Voluntary</b>					
Individual Disability	56.8	8.8	52.2	(8.4	) 57.0
Voluntary Benefits	238.1	8.8	218.8	1.1	216.4
Subtotal	294.9	8.8	271.0	(0.9	) 273.4
Total Sales	\$902.1	21.0	\$745.6	(2.0	) \$760.5
<b>Sales by Market Sector</b>					
<b>Group Disability and Group Life and AD&amp;D</b>					
Core Market (< 2,000 lives)	\$401.7	23.8	% \$324.4	(3.1	)% \$334.9
Large Case Market	205.5	36.8	150.2	(1.3	) 152.2
Subtotal	607.2	27.9	474.6	(2.6	) 487.1
Supplemental and Voluntary	294.9	8.8	271.0	(0.9	) 273.4
Total Sales	\$902.1	21.0	\$745.6	(2.0	) \$760.5

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales of our group products increased in 2014 relative to 2013 in both the core and large case market segments for new and existing customer accounts. The sales mix in the group market sector for 2014 was approximately 66 percent core market and 34 percent large case market, generally consistent with the level of 2013.

Sales in our individual disability line of business, which are primarily concentrated in the multi-life market, increased in 2014 due to a favorable mix of sales in the core and large case market segments. Sales of voluntary benefits were higher in 2014 compared to 2013, with increases in both core and large case market sales.

We attribute a portion of our 2014 sales growth relative to 2013 to the distraction which occurred in the marketplace during 2013 as a result of healthcare reform implementation, which we believe negatively impacted our core market sales for our group and voluntary benefits products throughout 2013.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales in our group core and large case market segments declined in 2013 relative to 2012. In both markets, sales to existing accounts increased in 2013 but this increase was more than offset by a decrease in new account sales. The decline in new sales in our group core market was driven by fewer sales opportunities in the small-size employer market segment during 2013, which we believe may have been temporarily attributable to healthcare reform as well as the uncertain economic and political environment. We believe the decline in new sales in our large case market was partially due to our disciplined and opportunistic approach to sales growth. The sales mix in our group market sector in 2013 was approximately 68 percent core market and 32 percent large case market, generally consistent with the prior year.

Sales in our individual disability line of business were lower in 2013 compared to 2012 due to lower sales growth from existing customers. Sales of voluntary benefits were higher in 2013 compared to 2012, with an increase in core market sales partially offset by a decrease in large case market sales.

## Segment Outlook

During 2015, we expect continued strong growth momentum, with continued strong persistency and sales growth within our existing client relationships. We believe we will achieve year-over-year growth in premium income, with additional improvement in our premium and sales growth rates if the overall economic recovery further accelerates and market pricing adequately reflects the impact of a low interest rate environment.

Our net investment income may be impacted, either favorably or unfavorably, by fluctuations in miscellaneous investment income. The low interest rate environment and tighter credit spreads continue to place pressure on our profit margins by impacting net investment income yields and claim reserve discount rates. As part of our continued pricing discipline and our reserving strategy, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We expect a stable risk environment for our group disability product line in 2015, with the impact of the lower claim reserve discount rate offset by premium rate increases we place in the market, resulting in a benefit ratio for full year 2015 that is generally consistent with the level of 2014.

Our amortization of deferred acquisition costs may be unfavorably impacted, particularly in our supplemental and voluntary product line, by higher than expected policy terminations. We believe future profit margin improvement is achievable, driven primarily by our continued product mix shift, expense efficiencies, and consistent operating effectiveness.

Certain risks and uncertainties are inherent in the disability insurance business. Components of claims experience, such as incidence and recovery rates, may be worse than we expect. Disability claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates or lower discount rates, but these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. Unfavorable economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. Claim incidence levels may fluctuate due to the normal volatility that occurs in group disability business or may be related to economic conditions. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We remain confident in our strategy of providing consumers with valuable financial protection benefits, broadening our employer client relationships, and building collaborative partnerships with complementary product manufacturers, technology firms, and distributors. Our continued investment in our franchise includes active client management and a differentiated integrated experience across our product lines. There are significant growth opportunities in each of our markets and within our existing client base, and we continue to invest in the people, processes, and technologies that will allow us to enhance our ability to grow the market over the long term. Underpinning our strategy is our continued commitment to risk management discipline, talent development, and our core values.

## Unum UK Segment

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

## Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31					
	2014	% Change	2013	% Change	2012	
Operating Revenue						
Premium Income						
Group Long-term Disability	\$418.9	7.4	% \$389.9	(4.8)	)%	\$409.7
Group Life	133.2	25.2	106.4	(51.9)	)	221.3
Supplemental	55.1	(8.6)	) 60.3	(5.2)	)	63.6
Total Premium Income	607.2	9.1	556.6	(19.9)	)	694.6
Net Investment Income	151.0	1.7	148.5	(13.1)	)	170.8
Other Income	—	(100.0)	) 0.1	—		0.1
Total	758.2	7.5	705.2	(18.5)	)	865.5
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits						
Commissions	42.8	12.6	38.0	(10.8)	)	42.6
Deferral of Acquisition Costs	(10.5)	) 7.1	(9.8)	) (16.9)	)	(11.8)
Amortization of Deferred Acquisition Costs	12.5	(15.0)	) 14.7	(6.4)	)	15.7
Other Expenses	134.6	15.0	117.0	(20.0)	)	146.3
Total	610.4	6.5	573.2	(21.9)	)	734.2
Operating Income	\$147.8	12.0	\$132.0	0.5		\$131.3
Operating Ratios (% of Premium Income):						
Benefit Ratio	71.0	%	74.3	%		77.9
Other Expense Ratio	22.2	%	21.0	%		21.1
Operating Income Ratio	24.3	%	23.7	%		18.9
Persistency:						
Group Long-term Disability	90.1	%	82.2	%		84.0
Group Life	76.0	%	66.7	%		82.5
Supplemental	86.6	%	78.8	%		84.6



## Foreign Currency Translation

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

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

(in millions of pounds, except ratios)

	Year Ended December 31		2013	% Change		2012			
	2014	% Change		% Change					
Operating Revenue									
Premium Income									
Group Long-term Disability	£254.4	2.1	% £249.2	(3.6	)%	£258.4			
Group Life	80.8	18.5	68.2	(51.1	)	139.6			
Supplemental	33.4	(13.2	)	38.5	(4.0	)	40.1		
Total Premium Income	368.6	3.6	355.9	(18.8	)	438.1			
Net Investment Income	91.6	(3.5	)	94.9	(11.9	)	107.7		
Other Income	0.1	—	0.1	—		—			
Total	460.3	2.1	450.9	(17.4	)	545.8			
Benefits and Expenses									
Benefits and Change in Reserves for Future Benefits	261.4	(1.2	)	264.5	(22.5	)	341.4		
Commissions	26.0	7.0	24.3	(9.7	)	26.9			
Deferral of Acquisition Costs	(6.4	)	3.2	(6.2	)	(17.3	)	(7.5	)
Amortization of Deferred Acquisition Costs	7.6	(18.3	)	9.3	(6.1	)	9.9		
Other Expenses	81.9	9.6	74.7	(19.0	)	92.2			
Total	370.5	1.1	366.6	(20.8	)	462.9			
Operating Income	£89.8	6.5	£84.3	1.7		£82.9			
Weighted Average Pound/Dollar Exchange Rate	1.646		1.566			1.584			

## Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income was higher in 2014 compared to 2013 due to premium rate increases in our group long-term disability and group life product lines, favorable persistency, and an increased retention level in our reinsurance program, as of January 1, 2014, for our group life products that provide lump sum benefits. Partially offsetting these increases were large case policy terminations in our group life and supplemental product lines.

Net investment income declined in 2014 compared to 2013 due primarily to lower yields on invested assets. We also reported lower income from inflation index-linked bonds which we invest in to support the claim reserves associated

with certain of our group policies that provide for inflation-linked increases in benefits.

Group long-term disability and group life risk results were favorable in 2014 compared to 2013 due primarily to lower claim incidence rates. Supplemental risk results were favorable in 2014 compared to 2013 due to lower claim incidence rates for the group critical illness product line.

Commissions were higher in 2014 compared to 2013 due primarily to the increased retention level in our group life reinsurance program. The amortization of deferred acquisition costs was lower in 2014 compared to the prior year due primarily to a decrease in the level of the deferred asset. The other expense ratio was higher in 2014 compared to the prior year due primarily to an increase in operational investments in our business and a lower comparative expense ratio in 2013 as a result of expense allowances related to the reinsurance agreements in our group life product line.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income was lower in 2013 compared to 2012 due primarily to reinsurance agreements we entered into effective January 1, 2013 to cede an additional portion of our group life business. The reinsurance agreements significantly decreased premium income and benefit payments for group life during 2013 and also reduced volatility in this line of business. Premium income in 2013 was also unfavorably impacted by continued pressure on persistency resulting from the initiation of premium rate increases, partially offset by an increase in premium income as a result of rate increases in existing customer accounts.

Net investment income declined in 2013 compared to 2012 due primarily to a decrease in the yield on invested assets, lower levels of invested assets, and lower income from inflation index-linked bonds.

Group long-term disability risk results were unfavorable in 2013 compared to 2012 due primarily to lower claim recoveries. Group life risk results were favorable in 2013 compared to 2012 due primarily to lower mortality rates on the retained business. Supplemental risk results were favorable in 2013 compared to the prior year due to lower claim incidence rates for the group critical illness product line.

Commissions and deferral of acquisition costs were lower in 2013 compared to 2012 due to expenses ceded under the group life reinsurance agreements and a lower level of sales in 2013. The amortization of deferred acquisition costs and the other expense ratio were generally consistent in 2013 compared to the prior year.

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Sales

(in millions of dollars and pounds)

	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Sales by Product					
Group Long-term Disability	\$57.4	13.7	% \$50.5	(1.4 )%	\$51.2
Group Life	23.8	11.2	21.4	(43.7 )	38.0
Supplemental	3.9	—	3.9	(20.4 )	4.9
Total Sales	\$85.1	12.3	\$75.8	(19.4 )	\$94.1

Sales by Market Sector

Group Long-term Disability and Group Life

Core Market (< 500 lives)	\$42.5	9.3	% \$38.9	0.5	% \$38.7
Large Case Market	38.7	17.3	33.0	(34.7 )	50.5
Subtotal	81.2	12.9	71.9	(19.4 )	89.2
Supplemental	3.9	—	3.9	(20.4 )	4.9
Total Sales	\$85.1	12.3	\$75.8	(19.4 )	\$94.1

Sales by Product

Group Long-term Disability	£35.1	9.0	% £32.2	(0.3 )%	£32.3
Group Life	14.4	5.1	13.7	(43.2 )	24.1
Supplemental	2.4	(4.0 )	2.5	(19.4 )	3.1
Total Sales	£51.9	7.2	£48.4	(18.7 )	£59.5

Sales by Market Sector

Group Long-term Disability and Group Life

Core Market (< 500 lives)	£25.8	3.6	% £24.9	2.0	% £24.4
Large Case Market	23.7	12.9	21.0	(34.4 )	32.0
Subtotal	49.5	7.8	45.9	(18.6 )	56.4
Supplemental	2.4	(4.0 )	2.5	(19.4 )	3.1
Total Sales	£51.9	7.2	£48.4	(18.7 )	£59.5

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales in group long-term disability increased in 2014 compared to 2013 due to higher sales in the large case market, with an increase in sales to new customers partially offset by lower sales to existing customers. In the group long-term disability core market, or employee groups with fewer than 500 lives, sales declined in 2014 relative to the prior year.

Group life sales within the core market segment were higher in 2014 compared to 2013 for both new and existing customers. Group life sales in the large case market declined in 2014 relative to the prior year due to decreased sales to existing customers, partially offset by higher sales to new customers.

Supplemental sales were lower in 2014 compared to 2013 due primarily to lower sales in our group critical illness product line.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales in group long-term disability in 2013 were consistent with 2012, with higher new account sales and an increase in core market sales offset by a decrease in sales to existing customers and a decline in sales in the large case market.

Group life sales were lower in 2013 compared to 2012 as a result of declines in new account sales in both the core and large case markets, which more than offset higher sales to existing customers. The decrease in group life sales was due in part to pricing discipline and the initiation of rate increases on new business. Also impacting the comparability of group life sales relative to 2012 was the discontinuance of new sales of certain of our group life product lines beginning in the third quarter of 2012.

Supplemental sales were lower in 2013 compared to 2012 due primarily to lower sales in our individual disability product line.

## Segment Outlook

Our primary focus during 2015 will be a continuance of building on the key capabilities that we believe will enable us to deliver future growth. We expect to continue to improve our profitability through our shift in business mix, premium rate increases, an increased focus on new to market sales, and continued pursuit of efficiency opportunities.

We expect the low interest rate environment to continue to contribute to a dampening of overall earnings growth, and unfavorable economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. We are also preparing for Solvency II, a new European Union capital regime that will become effective January 1, 2016, the adoption of which will likely result in an increase in supervisory and disclosure requirements and could also result in increased capital requirements. We continue to work with regulatory authorities in the U.K. to agree on appropriate capital requirements for our U.K. business under Solvency II. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

In our group life business, the completion of our near-term actions regarding rate increases, reinsurance, and the discontinuance of certain product lines have reduced volatility and contributed to improvement in our overall profit margin. We are now looking at opportunities for disciplined growth in this market segment.

In our group long-term disability business, we remain committed to driving growth in the U.K. market. We will continue to follow a disciplined approach to new sales activity in the competitive pricing environment. We do, however, see genuine opportunities to grow the group long-term disability market in the U.K. through establishing new relationships with employers, deepening the level of coverage with our existing corporate clients, and through new offerings such as a sick-pay product and an updated offering of our group critical illness product. We anticipate returning to more normal levels of premium growth as our rate increases continue to be placed in the market and as we continue to increase sales to new and existing customers. We have seen some positive results in terms of new to market sales and increased coverage in existing cases. We believe the outlook for higher levels of employment, increases in corporate payrolls, and expansion of benefit spending is beginning to improve and will positively impact our sales and operating results, but a sustained low interest rate environment may dampen our profitability. In addition, we continue to focus on new market opportunities by raising awareness of the need for income protection. Expanding group long-term disability market penetration remains a significant opportunity and priority.

## Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees at the workplace through an independent contractor agency sales force and brokers.

## Operating Results

Shown below are financial results and key performance indicators for the Colonial Life segment.

(in millions of dollars, except ratios)

	Year Ended December 31		2013			2012
	2014	% Change		% Change		
<b>Operating Revenue</b>						
<b>Premium Income</b>						
Accident, Sickness, and Disability	\$759.8	2.9	% \$738.7	2.0	%	\$724.5
Life	231.8	4.8	221.1	5.4		209.7
Cancer and Critical Illness	282.1	3.6	272.4	4.6		260.3
Total Premium Income	1,273.7	3.4	1,232.2	3.2		1,194.5
Net Investment Income	146.7	0.9	145.4	4.9		138.6
Other Income	0.1	(50.0 )	0.2	(33.3 )		0.3
Total	1,420.5	3.1	1,377.8	3.3		1,333.4
<b>Benefits and Expenses</b>						
Benefits and Change in Reserves for Future Benefits	660.6	(1.0 )	667.0	6.3		627.3
Commissions	262.3	3.9	252.5	(0.8 )		254.5
Deferral of Acquisition Costs	(220.8 )	7.7	(205.0 )	(0.6 )		(206.3 )
Amortization of Deferred Acquisition Costs	180.2	3.4	174.2	4.6		166.5
Other Expenses	238.0	6.1	224.3	3.3		217.1
Total	1,120.3	0.7	1,113.0	5.1		1,059.1
Income Before Income Tax and Net Realized Investment Gains and Losses	300.2	13.4	264.8	(3.5 )		274.3
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	20.1	—		—
Operating Income	\$300.2	5.4	\$284.9	3.9		\$274.3
<b>Operating Ratios (% of Premium Income):</b>						
Benefit Ratio	51.9	%	54.1	%		52.5
Benefit Ratio Excluding the UDB Reserve Increase			52.5	%		
Other Expense Ratio	18.7	%	18.2	%		18.2
Income Ratio	23.6	%	21.5	%		23.0
Operating Income Ratio	23.6	%	23.1	%		23.0
<b>Persistency:</b>						
Accident, Sickness, and Disability	75.5	%	75.2	%		75.7
Life	85.2	%	85.2	%		85.7
Cancer and Critical Illness	83.5	%	83.1	%		84.5

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 relative to 2013 due to sales and continued strong persistency. Net investment income was higher in 2014 relative to the prior year due to an increase in the level of invested assets, partially offset by a decrease in yield on invested assets and lower miscellaneous income.



Favorable risk results in 2014 compared to 2013 primarily reflect improved claim experience in the cancer and critical illness product line. This was partially offset by less favorable experience in the accident, sickness, and disability product line due to a higher average claim size and in the life product line due to less favorable mortality experience. The release of active life reserves on terminations of older cases in the accident, sickness, and disability and cancer and critical illness product lines also favorably impacted 2014 relative to 2013.

Commissions and the deferral of acquisition costs were higher in 2014 relative to 2013 due to sales growth. The amortization of deferred acquisition costs was higher in 2014 compared to the prior year due primarily to continued growth in the level of the deferred asset. The other expense ratio was higher in 2014 compared to 2013 due primarily to continued investment in our business, higher sales compensation, and a higher level of allocated retirement-related costs.

#### Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased in 2013 relative to 2012 due to continued growth in the block of business as a result of sales and continued strong persistency. Net investment income increased in 2013 due to an increase in the level of invested assets and higher miscellaneous income, partially offset by a decrease in the yield on invested assets.

Our reported risk results for 2013 were less favorable than in 2012 as a result of the reserve increase for unclaimed death benefits. Excluding this reserve increase, the benefit ratio of 52.5 percent was consistent with the level of 2012, with favorable risk results in the life product line, due to improved mortality experience, offsetting less favorable risk results in the accident, sickness, and disability and cancer and critical illness product lines that resulted from an increased level of incurred claims.

Commissions and the deferral of acquisition costs were generally consistent in 2013 compared to 2012. The amortization of deferred acquisition costs was higher in 2013 compared to 2012 due to continued growth in the level of the deferred asset as well as higher amortization resulting from the prospective unlocking for expected future experience relative to assumptions for our interest-sensitive life products. The increase in other expenses in 2013 compared to 2012 was commensurate with the growth in premium income.

#### Sales

(in millions of dollars)

	Year Ended December 31		2013	% Change	2012
	2014	% Change			
<b>Sales by Product</b>					
Accident, Sickness, and Disability	\$260.7	9.4	% \$238.2	2.2	% \$233.0
Life	78.8	15.7	68.1	1.2	67.3
Cancer and Critical Illness	70.6	15.2	61.3	(0.5)	) 61.6
Total Sales	\$410.1	11.6	\$367.6	1.6	\$361.9
<b>Sales by Market Sector</b>					
<b>Commercial</b>					
Core Market (< 1,000 lives)	\$275.6	12.0	% \$246.0	(0.9)	)% \$248.3
Large Case Market	53.2	8.6	49.0	19.8	40.9
Subtotal	328.8	11.5	295.0	2.0	289.2
Public Sector	81.3	12.0	72.6	(0.1)	) 72.7
Total Sales	\$410.1	11.6	\$367.6	1.6	\$361.9

#### Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales were higher in 2014 compared to 2013 due to growth in both new and existing customer account sales and across all market segments. Commercial market sales increased in 2014, with higher sales in both the core commercial market, which we define as accounts with fewer than 1,000 lives, and in the large case commercial market. The growth in our core commercial market sales for 2014 was primarily attributable to new account sales, although we also experienced favorable growth in existing account sales. The growth in the large case commercial market was primarily attributable to higher sales to existing accounts. Public sector sales for 2014 increased due primarily to new account sales. The number of new accounts increased 13.4 percent in 2014 compared to 2013, and the average new case size increased 5.8 percent.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales were slightly higher in 2013 than 2012, with growth in existing account sales in all market segments. This growth was partially offset by a slight decrease in new account sales, with the decline primarily occurring in the core commercial market. Although large case commercial market sales were significantly higher than 2012, our new business pricing was within our guidelines as we continued our disciplined yet opportunistic approach to sales growth in this market. We believe the 2013 decrease in core commercial market sales, particularly in the small employer segment, was partially attributable to healthcare reform as well as the uncertain economic and political environment. The number of new accounts decreased 18.2 percent in 2013 compared to 2012, while the average new case size increased 20.0 percent.

#### Segment Outlook

We expect to see continued favorable sales and premium growth trends in 2015. Volatility in net investment income is likely to continue as a result of fluctuations in miscellaneous investment income. We expect our annual benefit ratio for 2015 to be generally consistent with the level of 2014. While we expect the low interest rate environment to continue to pressure our profit margins, we believe our underlying profitability will remain strong.

Proper execution of our growth strategy should deliver sales and premium growth that are in line with long-term expectations. Unfavorable U.S. economic conditions and the increasing competition in the voluntary market are seen as external risks to achievement of our business plans. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We believe our success will be driven primarily by execution in the core commercial and public sector segments and through expansion of the overall market. We believe the current market environment offers considerable opportunities to meet the emerging needs of employers, brokers, and consumers. We intend to continue to focus on growth, the customer experience, productivity, and talent development. Achieving our 2015 growth objectives will be supported by a continued focus on third-party connectivity, enrollment solutions, service capabilities, and operational excellence.

## Closed Block Segment

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

## Operating Results

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

	Year Ended December 31		2013	2012		
	2014	% Change		% Change	2012	
Operating Revenue						
Premium Income						
Individual Disability	\$624.8	(9.1 )%	\$687.5	(6.6 )%	\$736.4	
Long-term Care	630.9	—	630.6	(0.2 )	631.9	
All Other	0.9	28.6	0.7	(68.2 )	2.2	
Total Premium Income	1,256.6	(4.7 )	1,318.8	(3.8 )	1,370.5	
Net Investment Income	1,284.1	0.9	1,272.3	3.4	1,230.5	
Other Income	91.8	(2.2 )	93.9	(6.2 )	100.1	
Total	2,632.5	(2.0 )	2,685.0	(0.6 )	2,701.1	
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	2,931.1	27.8	2,293.0	(0.9 )	2,314.9	
Commissions	101.5	(10.8 )	113.8	1.1	112.6	
Interest and Debt Expense	7.3	(13.1 )	8.4	(19.2 )	10.4	
Other Expenses	168.2	4.9	160.4	(4.4 )	167.7	
Total	3,208.1	24.6	2,575.6	(1.2 )	2,605.6	
Income (Loss) Before Income Tax and Net Realized Investment Gains and Losses	(575.6 )	(626.1 )	109.4	14.6	95.5	
Long-term Care Reserve Increase	698.2	—	—	—	—	
Operating Income	\$122.6	12.1	\$109.4	14.6	\$95.5	
Interest Adjusted Loss Ratios:						
Individual Disability	83.6	%	82.6	%	83.0	%
Long-term Care	196.6	%	89.6	%	90.1	%
Long-term Care Excluding the Reserve Increase	85.9	%				
Operating Ratios (% of Premium Income):						
Other Expense Ratio	13.4	%	12.2	%	12.2	%
Income (Loss) Ratio	(45.8 )	%	8.3	%	7.0	%
Operating Income Ratio	9.8	%	8.3	%	7.0	%

Persistency:

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Individual Disability	91.3	%	91.8	%	92.5	%
Long-term Care	95.4	%	95.5	%	95.8	%

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Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Total premium income decreased in 2014 compared to 2013 due to expected policy terminations and maturities. The premium decrease resulting from persistency trends in the long-term care line of business was partially offset by the favorable impact of premium rate increases on certain of these policies. We continue to file requests with various state insurance departments for premium rate increases on certain of our individual and group long-term care policies. The rate increases reflect current interest rates and claim experience, higher expected future claims, longevity, persistency, and other factors related to pricing long-term care coverage. In states for which a rate increase is submitted and approved, customers are also given options for coverage changes or other approaches that might fit their current financial and insurance needs.

Net investment income was higher in 2014 relative to 2013 due to increased invested asset levels and higher miscellaneous income, partially offset by a decrease in yield on invested assets. Other income, which includes the underlying results of certain blocks of individual disability reinsured business and the net investment income of portfolios held by those ceding companies to support the block we have reinsured, was lower in 2014 compared to 2013 primarily due to lower investment income from the investment portfolios held by the ceding companies.

Individual disability risk results for 2014 were unfavorable relative to 2013 due primarily to higher claim incidence rates. Long-term care risk results were unfavorable in 2014 relative to the prior year due to the reserve charge, as previously discussed. Excluding this charge, long-term care risk results were favorable compared to 2013 due to lower claim incidence rates.

Commissions decreased in 2014 compared to 2013 due to a lower level of accrued commissions in 2014 as well as the expected run-off of these blocks of business. Interest and debt expense in 2014 was lower than 2013 due to principal repayments on the outstanding debt issued by Northwind Holdings, LLC (Northwind Holdings) and a decrease in the floating rate of interest. The other expense ratio was higher compared to 2013 due to lower premium income and an increase in expenses attributable to our long-term care product line.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Total premium income decreased in 2013 compared to 2012 due to expected policy terminations and maturities, partially offset by the favorable impact of premium rate increases on certain of our long-term care policies as well as the issuance of group long-term care certificates on in-force cases.

Net investment income was higher in 2013 compared to 2012 due primarily to higher invested asset levels, partially offset by a decrease in the yield on invested assets. Other income was lower in 2013 compared to 2012 due in part to lower investment income in the portfolios held by the ceding companies to which we have ceded certain blocks of individual disability business.

Individual disability risk results for 2013 were slightly favorable compared to 2012 due primarily to lower claim incidence rates. Long-term care risk results were slightly favorable in 2013 compared to 2012 due to more favorable development in active life reserves.

Interest and debt expense in 2013 was lower than 2012 due to principal repayments on the outstanding debt issued by Northwind Holdings and a decrease in the floating rate of interest. The other expense ratio was consistent in 2013 compared to 2012.



## Segment Outlook

We intend to continue our focus on operational effectiveness, rate increases, enhancement of our experience analysis tools, and capital management. We expect operating revenue to decline over time as these closed blocks of business wind down, although we anticipate additional premium income associated with long-term care rate increases. We also expect a small amount of group long-term care certificates may continue to be issued where we are required to do so under the terms of existing group policies. We will likely experience volatility in net investment income due to fluctuations of miscellaneous investment income. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly. We expect the low interest rate environment and the tightening of credit spreads to continue to place pressure on our earnings and reserve levels.

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



## Corporate Segment

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

## Operating Results

(in millions of dollars)

	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Operating Revenue					
Net Investment Income	\$5.3	N.M.	\$(3.7)	) N.M.	\$23.0
Other Income	5.0	(35.1)	) 7.7	175.0	2.8
Total	10.3	157.5	4.0	(84.5)	) 25.8
Interest and Other Expenses	157.9	7.1	147.5	9.8	134.3
Operating Loss Including Costs Related to Early Retirement of Debt	(147.6)	) (2.9)	) (143.5)	) (32.3)	) (108.5)
Costs Related to Early Retirement of Debt	13.2	—	—	—	—
Operating Loss	\$(134.4)	) 6.3	\$(143.5)	) (32.3)	) \$(108.5)

N.M. = not a meaningful percentage

## Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Net investment income increased in 2014 relative to 2013 due to higher levels of invested assets, partially offset by a decrease in yield on invested assets. Also impacting the year over year comparison for all years presented is the negative impact on reported net investment income attributable to the amortization of tax credit partnerships, the amounts of which are generally offset in income tax expense by a lower income tax rate due to the tax benefits recognized as a result of these investments. An accounting guidance update which is effective January 1, 2015 permits us to account for tax credit partnerships using proportional amortization and allows us to recognize that amortization as a component of income tax expense rather than as negative net investment income. See Note 1 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for discussion of this update.

Other income declined in 2014 relative to the prior year due primarily to the recognition of income in 2013 related to a settlement of an appeal to the IRS for tax years 2005 to 2006.

Interest and other expenses were higher in 2014 compared to 2013 due to \$13.2 million of costs related to the 2014 retirement of a portion of debt and due to increased interest expense on debt, partially offset by a higher level of retirement-related costs allocated from Corporate to our other segments.

## Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Net investment income was lower in 2013 compared to 2012 due to a decrease in the yield on invested assets, a decrease in reported investment income attributable to tax credit partnerships, and lower short-term interest rates.

Other income was higher in 2013 compared to 2012 due primarily to the IRS settlement.

Interest and other expenses were higher in 2013 compared to 2012 due primarily to an increase in interest expense on debt and a higher level of expense accruals in 2013 relative to the prior year.

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## Segment Outlook

We are currently holding capital at our insurance subsidiaries and holding companies at levels that exceed our long-term requirements, and we expect to continue to generate excess capital on an annual basis through our statutory earnings. While we intend to maintain our disciplined approach to risk management, we believe we are well positioned with substantial flexibility to preserve our capital strength and at the same time explore opportunities to deploy the excess capital that is generated.

## Investments

### Overview

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

Below is a summary of our formal investment policy, including the overall quality and diversification objectives:

The majority of investments are in high quality publicly traded securities to ensure the desired liquidity and preserve the capital value of our portfolios.

The long-term nature of our insurance liabilities also allows us to invest in less liquid investments to obtain superior returns. A maximum of 10 percent of the total investment portfolio may be invested in below-investment-grade securities, 2 percent in equity securities, 3 percent in tax credit partnerships, 35 percent in private placements, and 10 percent in commercial mortgage loans. The remaining assets can be held in publicly traded investment-grade corporate securities, mortgage/asset backed securities, bank loans, government and government agency securities, and municipal securities.

We intend to manage the risk of losses due to changes in interest rates by matching asset duration with liabilities, in the aggregate.

The weighted average credit quality rating of the portfolio should be Baa1 or higher.

The maximum investment per issuer group is limited based on internal limits reviewed by the risk and finance committee of Unum Group's board of directors and approved by the boards of directors of our insurance subsidiaries and is more restrictive than the five percent limit generally allowed by the state insurance departments which regulate the type of investments our insurance subsidiaries are allowed to own. These internal limits are as follows:

Rating	Internal Limit (\$ in millions)
AAA/AA	\$200
A	175
BBB+	150
BBB	125
BBB-	90
BB+	75
BB	60
BB-	50
B+	30
B/B-	20
CCC	10

The portfolio is to be diversified across industry classification and geographic lines.

Derivative instruments may be used to replicate permitted asset classes, hedge interest rate risk, credit risk, and foreign currency risk, and match liability duration and cash flows consistent with the plan reviewed by the risk and finance committee of Unum Group's board of directors and approved by the boards of directors of our insurance subsidiaries.

Asset mix guidelines and limits are established by us, reviewed by the risk and finance committee of Unum Group's board of directors, and approved by the boards of directors of our insurance subsidiaries.

The allocation of assets and the selection and timing of the acquisition and disposition of investments are subject to ratification, on a weekly basis, by an investment subcommittee appointed by the boards of directors of our insurance subsidiaries. These actions are also reviewed by the risk and finance committee of Unum Group's board of directors on a quarterly basis.

We review these investment policies and guidelines annually, or more frequently if deemed necessary, and recommend adjustments, as appropriate. Any revisions or exceptions are reviewed by the risk and finance committee of Unum Group's board of directors and must be approved by the boards of directors of our insurance subsidiaries.

See "Critical Accounting Estimates" contained in this Item 7 for further discussion of our valuation of investments.

#### Fixed Maturity Securities

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

#### Fixed Maturity Securities - By Industry Classification

As of December 31, 2014

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	\$2,666.8	\$244.0	\$366.4	\$29.1	\$2,300.4	\$273.1
Capital Goods	3,946.5	523.0	113.8	4.1	3,832.7	527.1
Communications	3,110.4	502.5	106.4	3.0	3,004.0	505.5
Consumer Cyclical	1,284.9	172.6	24.7	0.4	1,260.2	173.0
Consumer Non-Cyclical	5,961.6	814.2	486.2	12.7	5,475.4	826.9
Energy	6,117.3	690.4	952.5	68.9	5,164.8	759.3
Financial Institutions	3,389.0	396.4	—	—	3,389.0	396.4
Mortgage/Asset-Backed	2,431.8	206.9	29.9	0.1	2,401.9	207.0
Sovereigns	1,307.4	206.3	—	—	1,307.4	206.3
Technology	1,211.8	93.5	282.1	3.6	929.7	97.1
Transportation	1,676.9	269.8	63.5	0.4	1,613.4	270.2
U.S. Government Agencies and Municipalities	3,360.0	631.5	51.0	1.6	3,309.0	633.1
Public Utilities	8,550.6	1,504.5	63.3	0.9	8,487.3	1,505.4
Redeemable Preferred Stocks	49.9	5.9	—	—	49.9	5.9
Total	\$45,064.9	\$6,261.5	\$2,539.8	\$124.8	\$42,525.1	\$6,386.3

Our investment portfolio has exposure to companies whose businesses are negatively impacted by lower oil and natural gas prices. These include exploration and production companies, refineries, midstream and pipeline companies, and oilfield service businesses. The recent sharp drop in the price of oil is putting pressure on the earnings and cash flows of some of these businesses. The midstream and pipeline subsector represents our largest exposure within the energy sector. Demand for products in this subsector tends to be more correlated to product volume sales as opposed to the commodity price. We have very little exposure to the oilfield service subsector where demand for products is highly correlated with oil and gas prices. The degree to which a business is affected by oil and gas prices

can vary greatly depending on, among other things, its energy subsector, exposure to different types of oil and gas within a subsector, geographic locations, cost structure flexibility, capital structure, and hedging policies. The majority of our energy sector holdings are investment-grade fixed maturity securities. We perform stress testing on all energy-related investments in our portfolios, using different oil and gas price scenarios, and we continue to closely monitor this situation. Currently, we expect downward ratings pressure on some of our securities, but we do not expect material losses in our energy sector investments.

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of December 31, 2014 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the

securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after December 31, 2014. The decrease in the unrealized loss on investment-grade fixed maturity securities during 2014 was due primarily to a decrease in U.S. Treasury rates which occurred during the period. The increase in the unrealized loss on below-investment-grade fixed maturity securities during 2014 was due primarily to an increase in credit spreads in certain industries or sectors. We held no fixed maturity securities at December 31, 2014 with a gross unrealized loss of \$10.0 million or greater.

#### Unrealized Loss on Investment-Grade Fixed Maturity Securities

##### Length of Time in Unrealized Loss Position

(in millions of dollars)

	2014				2013
	December 31	September 30	June 30	March 31	December 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$23.2	\$10.1	\$2.2	\$4.6	\$20.0
> 90 <= 180 days	0.7	0.2	—	0.3	11.5
> 180 <= 270 days	0.1	—	0.1	2.9	183.3
> 270 days <= 1 year	—	—	1.0	85.6	12.6
> 1 year <= 2 years	20.4	34.2	43.6	13.8	11.0
> 2 years <= 3 years	2.2	—	—	0.1	—
> 3 years	0.9	3.1	3.4	6.2	6.9
Sub-total	47.5	47.6	50.3	113.5	245.3
Fair Value < 70% >= 40% of Amortized Cost					
> 3 years	—	—	—	—	2.5
Total	\$47.5	\$47.6	\$50.3	\$113.5	\$247.8

#### Unrealized Loss on Below-Investment-Grade Fixed Maturity Securities

##### Length of Time in Unrealized Loss Position

(in millions of dollars)

	2014				2013
	December 31	September 30	June 30	March 31	December 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$20.2	\$20.8	\$0.1	\$1.2	\$2.6
> 90 <= 180 days	31.4	0.4	—	0.7	2.5
> 180 <= 270 days	—	—	0.6	0.9	29.9
> 270 days <= 1 year	—	0.5	—	8.1	1.7
> 1 year <= 2 years	12.8	8.4	6.2	1.4	0.9
> 2 years <= 3 years	0.4	0.3	0.5	2.4	4.1
> 3 years	5.7	6.6	7.3	11.3	14.1
Sub-total	70.5	37.0	14.7	26.0	55.8
Fair Value < 70% >= 40% of Amortized Cost					

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

Cost

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<= 90 days	6.8	—	—	—	—
> 3 years	—	—	—	0.3	0.3
Sub-total	6.8	—	—	0.3	0.3
Total	\$77.3	\$37.0	\$14.7	\$26.3	\$56.1

During 2014, we recognized an other-than-temporary impairment loss of \$13.5 million on fixed maturity securities issued by a U.S.-based oil and natural gas exploration and production company. The company has a high debt-to-equity ratio, and its projected liquidity has recently decreased significantly as a result of the declines in oil and natural gas prices. We believe the



company will need to sell non-core assets to maintain liquidity and to build and develop its core assets. This process will be more difficult if the low oil price environment persists for an extended period of time. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than 90 days but less than 180 days. We had no individual realized investment losses of \$10.0 million or greater from other-than-temporary impairments during 2013 or 2012.

We had no individual realized investment losses of \$10.0 million or greater from the sale of fixed maturity securities during 2014 or 2013. During 2012, we recognized a loss of \$11.2 million on the sale of securities issued by a large U.S. department store chain. In 2011, the company's management was replaced by a new team of executives that embarked on a radically different retailing strategy. While the company had ample liquidity and sizable value in real estate assets, initial operating results under this new strategy had been significantly below market expectations, and there was uncertainty as to whether this new strategy would be successful. Because of this, we had concerns that liquidity could be compromised over an extended period of time. At the time of disposition, these securities had been in an unrealized loss position for a period of greater than three years.

At December 31, 2014, we had minimal exposure to investments for which the payment of interest and principal is guaranteed under a financial guaranty insurance policy, and the securities in aggregate have a weighted average credit rating of investment-grade absent the guaranty insurance policy. At December 31, 2014, we held \$191.1 million fair value (\$169.7 million amortized cost) of perpetual debentures, or "hybrid" securities, that generally have no fixed maturity date. Interest on these securities due on any payment date may be deferred by the issuer. The interest payments are generally deferrable only to the extent that the issuer has suspended dividends or other distributions or payments to any of its shareholders or any other perpetual debt instrument.

At December 31, 2014, our mortgage/asset-backed securities had an average life of 4.85 years, effective duration of 4.14 years, and a weighted average credit rating of Aaa. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. One of the risks involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income.

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

As of December 31, 2014, the amortized cost and fair value of our below-investment-grade fixed maturity securities was \$3,454.2 million and \$3,525.2 million, respectively. Below-investment-grade securities are inherently more risky than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in

below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

Our investments in issuers in foreign countries are chosen for specific portfolio management purposes, including asset and liability management and portfolio diversification across geographic lines and sectors to minimize non-market risks. In our approach to investing in fixed maturity securities, specific investments within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. For each security, we consider the political, legal, and financial environment of the sovereign entity in which an issuer is domiciled and operates. The country of domicile is based on consideration of the issuer's headquarters, in addition to location of the assets and the country in which the majority of sales and earnings are derived. We do not have exposure to foreign currency risk, as the cash flows from these investments are either denominated in currencies or hedged into currencies to match the related liabilities. We continually evaluate our foreign investment risk exposure. Our monitoring is heightened for investments in certain countries due to our concerns over the current economic and political environments as well as the banking crisis, and we believe these investments are more vulnerable to potential credit problems. At December 31, 2014, we had minimal exposure in those countries and had no direct exposure to financial institutions of those countries.

## Mortgage Loans

Our mortgage loan portfolio was \$1,856.6 million and \$1,815.1 million on an amortized cost basis at December 31, 2014 and 2013, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity continues to be low. Due to conservative underwriting, we expect the level of problem loans to remain low relative to the industry.

We held one mortgage loan at December 31, 2014 and 2013 that was considered impaired and was carried at the estimated net realizable value of \$13.1 million, net of a valuation allowance of \$1.5 million.

## Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment, duration, foreign currency, and credit risks. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps and U.S. Treasury rates, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Our 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 \$13.6 million at December 31, 2014. We held \$15.4 million of cash collateral from our counterparties at December 31, 2014. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$67.0 million at December 31, 2014. We had no cash collateral posted to our counterparties at December 31, 2014. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have a median credit rating of A3 or better, and by our use of cross-collateralization agreements.

## Other

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled \$40.4 million and \$39.9 million on a fair value basis at December 31, 2014 and 2013, respectively.

See Notes 3 and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our investments and our derivative financial instruments.

## Liquidity and Capital Resources

### Overview

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

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

stockholders or meet our debt and other payment obligations. As requirements of Dodd-Frank continue to take effect in 2015 and in subsequent years, to the extent that we enter into derivatives that are subject to centralized exchanges and cleared through a regulated clearinghouse, we may be subject to stricter collateral requirements which could have an adverse effect on our overall liquidity.

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

Cash equivalents and marketable securities held at Unum Group and our intermediate holding companies are a significant source of liquidity for us and were approximately \$575 million and \$514 million at December 31, 2014 and 2013, respectively. The change was driven primarily by increases from dividends from subsidiaries and our debt issuance in March, less decreases resulting from debt repayments and repurchases of our common stock. The December 31, 2014 balance, of which approximately \$176 million was held in certain of our foreign subsidiaries in the U.K., was comprised primarily of commercial paper, fixed maturity securities with a current average maturity of 1.8 years, and various money-market funds. No significant restrictions exist on our ability to use or access these funds. We currently have no intent, nor do we foresee a need, to repatriate funds from our foreign subsidiaries in the U.K. We believe we hold domestic resources sufficient to fund our liquidity requirements for the next 12 months. If we repatriate additional funds from our subsidiaries in the U.K., the amounts repatriated would be subject to repatriation tax effects which generally equal the difference in the U.S. tax rate and the U.K. tax rate.

As part of our capital deployment strategy, we have in recent years repurchased shares of Unum Group's common stock, as authorized by our board of directors. Our current share repurchase program was approved by our board of directors in December 2013 and authorizes the repurchase of up to \$750 million of common stock through June 2015, with the pace of repurchase activity to depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. The dollar value of shares remaining under the current repurchase program was approximately \$430 million at December 31, 2014. During 2014, we repurchased 8.7 million shares at a cost of approximately \$301 million.

#### Cash Available from Subsidiaries

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

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

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

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries also depends on additional factors such as RBC ratios and capital adequacy and/or solvency requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. Unum Group's RBC ratio for its traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was in excess of 400 percent at December 31, 2014, and generally consistent with the prior year. The capital adequacy and/or individual RBC ratios for each of our U.S. insurance subsidiaries, including our captive reinsurers, is above the range that would require state regulatory action.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from our U.K. subsidiaries, the payment of which may be subject to applicable insurance company regulations and capital guidance in the U.K. Our European holding company and its subsidiaries, including Unum Limited, will be impacted by new capital requirements and risk management standards under Solvency II, which is expected to be adopted January 1, 2016. Solvency II proposals, which are expected to be finalized during the first quarter of 2015, contain amended requirements on capital adequacy and risk management for insurers. The impact of Solvency II on our U.K. subsidiaries cannot be fully determined at this time, but the

adoption of Solvency II will likely result in an increase in supervisory and disclosure requirements and could also result in increased capital requirements.

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

The amount available during 2014 for the payment of ordinary dividends from Unum Group's traditional U.S. insurance subsidiaries, which excludes our captive reinsurers, was \$591.0 million, of which \$564.0 million was declared and paid. The amount available during 2014 from Unum Limited was £187.8 million, of which £60.0 million was declared and paid to one of our U.K. holding companies. During 2014, Tailwind Re and Northwind Re paid dividends of \$12.8 million and \$41.3 million to Tailwind Holdings and Northwind Holdings, respectively. Fairwind paid no dividends during 2014.

During 2015, we intend to maintain a level of capital in our U.S. and U.K. insurance subsidiaries above the applicable capital adequacy requirements and minimum solvency margins. Although we may not utilize the entire amount of available dividends, based on applicable restrictions under current law, approximately \$605 million is available, without prior approval by regulatory authorities, during 2015 for the payment of dividends from our traditional U.S. insurance subsidiaries, which excludes our captive reinsurers. Approximately £167 million is available for the payment of dividends from Unum Limited during 2015, subject to regulatory approval.

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

#### Funding for Employee Benefit Plans

We made contributions of approximately \$65.1 million and £3.1 million to our U.S. and U.K. defined contribution plans, respectively, in 2014. We expect to make contributions of approximately \$68.9 million and £4.6 million during 2015. We contribute to our U.K. defined benefit pension plan sufficient to meet the minimum funding requirement under U.K. legislation and accordingly made required contributions of £1.4 million to our U.K. defined benefit pension plan during 2014. We do not expect to make contributions in 2015 to our U.K. defined benefit pension plan. We made no contributions to our U.S. qualified defined benefit pension plan during 2014, nor do we expect to make any contributions during 2015. We have met all minimum pension funding requirements set forth by the Employee Retirement Income Security Act. We have estimated our future funding requirements under the Pension Protection Act of 2006 and under applicable U.K. law, and do not believe that any future funding requirements will cause a material adverse effect on our liquidity. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of our employee benefit plans.

#### Debt

There are no significant financial covenants associated with any of our outstanding debt obligations. We continually monitor our compliance with our debt covenants and remain in compliance. We have not observed any current trends that would cause a breach of any debt covenants.

#### Purchases and Retirement of Debt

In 2014, we purchased and retired \$145.0 million principal of our outstanding 6.85% notes, including a make-whole amount of \$13.2 million, for a total cost of \$158.2 million.

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In 2013, we purchased and retired the outstanding principal of \$62.5 million on the floating rate, senior secured non-recourse notes issued by Tailwind Holdings, resulting in a before-tax gain of \$4.0 million. During 2012, Tailwind Holdings made principal payments of \$10.0 million.

Northwind Holdings made principal payments on its floating rate, senior secured notes of \$41.6 million in 2014 and \$60.0 million in both 2013 and 2012.



### Issuance of Debt

In 2014, we issued \$350.0 million of unsecured 10-year senior notes in a public offering. These notes, due 2024, bear interest at a fixed rate of 4.00% and are payable semi-annually. The notes are callable at or above par and rank equally in right of payment with all of our other unsecured and unsubordinated debt.

In 2012, we issued \$250.0 million of unsecured senior notes in a public offering. These notes, due 2042, bear interest at a fixed rate of 5.75% and are payable semi-annually. The notes are callable at or above par and rank equally in right of payment with all of our other unsecured and unsubordinated debt.

### Credit Facility

In 2013, we entered into a five-year, \$400 million unsecured revolving credit facility. Under the terms of the agreement, we may request that the credit facility be increased up to \$600 million. Borrowings under the credit facility are for general corporate uses and are subject to financial covenants, negative covenants, and events of default that are customary. The credit facility provides for borrowing at an interest rate based either on the prime rate or LIBOR. In addition, the credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At December 31, 2014, letters of credit totaling \$2.1 million had been issued from the credit facility, but there was no borrowed amount outstanding. Our credit facility's financial covenants contain provisions regarding our leverage and net worth. We do not anticipate any violation of these covenants. However, if economic conditions worsen and we incur unexpected losses, we could violate certain of the financial covenants imposed by the credit facility and lose access to available funds or lines of credit through the facility. While maintenance of the unsecured, revolving credit facility provides a valuable source of contingent liquidity, we believe operating cash flows are sufficient to support our short-term liquidity needs.

### Shelf Registration

We filed a shelf registration with the Securities and Exchange Commission in 2014 to issue various types of securities, including common stock, preferred stock, debt securities, depository shares, stock purchase contracts, units and warrants, or preferred securities of wholly-owned finance trusts. The shelf registration enables us to raise funds from the offering of any securities covered by the shelf registration as well as any combination thereof, subject to market conditions and our capital needs.

See Note 8 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information on our debt.

## Commitments

The following table summarizes contractual obligations and our reinsurance recoverable by period as of December 31, 2014:

(in millions of dollars)

	Total	In 1 Year or Less	After 1 Year up to 3 Years	After 3 Years up to 5 Years	After 5 Years
Payments Due					
Short-term Debt	\$161.0	\$161.0	\$—	\$—	\$—
Long-term Debt	4,321.8	136.1	597.9	412.8	3,175.0
Policyholder Liabilities	43,358.3	4,685.3	6,864.5	5,394.8	26,413.7
Pension and OPEB	725.7	19.5	38.2	37.3	630.7
Miscellaneous Liabilities	687.8	613.6	18.0	11.8	44.4
Operating Leases	227.1	40.2	75.6	35.7	75.6
Purchase Obligations	256.7	254.6	2.1	—	—
Total	\$49,738.4	\$5,910.3	\$7,596.3	\$5,892.4	\$30,339.4
Receipts Due					
Reinsurance Recoverable	\$7,704.9	\$348.9	\$605.5	\$615.3	\$6,135.2

Short-term and long-term debt includes contractual principal and interest payments and therefore exceeds the amount shown in the consolidated balance sheets.

Policyholder liability maturities and the related reinsurance recoverable represent the projected payout of the current in-force policyholder liabilities and the expected cash inflows from reinsurers for liabilities ceded and therefore incorporate uncertainties as to the timing and amount of claim payments. We utilize extensive liability modeling to project future cash flows from the in-force business. The primary assumptions used to project future cash flows are claim incidence rates for mortality and morbidity, claim resolution rates, persistency rates, and interest rates. These cash flows are discounted to determine the current value of the projected claim payments. The timing and amount of payments on policyholder liabilities may vary significantly from the projections above.

Pensions and OPEB commitments represent the expected benefit payments related to our U.S. non-qualified defined benefit pension and other postretirement benefit plans as it is our policy to pay those benefits, as incurred, from our general assets. Our funding policy for our U.S. qualified defined benefit and our U.K. defined benefit pension plans is to make only contributions necessary to meet minimum funding requirements under U.S. and U.K. legislation. We do not currently expect to make any contributions to either of these plans and therefore have not included amounts in the preceding chart. However, to the extent contributions are required, we will make the necessary contributions to these plans.

Miscellaneous liabilities include commissions due and accrued, deferred compensation liabilities, state premium taxes payable, amounts due to reinsurance companies, obligations to return unrestricted cash collateral to our securities lending and derivatives counterparties, legally binding commitments to fund investments, and various other liabilities that represent contractual obligations. Obligations where the timing of the payment is uncertain are included in the one year or less category.

See "Critical Accounting Estimates" contained in this Item 7 and Notes 3, 4, 6, 8, 9, and 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information on our various commitments and obligations.

### Off-Balance Sheet Arrangements

Operating leases include noncancelable obligations on certain office space, equipment, and software. Purchase obligations include non-binding commitments of \$238.4 million to fund certain of our investments. These are included in the preceding table based on the expiration date of the commitments. The funds are due upon satisfaction of contractual notice from appropriate external parties and may or may not be funded. Also included are obligations with outside parties for computer data processing services, software maintenance agreements, and consulting services. The aggregate obligation remaining under these agreements was \$16.8 million at December 31, 2014.

As part of our regular investing strategy, we receive collateral from unaffiliated third parties through transactions which include both securities lending and also short-term agreements to purchase securities with the agreement to resell them at a later specified date. For both types of transactions, we require that a minimum of 102 percent of the fair value of the securities loaned or securities purchased under repurchase agreements be maintained as collateral. Generally, cash is received as collateral under these agreements. In the event that securities are received as collateral, we are not permitted to sell or re-post them. We also post our fixed maturity securities as collateral to unaffiliated third parties through transactions including both securities lending and also short-term agreements to sell securities with the agreement to repurchase them at a later specified date. See "Transfers of Financial Assets" as follows for further discussion.

To help limit the credit exposure of derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was \$13.6 million at December 31, 2014. We held cash collateral from our counterparties of \$15.4 million at December 31, 2014 and had posted fixed maturity securities with a carrying value of \$67.0 million as collateral to our counterparties.

See Notes 3, 4, and 14 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information.

### Transfers of Financial Assets

Our investment policy permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increase our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as secured borrowings. We had \$58.4 million of securities lending agreements outstanding which were collateralized by cash at December 31, 2014 and were reported as other liabilities in our consolidated balance sheets. The cash received as collateral was reinvested in short-term investments. The average balance during the year ended December 31, 2014 was \$65.5 million, and the maximum amount outstanding at any month end was \$94.0 million. In addition, at December 31, 2014, we had \$128.5 million of off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the year ended December 31, 2014 was \$116.5 million, and the maximum amount outstanding at any month end was \$153.6 million.

We had no repurchase agreements outstanding at December 31, 2014. The average balance during the year ended December 31, 2014 was \$1.6 million, and the maximum amount outstanding at any month end was \$12.8 million. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

During 2014, we were approved for membership of the Federal Home Loan Bank System (FHLB). As a member, we obtain access to low-cost funding and also receive dividends based on our stock ownership. Membership requires that we purchase a minimum amount of FHLB common stock based on a percentage of our total assets. Additional common stock purchases are required based upon the amount of funds borrowed from the FHLB. We will be required to post mortgage-related assets, U.S. Treasury securities, or other acceptable forms of collateral for any borrowings we make from the FHLB. As of December 31, 2014 we had not funded any FHLB common stock purchases or obtained any advances from the FHLB. Our initial common stock membership purchase will be funded in the first quarter of 2015.

See Note 3 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for additional information.

Consolidated Cash Flows  
(in millions of dollars)

	Year Ended December 31		
	2014	2013	2012
Net Cash Provided by Operating Activities	\$1,223.6	\$1,031.5	\$1,379.6
Net Cash Used by Investing Activities	(886.6	) (419.2	) (969.9
Net Cash Used by Financing Activities	(328.6	) (595.5	) (449.0
Net Increase (Decrease) in Cash and Bank Deposits	\$8.4	\$16.8	\$(39.3

Operating Cash Flows

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

The variance in the change in insurance reserves and liabilities to reconcile net income to net cash provided by operating activities as reported in our consolidated statements of cash flows for 2014 compared to the prior two years was due primarily to the 2014 reserve increase for our long-term care line of business.

Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Our investment strategy is to match the cash flows and durations of our assets with the cash flows and durations of our liabilities to meet the funding requirements of our business. When market opportunities arise we may sell selected securities and reinvest the proceeds to improve the yield and credit quality of our portfolio, as was the case during 2013 when we sold lower yielding fixed maturity securities to take advantage of the higher interest rate environment by reinvesting the proceeds into higher yielding mortgage-backed and corporate securities with a higher credit quality. We may at times also sell selected securities and reinvest the proceeds to improve the duration matching of our assets and liabilities and/or re-balance our portfolio. As a result, sales before maturity may vary from period to period. The sale and purchase of short-term investments is influenced by our securities lending program and by the amount of cash which is at times held in short-term investments to facilitate the availability of cash to fund the purchase of appropriate long-term investments and/or to fund our capital deployment program.

See Notes 3 and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further information.

Financing Cash Flows

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

During 2014, we retired \$145.0 million principal of our outstanding 6.85% notes, including a make-whole amount of \$13.2 million, for a total cash outflow of \$158.2 million. During 2014, 2013, and 2012 we made principal payments of \$41.6 million, \$60.0 million, and \$60.0 million, respectively, on our senior secured non-recourse notes issued by

Northwind Holdings. During 2013, we purchased and retired the outstanding principal of \$62.5 million on our floating rate, senior secured non-recourse notes issued by Tailwind Holdings for \$56.2 million. During 2012, we made principal payments of \$10.0 million on the Tailwind Holdings notes.

During 2014, we issued \$350.0 million of 4.00% unsecured 10-year senior notes in a public offering and received proceeds of \$347.2 million, excluding the associated debt issuance costs and discounts. During 2012, we issued \$250.0 million of 5.75% senior notes and received proceeds of \$246.4 million, excluding the associated debt issuance costs and discounts.

Cash used to repurchase shares of Unum Group's common stock during 2014, 2013, and 2012 was \$306.0 million, \$317.2 million, and \$496.7 million, respectively. During 2014, 2013, and 2012 we paid dividends of \$159.4 million, \$146.5 million, and \$133.8 million, respectively, to holders of Unum Group's common stock.

See "Debt" contained in this Item 7, and Notes 8 and 10 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further information.

## Ratings

AM Best, Fitch, Moody's, and S&P are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings can be expected to adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, particularly large case group sales and individual sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital or our ability to raise additional capital.

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

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

NR = not rated

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans as well as other pertinent issues. A significant component of our communications involves our annual review meeting with each of the four agencies. We hold other meetings throughout the year regarding our business, including, but not limited to, quarterly updates.

On December 16, 2014, Fitch affirmed its A rating of our domestic insurance subsidiaries and affirmed the BBB issuer credit rating for Unum Group following our 2015 Outlook Meeting held that day during which we discussed our expected long-term care reserve charge. On December 19, 2014, AM Best also affirmed its A rating of our primary domestic insurance subsidiaries and affirmed the senior debt rating of Unum Group at bbb. There have been no changes in any of the rating agencies' outlook statements or ratings during 2014 or 2015 prior to the date of this filing.





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

See "Ratings" contained herein in Item 1 and "Risk Factors" contained herein in Item 1A for further discussion.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risk exposures, including interest rate risk and foreign exchange rate risk. The following discussion regarding our risk management activities includes forward-looking statements that involve risk and uncertainties. Estimates of future performance and economic conditions are reflected assuming certain changes in market rates and prices were to occur (sensitivity analysis). Caution should be used in evaluating our overall market risk from the information presented below, as actual results may differ. See "Risk Factors" contained herein in Item 1A, "Investments" contained herein in Item 7, and Notes 2, 3, and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for further discussion of the qualitative aspects of market risk, including derivative financial instrument activity.

### Interest Rate Risk

Our exposure to interest rate changes results from our holdings of financial instruments such as fixed rate investments, derivatives, and interest-sensitive liabilities. Fixed rate investments include fixed maturity securities, mortgage loans, policy loans, and short-term investments. Fixed maturity securities include U.S. and foreign government bonds, securities issued by government agencies, public utility bonds, corporate bonds, mortgage-backed securities, and redeemable preferred stock, all of which are subject to risk resulting from interest rate fluctuations. Certain of our financial instruments, fixed maturity securities and derivatives, are carried at fair value in our consolidated balance sheets. The fair value of these financial instruments may be adversely affected by changes in interest rates. A rise in interest rates may decrease the net unrealized gain related to these financial instruments, but may improve our ability to earn higher rates of return on new purchases of fixed maturity securities. Conversely, a decline in interest rates may increase the net unrealized gain, but new securities may be purchased at lower rates of return. Although changes in fair value of fixed maturity securities and derivatives due to changes in interest rates may impact amounts reported in our consolidated balance sheets, these changes will not cause an economic gain or loss unless we sell investments, terminate derivative positions, determine that an investment is other than temporarily impaired, or determine that a derivative instrument is no longer an effective hedge.

Other fixed rate investments, such as mortgage loans and policy loans, are carried at amortized cost and unpaid balances, respectively, rather than fair value in our consolidated balance sheets. These investments may have fair values substantially higher or lower than the carrying values reflected in our balance sheets. A change in interest rates could impact our financial position if we sold our mortgage loan investments at times of low market value. A change in interest rates would not impact our financial position at repayment of policy loans, as ultimately the cash surrender values or death benefits would be reduced for the carrying value of any outstanding policy loans. Carrying amounts for short-term investments approximate fair value, and we believe we have minimal interest rate risk exposure from these investments.

We believe that the risk of being forced to liquidate investments or terminate derivative positions is minimal, primarily due to the level of capital at our insurance subsidiaries, the level of cash and marketable securities at our holding companies, and our investment strategy which we believe provides for adequate cash flows to meet the funding requirements of our business. We may in certain circumstances, however, need to sell investments due to changes in regulatory or capital requirements, changes in tax laws, rating agency decisions, and/or unexpected changes in liquidity needs.

Although our policy benefits are primarily in the form of claim payments and we therefore have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities, the fair values of liabilities under all insurance contracts are taken into consideration in our overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment cash flows with amounts due under insurance contracts. Changes in interest rates and individuals' behavior affect the amount and timing of asset

and liability cash flows. We actively manage our asset and liability cash flow match and our asset and liability duration match to limit interest rate risk. Due to the long duration of our long-term care product, the timing and/or amount of our investment cash flows may not match those of our maturing liabilities. We model and test asset and liability portfolios to improve interest rate risk management and net yields. Testing the asset and liability portfolios under various interest rate and economic scenarios enables us to choose what we believe to be the most appropriate investment strategy, as well as to limit the risk of disadvantageous outcomes. We use this analysis in determining hedging strategies and utilizing derivative financial instruments. We use current and forward interest rate swaps, options on forward interest rate swaps, and forward treasury locks to hedge interest rate risks and to match asset durations and cash flows with corresponding liabilities.

Debt is not carried at fair value in our consolidated balance sheets. If we modify or replace existing debt instruments at current market rates, we may incur a gain or loss on the transaction. We believe our debt-related risk to changes in interest rates is relatively minimal. In the near term, we expect that our need for external financing is small, but changes in our business could increase our need.

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We measure our financial instruments' market risk related to changes in interest rates using a sensitivity analysis. This analysis estimates potential changes in fair values as of December 31, 2014 and 2013 based on a hypothetical immediate increase of 100 basis points in interest rates from year end levels. The selection of a 100 basis point immediate parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The hypothetical potential changes in fair value of our financial instruments at December 31, 2014 and 2013 are shown as follows:

(in millions of dollars)	December 31, 2014		Hypothetical	
	Notional Amount of Derivatives	Fair Value	FV + 100 BP	Change in FV
<b>Assets</b>				
Fixed Maturity Securities (1)		\$45,064.9	\$41,394.8	\$(3,670.1 )
Mortgage Loans		2,024.2	1,931.3	(92.9 )
Policy Loans, Net of Reinsurance Ceded		339.2	313.2	(26.0 )
<b>Liabilities</b>				
Unrealized Adjustment to Reserves, Net of Reinsurance Ceded and Deferred Acquisition Costs (2)		\$(5,836.1 )	\$(3,071.9 )	\$2,764.2
Short-term Debt		(158.9 )	(157.8 )	1.1
Long-term Debt		(2,912.6 )	(2,745.6 )	167.0
<b>Derivatives (1)</b>				
Swaps	\$1,687.4	\$(64.9 )	\$(86.8 )	\$(21.9 )
Embedded Derivative in Modified Coinsurance Arrangement		(49.9 )	(55.6 )	(5.7 )
<b>December 31, 2013</b>				
(in millions of dollars)	Notional		Hypothetical	
	Amount of Derivatives	Fair Value	FV + 100 BP	Change in FV
<b>Assets</b>				
Fixed Maturity Securities (1)		\$42,344.4	\$39,009.2	\$(3,335.2 )
Mortgage Loans		1,980.2	1,889.9	(90.3 )
Policy Loans, Net of Reinsurance Ceded		295.9	278.0	(17.9 )
<b>Liabilities</b>				
Unrealized Adjustment to Reserves, Net of Reinsurance Ceded and Deferred Acquisition Costs (2)		\$(3,886.3 )	\$(1,568.7 )	\$2,317.6
Long-term Debt		(2,824.4 )	(2,660.5 )	163.9
<b>Derivatives (1)</b>				
Swaps	\$1,477.4	\$(124.8 )	\$(139.7 )	\$(14.9 )
Embedded Derivative in Modified Coinsurance Arrangement		(53.2 )	(62.1 )	(8.9 )

(1) These financial instruments are carried at fair value in our consolidated balance sheets. Changes in fair value resulting from changes in interest rates may affect the fair value at which the item is reported in our consolidated balance sheets. The corresponding offsetting change is reported in other comprehensive income or loss, net of deferred taxes, except for changes in the fair value of derivatives accounted for as fair value hedges or derivatives not designated as hedging instruments, the offset of which is reported as a component of net realized investment gain or

loss.

(2) The adjustment to reserves and deferred acquisition costs for unrealized investment gains and losses reflects the adjustments to policyholder liabilities and deferred acquisition costs that would be necessary if the unrealized investment gains and losses related to the fixed maturity securities and derivatives had been realized. Changes in this adjustment are also reported as a component of other comprehensive income or loss, net of deferred taxes.

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The effect of a change in interest rates on asset prices was determined using a duration implied methodology for corporate bonds and government and government agency securities whereby the duration of each security was used to estimate the change in price for the security assuming an increase of 100 basis points in interest rates. The effect of a change in interest rates on the mortgage-backed securities was estimated using a mortgage analytic system which takes into account the impact of changing prepayment speeds resulting from a 100 basis point increase in interest rates on the change in price of the mortgage-backed securities. These hypothetical prices were compared to the actual prices for the period to compute the overall change in market value. The changes in the fair values shown in the chart above for all other items were determined using discounted cash flow analyses. Because we actively manage our investments and liabilities, actual changes could be less than those estimated above.

Sustained periods of low interest rates may result in lower than expected profitability. Assuming interest rates and credit spreads remained constant throughout 2015 at the January 2015 market levels, our net investment income would decrease by approximately \$1 million in 2015 and \$7 million in 2016 relative to our current expectations. This interest rate scenario does not give consideration to the effect of other factors which could impact these results, such as changes in the bond market and changes in hedging strategies and positions, nor does it consider the potential change to our discount rate reserve assumptions and any mitigating factors such as pricing adjustments. In addition, a continued low or declining interest rate environment may also result in an increase in the net periodic benefit costs for our pension plans, but we do not believe it would materially affect net income in 2015 or 2016.

#### Foreign Currency Risk

The functional currency of our U.K. operations is the British pound sterling. We are exposed to foreign currency risk arising from fluctuations in the British pound sterling to U.S. dollar exchange rates primarily as they relate to the translation of the financial results of our U.K. operations. Fluctuations in the pound to dollar exchange rate have an effect on our reported financial results. We do not hedge against the possible impact of this risk. Because we do not actually convert pounds into dollars except for a limited number of transactions, we view foreign currency translation as a financial reporting issue and not a reflection of operations or profitability in our U.K. operations.

Assuming the pound to dollar exchange rate decreased 10 percent from the December 31, 2014 and 2013 levels, stockholders' equity as reported in U.S. dollars would have been lower by approximately \$100 million at each of those year end periods. Assuming the pound to dollar average exchange rate decreased 10 percent from the actual average exchange rates for 2014 and 2013, before-tax operating income, as reported in U.S. dollars, would have decreased approximately \$15 million in each of those two years.

Dividends paid by Unum Limited are generally held at our U.K. finance subsidiary or our U.K. holding company. If these funds are repatriated to our U.S. holding company, we would at that time be subject to foreign currency risk as the value of the dividend, when converted into U.S. dollars, would be dependent upon the foreign exchange rate at the time of conversion.

We are also exposed to foreign currency risk related to certain foreign investment securities denominated in local currencies and U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. We use current and forward currency swaps to hedge or minimize the foreign exchange risk associated with these instruments.

See "Risk Factors" contained herein in Item 1A and "Consolidated Operating Results" and "Unum UK Segment" contained herein in Item 7 for further information concerning foreign currency translation.

#### Risk Management

Effectively taking and managing risks is essential to the success of our Company. To facilitate this effort, we have a formal Enterprise Risk Management (ERM) program, with a framework comprising the following key components:

- Risk culture and governance
- Risk appetite policy
- Risk identification and prioritization
- Risk and capital modeling
- Risk management activities
- Risk reporting



Our ERM framework is the ongoing system of people, processes, and tools across our Company under which we intend to function consistently and collectively to identify and assess risks and opportunities, to manage all material risks within our risk appetite, and to contribute to strategic decision making. With the goal of maximizing shareholder value, the primary objectives of our ERM framework are to support Unum Group in meeting its operational and financial objectives, maintaining liquidity, optimizing capital, and protecting franchise value.

### Risk Culture and Governance

We employ a decentralized risk management model under which risk-based decisions are made daily on a local level. To achieve long-term success, we believe risk management must be the responsibility of all employees. The individual and collective decisions of our employees play a key role in successfully managing our overall risk profile. We strive for a culture of accountability, risk management, and strict compliance, and we believe these values allow our employees to feel comfortable identifying issues as well as taking ownership for addressing potential problems.

Our risk culture is reinforced by our system of risk governance. We employ a multi-layered risk control system. Our three lines of defense model is depicted below.

1st Line: Own and Manage	2nd Line: Oversee	3rd Line: Independent Assurance
Business processes and procedures employed throughout the Company through which management assumes and monitors significant risks	Management committees chartered with oversight of activities within the 1st and 2nd lines of defense, mitigation of substantial exposures, and management of emerging risks	Independent review of ERM framework and risk mitigation

Business units are primarily responsible for managing their principal risks. Our risk committees and other management committees serve risk and control functions responsible for providing risk oversight, or the second line of risk control. The internal audit team provides a second level of independent review, or our third line of risk control. The risk and finance committee of Unum Group's board of directors (the board) oversees the entire ERM governance process, effectively providing independent review for our third line of risk control.

The board has an active role, as a whole and through its committees, in overseeing management of our risks. The board is responsible for managing strategic risk and regularly reviews information regarding our capital, liquidity, and operations, as well as the risks associated with each. The risk and finance committee of the board is responsible for oversight of our risk management process, including financial risk, operational risk, and any other risk not specifically assigned to another board committee. It also is responsible for oversight of risks associated with investments, capital and financing plans and activities, and related financial matters, including matters pertaining to our Closed Block segment. The audit committee of the board is responsible for oversight of risks relating to financial reporting risk and certain operational risks. The human capital committee of the board is responsible for oversight of risks relating to our compensation plans and programs. The regulatory compliance committee of the board is responsible for oversight of risks related to regulatory, compliance, policy, and legal matters, both current and emerging, and whether of a local, state, federal, or international nature. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board is regularly informed through committee reports about such risks in addition to the risk information it receives directly.

The executive risk management committee is responsible for overseeing our enterprise-wide risk management program. The chief risk officer, who is a member of the executive risk management committee, has primary responsibility for our ERM program and is supported by corporate risk committees and by the risk committees of our primary operating segments.

Operating segment risk committees for Unum US, Unum UK, Colonial Life, and Closed Block are responsible for oversight of risks specific to their businesses. These committees are responsible for identifying, measuring, reporting, and managing insurance and operational risks within their respective areas, consistent with enterprise risk management guidance. Corporate risk committees and other management committees oversee the operational, global technology services, investment, and capital management risks on a corporate level.

## Risk Appetite Policy

Our risk appetite policy describes the types of risks we are willing to take, as well as the amount of enterprise risk exposure we deem acceptable in pursuit of our goals, with an objective of clearly defining boundaries for our risk-taking activities.

The starting point of our philosophy and approach to our ERM strategy is our corporate strategy. In contrast to many multi-line peer companies, we do not offer retirement savings, traditional medical benefits, or property and casualty insurance. Our corporate strategy is focused on providing group, individual, and voluntary benefits, either as stand-alone products or combined with other coverages, that create comprehensive benefits solutions for employers. We have market leadership positions in the product lines we offer and believe this combination of focused expertise and experience is a competitive advantage and forms the foundation of our approach to risk management.

We believe our sound and consistent business practices, strong internal compliance program, and comprehensive risk management strategy enable us to operate efficiently and to identify and address potential areas of risk in our business. We take and manage risks to achieve our business and strategic objectives, and our risk appetite statement sets boundaries for risk-taking activities that link earnings, capital, and operational processes, as well as summarizes our most material risk limits and controls. We monitor our risk profile against our established risk tolerance and limits. Risks falling outside our risk tolerance and limits are reported to the applicable governance group, where decisions are made pertaining to acceptance of the risk or implementation of remediation plans or corrective actions as deemed appropriate by that governance group.

## Risk Identification and Prioritization

Risk identification and prioritization is an ongoing process, whereby we identify and assess our risk positions and exposures, including notable risk events. Additionally, we identify emerging risks and analyze how material future risks might affect us. Knowing the potential risks we face allows us to monitor and manage their potential effects including adjusting our strategies as appropriate and holding capital levels which provide financial flexibility. Risk and other management committees have primary responsibility for identifying and prioritizing risks within their respective areas.

We face a wide range of risks, and our continued success depends on our ability to identify and appropriately manage our risk exposures. For additional information on certain risks that may adversely affect our business, operating results, or financial condition see "Cautionary Statement Regarding Forward-Looking Statements" contained herein on page 1 and "Risk Factors" contained herein in Item 1A.

## Risk and Capital Modeling

We assess material risks, including how they affect us and how individual risks interrelate, to provide valuable information to management in order that they may effectively manage our risks. We use qualitative and quantitative approaches to assess existing and emerging risks and to develop mitigating strategies to limit our exposure to both.

We utilize stress testing and scenario analysis for risk management and to shape our business, financial, and strategic planning activities. Both are key components of our risk appetite policy and play an important role in monitoring, assessing, managing, and mitigating our primary risk exposures.

In particular, stress testing of our capital and liquidity management strategies enables us to identify areas of high exposure, assess mitigating actions, develop contingency plans, and guide decisions around our target capital and liquidity levels. For example, we periodically perform stress tests on certain categories of assets or liabilities to support development of capital and liquidity risk contingency plans. These tests help ensure that we have a buffer to

support our operations in uncertain times and financial flexibility to respond to market opportunities. Stress testing is also central to reserve adequacy testing, cash flow testing, and asset and liability management.

In addition, we aim to constantly improve our capital modeling techniques and methodologies that are used to determine a level of capital that is commensurate with our risk profile and to ensure compliance with evolving regulatory and rating agency requirements. Our capital modeling reflects appropriate aggregation of risks and diversification benefits resulting from our mix of products and business units.

Our internal capital modeling and allocation aids us in making significant business decisions including strategic planning, capital management, risk limit determination, reinsurance purchases, hedging activities, asset allocation, pricing, and corporate development.

## Risk Management Activities

We accept and manage strategic, credit, and insurance risks in accordance with our corporate strategy, investment policy, and annual business plans. The following fundamental principles are embedded in our risk management efforts across our Company.

We believe in the benefits of specialization and a focused business strategy. We seek profitable risk-taking in areas where we have established risk management skills and capabilities.

We seek to manage our exposure to insurance risk through a combination of prudent underwriting with effective risk selection, maintaining pricing discipline, sound reserving practices, and claims operational effectiveness. Detailed underwriting guidelines and claim policies are tools used to manage our insurance risk exposure. We also monitor exposures against internally prescribed limits, and we diversify to reduce potential concentration risk and volatility.

We maintain a detailed set of investment policies and guidelines, including fundamental credit analysis, that are used to manage our credit risk exposure and diversify our risks across asset classes and issuers.

Finally, we foster a risk culture that embeds our corporate values and our code of conduct in our daily operations and preserves our reputation with customers and other key stakeholders. We monitor a composite set of operational risk metrics that measure operating effectiveness from the customer perspective.

## Risk Reporting

Regular internal and external risk reporting is an integral part of our ERM framework. Internally, ERM reports are a standard part of our quarterly senior management and board meetings. The reports summarize our existing and emerging risk exposures, as well as report against the tolerances and limits defined by our risk appetite policy.

Externally, we are subject to a number of regulatory and rating agency risk examinations, and risk reports are often included. During 2015, we must comply with the ORSA requirements, which are intended to become a regular part of reviews of insurers' ERM programs. We believe the ORSA will provide strong evidence of the strengths of our ERM framework, measurement approaches, key assumptions utilized in assessing our risks, and prospective solvency assessments under both normal and stressed conditions. We have implemented, and will continue to implement, actions to prepare for compliance with this standard. See "Regulation" contained herein in Item 1 for additional information regarding the ORSA.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Unum Group

We have audited the accompanying consolidated balance sheets of Unum Group and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unum Group and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Unum Group and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 25, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chattanooga, Tennessee  
February 25, 2015



## CONSOLIDATED BALANCE SHEETS

## Unum Group and Subsidiaries

	December 31	
	2014	2013
	(in millions of dollars)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$38,803.4; \$38,289.6)	\$45,064.9	\$42,344.4
Mortgage Loans	1,856.6	1,815.1
Policy Loans	3,306.6	3,276.0
Other Long-term Investments	591.9	566.0
Short-term Investments	974.3	913.4
Total Investments	51,794.3	48,914.9
Other Assets		
Cash and Bank Deposits	102.5	94.1
Accounts and Premiums Receivable	1,634.7	1,647.8
Reinsurance Recoverable	4,906.4	4,806.5
Accrued Investment Income	696.1	700.2
Deferred Acquisition Costs	1,901.3	1,829.2
Goodwill	198.7	200.9
Property and Equipment	531.7	511.9
Income Tax Receivable	69.5	50.3
Other Assets	661.9	647.8
Total Assets	\$62,497.1	\$59,403.6

See notes to consolidated financial statements.



## CONSOLIDATED BALANCE SHEETS - Continued

## Unum Group and Subsidiaries

	December 31	
	2014	2013
	(in millions of dollars)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,529.3	\$1,511.0
Reserves for Future Policy and Contract Benefits	45,929.4	43,099.1
Unearned Premiums	396.6	413.8
Other Policyholders' Funds	1,657.8	1,658.4
Deferred Income Tax	78.4	144.3
Short-term Debt	151.9	—
Long-term Debt	2,628.7	2,612.0
Other Liabilities	1,572.6	1,305.9
<b>Total Liabilities</b>	<b>53,944.7</b>	<b>50,744.5</b>
Commitments and Contingent Liabilities - Note 14		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 301,834,556 and 360,802,426 shares	30.2	36.1
Additional Paid-in Capital	2,221.2	2,634.1
Accumulated Other Comprehensive Income	166.4	255.0
Retained Earnings	7,332.8	8,083.2
Treasury Stock - at cost: 49,524,849 and 100,785,012 shares	(1,198.2	) (2,349.3
<b>Total Stockholders' Equity</b>	<b>8,552.4</b>	<b>8,659.1</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$62,497.1</b>	<b>\$59,403.6</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

## Unum Group and Subsidiaries

	Year Ended December 31		
	2014	2013	2012
	(in millions of dollars, except share data)		
Revenue			
Premium Income	\$7,797.2	\$7,624.7	\$7,716.1
Net Investment Income	2,477.4	2,492.1	2,515.2
Realized Investment Gain (Loss)			
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(13.5	) (0.8	) —
Other Net Realized Investment Gain	29.6	7.6	56.2
Net Realized Investment Gain	16.1	6.8	56.2
Other Income	219.0	230.2	227.9
Total Revenue	10,509.7	10,353.8	10,515.4
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	7,310.8	6,595.7	6,722.2
Commissions	935.3	909.5	917.2
Interest and Debt Expense	167.5	149.4	145.4
Deferral of Acquisition Costs	(524.0	) (466.8	) (467.3
Amortization of Deferred Acquisition Costs	440.8	418.9	378.7
Compensation Expense	820.9	790.4	786.8
Other Expenses	831.2	751.5	782.9
Total Benefits and Expenses	9,982.5	9,148.6	9,265.9
Income Before Income Tax	527.2	1,205.2	1,249.5
Income Tax			
Current	103.3	296.6	206.6
Deferred	10.5	50.5	148.5
Total Income Tax	113.8	347.1	355.1
Net Income	\$413.4	\$858.1	\$894.4
Net Income Per Common Share			
Basic	\$1.62	\$3.24	\$3.18
Assuming Dilution	\$1.61	\$3.23	\$3.17

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## Unum Group and Subsidiaries

	Year Ended December 31		2012
	2014	2013	
	(in millions of dollars)		
Net Income	\$413.4	\$858.1	\$894.4
Other Comprehensive Income (Loss)			
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of \$725.8; \$(1,102.8); \$467.7)	1,439.3	(2,101.2	) 918.8
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of \$(665.1); \$743.3; \$(325.6))	(1,284.7	) 1,363.4	(660.1 )
Change in Net Gain on Cash Flow Hedges (net of tax benefit of \$2.0; \$1.3; \$4.3)	(5.3	) (5.3	) (7.1 )
Change in Foreign Currency Translation Adjustment	(66.3	) 25.5	45.0
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense (benefit) of \$(92.4); \$185.2; \$(68.0))	(171.6	) 344.6	(130.4 )
Total Other Comprehensive Income (Loss)	(88.6	) (373.0	) 166.2
Comprehensive Income	\$324.8	\$485.1	\$1,060.6

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## Unum Group and Subsidiaries

	Year Ended December 31		2012
	2014	2013	
	(in millions of dollars)		
<b>Common Stock</b>			
Balance at Beginning of Year	\$36.1	\$36.0	\$35.9
Common Stock Activity	0.1	0.1	0.1
Retirement of Treasury Stock	(6.0	) —	—
Balance at End of Year	30.2	36.1	36.0
<b>Additional Paid-in Capital</b>			
Balance at Beginning of Year	2,634.1	2,607.7	2,591.1
Common Stock Activity	28.4	26.4	16.6
Retirement of Treasury Stock	(441.3	) —	—
Balance at End of Year	2,221.2	2,634.1	2,607.7
<b>Accumulated Other Comprehensive Income</b>			
Balance at Beginning of Year	255.0	628.0	461.8
Other Comprehensive Income (Loss)	(88.6	) (373.0	) 166.2
Balance at End of Year	166.4	255.0	628.0
<b>Retained Earnings</b>			
Balance at Beginning of Year	8,083.2	7,371.6	6,611.0
Net Income	413.4	858.1	894.4
Dividends to Stockholders (per common share: \$0.62; \$0.55; \$0.47)	(159.4	) (146.5	) (133.8
Retirement of Treasury Stock	(1,004.4	) —	—
Balance at End of Year	7,332.8	8,083.2	7,371.6
<b>Treasury Stock</b>			
Balance at Beginning of Year	(2,349.3	) (2,030.7	) (1,530.1
Purchases of Treasury Stock	(300.6	) (318.6	) (500.6
Retirement of Treasury Stock	1,451.7	—	—
Balance at End of Year	(1,198.2	) (2,349.3	) (2,030.7
Total Stockholders' Equity at End of Year	\$8,552.4	\$8,659.1	\$8,612.6

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## Unum Group and Subsidiaries

	Year Ended December 31		
	2014	2013	2012
	(in millions of dollars)		
<b>Cash Flows from Operating Activities</b>			
Net Income	\$413.4	\$858.1	\$894.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Change in Receivables	(21.5	) (196.7	) 40.4
Change in Deferred Acquisition Costs	(83.2	) (47.9	) (88.6
Change in Insurance Reserves and Liabilities	972.2	572.5	508.4
Change in Income Taxes	(44.7	) (49.4	) 168.0
Change in Other Accrued Liabilities	105.2	21.2	18.6
Non-cash Components of Net Investment Income	(180.9	) (211.5	) (221.3
Net Realized Investment Gain	(16.1	) (6.8	) (56.2
Depreciation	87.9	84.8	84.3
Other, Net	(8.7	) 7.2	31.6
Net Cash Provided by Operating Activities	1,223.6	1,031.5	1,379.6
<b>Cash Flows from Investing Activities</b>			
Proceeds from Sales of Fixed Maturity Securities	450.1	1,040.5	595.9
Proceeds from Maturities of Fixed Maturity Securities	1,819.4	2,146.4	2,160.5
Proceeds from Sales and Maturities of Other Investments	235.0	243.4	182.2
Purchase of Fixed Maturity Securities	(2,918.4	) (3,553.6	) (3,512.8
Purchase of Other Investments	(285.2	) (363.7	) (353.8
Net Sales (Purchases) of Short-term Investments	(69.3	) 551.3	(34.5
Net Increase (Decrease) in Payables for Collateral on Investments	(3.8	) (378.2	) 97.9
Net Purchases of Property and Equipment	(114.5	) (105.5	) (105.4
Other, Net	0.1	0.2	0.1
Net Cash Used by Investing Activities	(886.6	) (419.2	) (969.9
<b>Cash Flows from Financing Activities</b>			
Issuance of Long-term Debt	347.2	—	246.4
Long-term Debt Repayments	(186.6	) (116.2	) (70.0
Cost Related to Early Retirement of Debt	(13.2	) —	—
Issuance of Common Stock	12.3	11.4	4.9
Repurchase of Common Stock	(306.0	) (317.2	) (496.7
Dividends Paid to Stockholders	(159.4	) (146.5	) (133.8
Other, Net	(22.9	) (27.0	) 0.2
Net Cash Used by Financing Activities	(328.6	) (595.5	) (449.0
Net Increase (Decrease) in Cash and Bank Deposits	8.4	16.8	(39.3
Cash and Bank Deposits at Beginning of Year	94.1	77.3	116.6

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Cash and Bank Deposits at End of Year	\$102.5	\$94.1	\$77.3
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See notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Unum Group and Subsidiaries

#### Note 1 - Significant Accounting Policies

**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). Such accounting principles differ from statutory accounting principles (see Note 15). Intercompany transactions have been eliminated.

**Description of Business:** We are the largest provider of group and individual disability products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including life insurance, employer- and employee-paid group benefits, and other related services. We market our products primarily to employers interested in providing benefits to their employees.

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other reporting segments are Closed Block and Corporate. See Note 13 for further discussion of our operating segments.

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

**Fixed Maturity Securities:** Fixed maturity securities include long-term bonds and redeemable preferred stocks. Fixed maturity securities not bought and held for the purpose of selling in the near term but for which we do not have the positive intent and ability to hold to maturity are classified as available-for-sale and reported at fair value. Changes in the fair value of available-for-sale fixed maturity securities, except for amounts related to other-than-temporary impairment losses recognized in earnings, are reported as a component of other comprehensive income. These amounts are net of income tax and valuation adjustments to deferred acquisition costs and reserves for future policy and contract benefits which would have been recorded had the related unrealized gain or loss on these securities been realized.

Interest income is recorded as part of net investment income when earned, using an effective yield method giving effect to amortization of premium and accretion of discount. Included within fixed maturity securities are mortgage-backed and asset-backed securities. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income. For fixed maturity securities on which collection of investment income is uncertain, we discontinue the accrual of investment income and recognize investment income when interest and dividends are received. Payment terms specified for fixed maturity securities may include a prepayment penalty for unscheduled payoff of the investment. Prepayment penalties are recognized as investment income when received.

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate available information, both positive and negative, in reaching our conclusions. In particular, we consider the strength of the issuer's balance sheet, its debt obligations and near-term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all

available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period, either in earnings or in both earnings and other comprehensive income, as applicable. Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income over the remaining life of the investment. See Notes 2 and 3.

**Mortgage Loans:** Mortgage loans are generally held for investment and are carried at amortized cost less an allowance for probable losses. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Prepayment penalties are recognized as investment income when received. For mortgage loans on which collection of interest income is uncertain, we discontinue the accrual of interest and recognize it in the period when an interest payment is received. We typically do not resume the accrual of interest on mortgage loans on nonaccrual status until there are significant improvements in the underlying financial condition of the borrower. We consider a loan to be delinquent if full payment is not received in accordance with the contractual terms of the loan.

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. 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 impairment. If we determine that it is probable we will be unable to collect all amounts due under the contractual terms of a mortgage loan, we establish an allowance for credit loss. If we expect to foreclose on the property, the amount of the allowance typically equals the excess carrying value of the mortgage loan over the fair value of the underlying collateral. If we expect to retain the mortgage loan until payoff, the allowance equals the excess carrying value of the mortgage loan over the expected future cash flows of the loan. Additions and reductions to our allowance for credit losses on mortgage loans are reported as a component of net realized investment gains and losses. We do not purchase mortgage loans with existing credit impairments. See Note 3.

**Policy Loans:** Policy loans are presented at unpaid balances directly related to policyholders. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Included in policy loans are \$3,068.4 million and \$3,043.7 million of policy loans ceded to reinsurers at December 31, 2014 and 2013, respectively.

**Other Long-term Investments:** Other long-term investments are comprised primarily of tax credit partnerships and private equity partnerships.

Tax credit partnerships in which we have invested were formed for the purpose of investing in the construction and rehabilitation of low-income housing. Because the partnerships are structured such that there is no return of principal, the primary sources of investment return from our tax credit partnerships are tax credits and tax benefits derived from passive losses on the investments, both of which may exhibit variability over the life of the investment. These partnerships are accounted for using either the equity or the effective yield method, depending primarily on whether the tax credits are guaranteed through a letter of credit, a tax indemnity agreement, or another similar arrangement. Tax credits received from these partnerships are reported in our consolidated statements of income as either a reduction of state premium taxes, which are a component of other expenses, or a reduction of income tax. For those partnerships accounted for under the equity method, the amortization of the principal amount invested in these partnerships is reported as a component of net investment income. For those partnerships accounted for under the effective yield method, amortization of the principal amount invested is reported as a component of income tax or

other expenses. We will adopt updated accounting guidance for tax credit partnerships, where applicable, effective January 1, 2015. See "Accounting Updates Outstanding" as follows for further discussion.

Our investments in private equity partnerships are passive in nature. The underlying investments held by these partnerships include both equity and debt securities and are accounted for using the equity or cost method, depending on the level of ownership and the degree of our influence over partnership operating and financial policies. For partnerships accounted for under the equity method, our portion of partnership earnings is reported as a component of net investment income in our consolidated statements of income. For those partnerships accounted for under the cost method, we record income received from partnership distributions as either a component of net investment income or net realized investment gain or loss, in accordance with the source of the funds distributed from the partnership. See Notes 2 and 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

**Short-term Investments:** Short-term investments are carried at cost. Short-term investments include investments maturing within one year, such as corporate commercial paper and U.S. Treasury bills, bank term deposits, and other cash accounts and cash equivalents earning interest. See Note 2.

**Cash and Bank Deposits:** Cash and bank deposits include cash on hand and non-interest bearing cash and deposit accounts.

**Derivative Financial Instruments:** Derivative financial instruments (including certain derivative instruments embedded in other contracts) are recognized as either other long-term investments or other liabilities in our consolidated balance sheets and are reported at fair value. The accounting for a derivative depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. To qualify for hedge accounting, at the inception of the hedging transaction, we formally document the risk management objective and strategy for undertaking the hedging transaction, as well as the designation of the hedge as either a fair value hedge or a cash flow hedge. Included in this documentation is how the hedging instrument is expected to hedge the designated risk(s) related to specific assets or liabilities on the balance sheet or to specific forecasted transactions as well as a description of the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness.

A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk(s) of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship, using qualitative and quantitative methods. Qualitative methods include comparison of critical terms of the derivative to the hedged item. Quantitative methods include regression or other statistical analysis of changes in fair value or cash flows associated with the hedge relationship.

Changes in the fair value of a derivative designated as a fair value hedge, including amounts measured as ineffectiveness, and changes in the fair value of the hedged item attributable to the risk being hedged are recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of a fair value hedge is recognized in earnings as a component of net realized investment gain or loss during the period in which the termination occurs. When interest rate swaps are used in hedge accounting relationships, periodic settlements are recorded in the same income statement line as the related settlements of the hedged items.

To the extent it is effective, changes in the fair value of a derivative designated as a cash flow hedge are reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings. The ineffective portion of the hedge, if any, is recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of an effective cash flow hedge is reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings.

Gains or losses on the termination of ineffective fair value or cash flow hedges are reported in earnings as a component of net realized investment gain or loss. In the event a hedged item is disposed of or the anticipated transaction being hedged is no longer likely to occur, we will terminate the related derivative and recognize the gain or loss on termination in current earnings as a component of net realized investment gain or loss. In the event a hedged

item is disposed of subsequent to the termination of the hedging transaction, we reclassify any remaining gain or loss on the cash flow hedge out of accumulated other comprehensive income into earnings as a component of the same income statement line item wherein we report the gain or loss on disposition of the hedged item.

For a derivative not designated as a hedging instrument, changes in the fair value of the derivative, together with the payment of periodic fees, if applicable, are recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value.

Cash flow activity from the settlement of derivative contracts is reported in the consolidated statements of cash flows as a component of proceeds from sales and maturities of other investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

In our consolidated balance sheets, we do not offset fair value amounts recognized for derivatives executed with the same counterparty under a master netting agreement and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from those master netting agreements. See Notes 2, 3 and 4.

**Fair Value Measurement:** Certain assets and liabilities are reported at fair value in our consolidated balance sheets and in our notes to our consolidated financial statements. We define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, fair value represents an exit price, not an entry price. The exit price objective applies regardless of our intent and/or ability to sell the asset or transfer the liability at the measurement date. Assets or liabilities with readily available actively 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. When actively quoted prices are not available, fair values are based on quoted prices in markets that are not active, quoted prices for similar but not identical assets or liabilities, or other observable inputs. If observable inputs are not available, unobservable inputs and/or adjustments to observable inputs requiring management judgment are used to determine fair value. We categorize our assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the significance of the inputs. The fair value hierarchy gives the highest priority to inputs which are unadjusted and represent quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). See Note 2.

**Realized Investment Gains and Losses:** Realized investment gains and losses are reported as a component of revenue in the consolidated statements of income and are based upon specific identification of the investments sold. See Note 3.

**Deferred Acquisition Costs:** Incremental direct costs associated with the successful acquisition of new or renewal insurance contracts have been deferred. Such costs include commissions, other agency compensation, certain selection and policy issue expenses, and certain field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral. Deferred acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing in subsequent years.

Deferred acquisition costs related to non interest-sensitive policies are amortized in proportion to the premium income we expect to receive over the life of the policies. Deferred acquisition costs related to interest-sensitive policies are amortized over the lives of the policies in relation to the present value of estimated gross profits from surrender charges, mortality margins, investment returns, and expense margins. Deviations from projections result in a change to the rate of amortization in the period during which such events occur. Generally, the amortization periods for these policies approximate the estimated lives of the policies.

For certain products, policyholders can elect to modify product benefits, features, rights, or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacement transactions. Internal replacement transactions wherein the modification does not substantially change the policy are accounted for as continuations of the replaced contracts. Unamortized deferred acquisition costs from the original policy continue to be amortized over the expected life of the new policy, and the costs of replacing the policy are accounted for as policy maintenance costs and expensed as incurred. Internal replacement transactions, principally on group contracts, that result in a policy that

is substantially changed are accounted for as an extinguishment of the original policy and the issuance of a new policy. Unamortized deferred acquisition costs on the original policy that was replaced are immediately expensed, and the costs of acquiring the new policy are capitalized and amortized in accordance with our accounting policies for deferred acquisition costs.

Loss recognition is performed on an annual basis, or more frequently if appropriate, using best estimate assumptions as to future experience as of the date of the test. Insurance contracts are grouped for each major product line within a segment when we perform the loss recognition tests. If loss recognition testing indicates that deferred acquisition costs are not recoverable, the deficiency is charged to expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

**Goodwill:** Goodwill is the excess of the amount paid to acquire a business over the fair value of the net assets acquired. We review the carrying amount of goodwill for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount might not be recoverable. Goodwill impairment testing compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair values of the reporting units are determined using discounted cash flow models. The critical estimates necessary in determining fair value are projected earnings and the discount rate. We set our discount rate assumption based on an expected risk adjusted cost of capital. If the fair value of the reporting unit to which the goodwill relates is less than the carrying amount of the unamortized goodwill, the carrying amount is reduced with a corresponding charge to expense.

**Property and Equipment:** Property and equipment is reported at cost less accumulated depreciation, which is calculated on the straight-line method over the estimated useful life. The accumulated depreciation for property and equipment was \$823.3 million and \$760.8 million as of December 31, 2014 and 2013, respectively.

**Value of Business Acquired:** Value of business acquired represents the present value of future profits recorded in connection with the acquisition of a block of insurance policies. The asset is amortized based upon expected future premium income for non interest-sensitive insurance policies and estimated future gross profits from surrender charges, mortality margins, investment returns, and expense margins for interest-sensitive insurance policies. The value of business acquired, which is included in other assets in our consolidated balance sheets, was \$15.2 million and \$19.0 million at December 31, 2014 and 2013, respectively. The accumulated amortization for value of business acquired was \$134.7 million and \$138.2 million as of December 31, 2014 and 2013, respectively.

The amortization of value of business acquired, which is included in other expenses in the consolidated statements of income, was \$3.5 million, \$4.5 million, and \$7.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. We periodically review the carrying amount of value of business acquired using the same methods used to evaluate deferred acquisition costs.

**Policy and Contract Benefits:** Policy and contract benefits represent amounts paid and expected to be paid based on reported losses and estimates of incurred but not reported losses for non interest-sensitive life and accident and health products. For interest-sensitive products, benefits are the amounts paid and expected to be paid on insured claims in excess of the policyholders' policy fund balances.

**Reserves for Policy and Contract Benefits:** Policy reserves represent future policy and contract benefits for claims not yet incurred. Policy reserves for non interest-sensitive life and accident and health products are determined using the net level premium method. The reserves are calculated based upon assumptions as to interest, persistency, morbidity, and mortality that were appropriate at the date of issue. Discount rate assumptions are based on actual and expected net investment returns. Persistency assumptions are based on our actual historical experience adjusted for future expectations. Claim incidence and claim resolution rate assumptions related to morbidity and mortality are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by plan, year of issue, and policy duration and include a provision for adverse deviation.

Policy reserves for group single premium annuities are developed on a net single premium method. The reserves are calculated based on assumptions as to interest, mortality, and retirement that were appropriate at the date of issue. Mortality assumptions are based upon industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by year of issue.

Policy reserves for interest-sensitive products are principally policyholder account values.

Policy reserves require ongoing loss recognition testing. We perform loss recognition tests on our policy reserves annually, or more frequently if appropriate, using best estimate assumptions as of the date of the test, without a provision for adverse deviation. We group the policy reserves for each major product line within a segment when we perform the loss recognition tests. If the policy reserves determined using these best estimate assumptions are higher than our existing policy reserves net of any deferred acquisition cost balance, the existing policy reserves are increased or deferred acquisition costs are reduced to immediately recognize the deficiency. This becomes the new basis for policy reserves going forward, subject to future loss recognition testing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

Claim reserves represent future policy and contract benefits for claims that have been incurred or are estimated to have been incurred but not yet reported to us. Our claim reserves relate primarily to disability policies and are calculated based on assumptions as to interest and claim resolution rates that are currently appropriate. Claim resolution rate assumptions are based on our actual experience. The interest rate assumptions used for discounting claim reserves are based on projected portfolio yield rates, after consideration for defaults and investment expenses, for the assets supporting the liabilities for the various product lines. Unlike policy reserves for which assumptions are generally established and locked in at the time of policy issuance, claim reserves are subject to revision as current claim experience and projections of future factors affecting claim experience change. See Note 6.

Policyholders' Funds: Policyholders' funds represent customer deposits plus interest credited at contract rates. We control interest rate risk by investing in quality assets which have an aggregate duration that closely matches the expected duration of the liabilities.

Income Tax: Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Deferred taxes have been measured using enacted statutory income tax rates and laws that are currently in effect. We record deferred tax assets for tax positions taken in the U.S. and other tax jurisdictions based on our assessment of whether a position is more likely than not to be sustained upon examination based solely on its technical merits. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized. See Note 7.

Short-term and Long-term Debt: Debt is generally carried at the unpaid principal balance, net of unamortized discount or premium. Short-term debt consists of debt due within the next twelve months, including that portion of debt otherwise classified as long-term. Original issue discount or premium as well as debt issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding. The carrying amount of long-term debt that is part of a fair value hedge program includes an adjustment to reflect the effect of the change in fair value attributable to the risk being hedged. Net interest settlements for fair value hedges on our long-term debt are recognized as a component of interest expense. See Note 8.

Treasury Stock and Retirement of Common Stock: Treasury stock is reflected as a reduction of stockholders' equity at cost. When shares are retired, the par value is removed from common stock, and the excess of the repurchase price over par is allocated between additional paid-in capital and retained earnings. See Note 10.

Revenue Recognition: Our non interest-sensitive life and accident and health products are long-duration contracts, and premium income is recognized as revenue when due from policyholders. If the contracts are experience rated, the estimated ultimate premium is recognized as revenue over the period of the contract. The estimated ultimate premium, which is revised to reflect current experience, is based on estimated claim costs, expenses, and profit margins.

For interest-sensitive products, the amounts collected from policyholders are considered deposits, and only the deductions during the period for cost of insurance, policy administration, and surrenders are included in revenue. Policyholders' funds represent funds deposited by contract holders and are not included in revenue.

Fees from our administrative-services only and family medical leave products are reported as other income when services are rendered.

Reinsurance: We routinely enter into reinsurance agreements with other insurance companies to spread risk and thereby limit losses from large exposures. For each of our reinsurance agreements, we determine if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. If we determine that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, we record the agreement using the deposit method of accounting.

Reinsurance activity is accounted for on a basis consistent with the terms of the reinsurance contracts and the accounting used for the original policies issued. Premium income and benefits and change in reserves for future benefits are presented in our consolidated statements of income net of reinsurance ceded. Ceded liabilities for policy and contract benefits, future policy and contract benefits, and unearned premiums are reported on a gross basis in our consolidated balance sheets, as are ceded policy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

loans. Our reinsurance recoverable includes the balances due from reinsurers under the terms of the reinsurance agreements for these ceded balances as well as settlement amounts currently due.

Where applicable, gains or losses on reinsurance transactions are deferred and amortized into earnings based upon expected future premium income for non interest-sensitive insurance policies and estimated future gross profits for interest-sensitive insurance policies. The deferred gain on reinsurance included in other liabilities in our consolidated balance sheets at December 31, 2014 and 2013 was \$41.7 million and \$53.6 million, respectively.

Under ceded reinsurance agreements wherein we are not relieved of our legal liability to our policyholders, if the assuming reinsurer is unable to meet its obligations, we remain contingently liable. We evaluate the financial condition of reinsurers and monitor concentration of credit risk to minimize this exposure. We may also require assets in trust, letters of credit, or other acceptable collateral to support our reinsurance recoverable balances. In the event that reinsurers do not meet their obligations to us under the terms of the reinsurance agreements, certain amounts reported in our reinsurance recoverable could become uncollectible, in which case the reinsurance recoverable balances are stated net of allowances for uncollectible reinsurance. See Note 12.

Premium Tax Expense: Premium tax expense is included in other expenses in the consolidated statements of income. For the years ended December 31, 2014, 2013, and 2012, premium tax expense was \$139.2 million, \$137.0 million, and \$136.0 million, respectively.

Stock-Based Compensation: The cost of stock-based compensation is generally measured based on the grant-date fair value of the award. The Black-Scholes options valuation model is used for estimating the fair value of stock options, and the Monte-Carlo valuation model is used for estimating the fair value of performance share units. Restricted stock units are valued based on the fair value of common stock at the grant date, and cash-settled awards are measured each reporting period based on the current stock price. Stock-based awards are expensed over the requisite service period, or for performance share units over the requisite service period, or remaining service period, if and when it becomes probable that the performance conditions will be satisfied, with an offsetting increase to additional paid-in capital in stockholders' equity. See Note 11.

Earnings Per Share: We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. Earnings per share assuming dilution is computed by dividing net income by the weighted average number of shares outstanding for the period plus the shares representing the dilutive effect of stock-based awards. In computing earnings per share assuming dilution, only potential common shares resulting from stock-based awards that are dilutive (those that reduce earnings per share) are included. We use the treasury stock method to account for the effect of outstanding stock options and nonvested stock awards on the computation of earnings per share assuming dilution. See Note 10.

Translation of Foreign Currency: Revenues and expenses of our foreign operations are translated at average exchange rates. Assets and liabilities are translated at the rate of exchange on the balance sheet dates. The translation gain or loss is generally reported in accumulated other comprehensive income, net of deferred tax. We do not provide for deferred taxes to the extent unremitted foreign earnings are deemed permanently invested.

Accounting for Participating Individual Life Insurance: Participating policies issued by one of our subsidiaries prior to its 1986 conversion from a mutual to a stock life insurance company will remain participating as long as the policies

remain in-force. A Participation Fund Account (PFA) was established for the benefit of all such individual participating life and annuity policies and contracts. The assets of the PFA provide for the benefit, dividend, and certain expense obligations of the participating individual life insurance policies and annuity contracts. The assets of the PFA were \$358.6 million and \$339.2 million at December 31, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 1 - Significant Accounting Policies - Continued

Accounting Updates Outstanding:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 606 "Revenue from Contracts with Customers"	This update supersedes virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of this update are insurance contracts, although our fee-based service products are included within the scope. The core principal of this guidance is that revenue recognition should depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance is to be applied retrospectively.	January 1, 2017	The adoption of this update will not have a material effect on our financial position or results of operations.
ASC 860 "Transfers and Servicing"	This update changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The update also requires disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. The guidance is to be applied retrospectively for transactions outstanding on the effective date of the update.	January 1, 2015, except for certain disclosures, which will be effective April 1, 2015.	The adoption of this update will expand our disclosures but will not impact our financial position or results of operations.
ASC 323 "Investments - Equity Method and Joint Ventures"	This update permits entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Additional disclosures concerning investments in qualified affordable housing projects are also required. We have elected to adopt this guidance, which will be applied retrospectively.	January 1, 2015	See table as follows.

Our retrospective adoption of the update to ASC 323 as of January 1, 2015 will result in a cumulative effect decrease in stockholders' equity as of January 1, 2015, 2014, and 2013 of approximately \$30 million, \$19 million, and \$8 million, respectively. Our net income and earnings per share assuming dilution will be impacted as follows:

(in millions, except per share data)	Year Ended December 31					
	2014		2013		2012	
		per share		per share		per share
Net Income, Before Adoption	\$413.4	\$1.61	\$858.1	\$3.23	\$894.4	\$3.17
After-tax Impact of Adoption	(11.3 )	(0.04 )	(11.1 )	(0.04 )	(6.3 )	(0.02 )

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Net Income, After Adoption	\$402.1	\$1.57	\$847.0	\$3.19	\$888.1	\$3.15
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 2 - 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.

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in millions of dollars)				
<b>Assets</b>				
Fixed Maturity Securities	\$45,064.9	\$45,064.9	\$42,344.4	\$42,344.4
Mortgage Loans	1,856.6	2,024.2	1,815.1	1,980.2
Policy Loans	3,306.6	3,407.6	3,276.0	3,339.6
Other Long-term Investments				
Derivatives	28.0	28.0	10.8	10.8
Equity Securities	12.5	12.5	16.4	16.4
Miscellaneous Long-term Investments	485.5	485.5	475.2	475.2
<b>Liabilities</b>				
<b>Policyholders' Funds</b>				
Deferred Annuity Products	\$621.4	\$621.4	\$631.5	\$631.5
Supplementary Contracts without Life Contingencies	600.4	600.4	563.1	563.1
Short-term Debt	151.9	158.9	—	—
Long-term Debt	2,628.7	2,912.6	2,612.0	2,824.4
<b>Other Liabilities</b>				
Derivatives	92.9	92.9	135.6	135.6
Embedded Derivative in Modified Coinsurance Arrangement	49.9	49.9	53.2	53.2
Unfunded Commitments to Investment Partnerships	12.8	12.8	27.2	27.2

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

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

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

**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 \$3,068.4 million and \$3,043.7 million as of December 31, 2014 and 2013, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in railcar leasing, the financial services industry, mezzanine debt, and bank loans. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of December 31, 2014, we estimate that the underlying assets of the funds will be liquidated over the next one to thirteen years. These financial instruments are assigned a Level 3 within the fair value hierarchy.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 2 - Fair Values of Financial Instruments - Continued

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

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

**Short-term Debt:** Fair values for short-term debt were determined based on prices from independent pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques. These financial instruments are assigned a Level 2.

**Long-term Debt:** Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have fair values of \$849.7 million and \$1,329.2 million as of December 31, 2014 and 2013, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of \$2,062.9 million and \$1,495.2 million as of December 31, 2014 and 2013, respectively, and are assigned a Level 2.

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

Fair Value Measurements for Financial Instruments Carried at Fair Value

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

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 - Continued  
 Unum Group and Subsidiaries

Note 2 - 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 valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2014, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2013.

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

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads
- Security credit ratings/maturity/capital structure/optionality
- Corporate actions
- Underlying collateral
- Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning
- Public covenants
- Comparative bond analysis
- Derivative spreads
- Relevant reports issued by analysts and rating agencies
- Audited financial statements

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Unum Group and Subsidiaries

Note 2 - Fair Values of Financial Instruments - Continued

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

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

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

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

At December 31, 2014, approximately 6.6 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 93.4 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 78.1 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Approximately 3.5 percent of our fixed maturity securities were valued based on one or more non-binding broker quotes, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.

Approximately 11.8 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

## Unum Group and Subsidiaries

## Note 2 - Fair Values of Financial Instruments - Continued

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.

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

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

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

Embedded Derivative in Modified Coinsurance

Arrangement

Total Derivatives	—	92.9	49.9	142.8
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 2 - Fair Values of Financial Instruments - Continued

	December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions of dollars)			
<b>Assets</b>				
<b>Fixed Maturity Securities</b>				
United States Government and Government Agencies and Authorities	\$144.5	\$1,051.6	\$—	\$1,196.1
States, Municipalities, and Political Subdivisions	—	1,608.1	175.1	1,783.2
Foreign Governments	—	1,294.7	78.5	1,373.2
Public Utilities	246.0	7,611.9	139.3	7,997.2
Mortgage/Asset-Backed Securities	—	2,038.8	0.5	2,039.3
All Other Corporate Bonds	2,132.8	23,861.6	1,923.3	27,917.7
Redeemable Preferred Stocks	—	13.9	23.8	37.7
<b>Total Fixed Maturity Securities</b>	<b>2,523.3</b>	<b>37,480.6</b>	<b>2,340.5</b>	<b>42,344.4</b>
<b>Other Long-term Investments</b>				
<b>Derivatives</b>				
Interest Rate Swaps	—	9.2	—	9.2
Foreign Exchange Contracts	—	1.6	—	1.6
<b>Total Derivatives</b>	<b>—</b>	<b>10.8</b>	<b>—</b>	<b>10.8</b>
Equity Securities	—	11.8	4.6	16.4
<b>Liabilities</b>				
<b>Other Liabilities</b>				
<b>Derivatives</b>				
Interest Rate Swaps	\$—	\$35.0	\$—	\$35.0
Foreign Exchange Contracts	—	98.7	—	98.7
Credit Default Swaps	—	1.9	—	1.9
Embedded Derivative in Modified Coinsurance Arrangement	—	—	53.2	53.2
<b>Total Derivatives</b>	<b>—</b>	<b>135.6</b>	<b>53.2</b>	<b>188.8</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 Unum Group and Subsidiaries

Note 2 - Fair Values of Financial Instruments - Continued

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

	Year Ended December 31			
	2014		2013	
	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	\$ 163.2	\$—	\$62.2	\$—
States, Municipalities, and Political Subdivisions	—	—	—	53.0
Public Utilities	81.8	253.4	248.4	20.8
All Other Corporate Bonds	1,592.1	1,598.3	1,296.5	1,117.9
Total Fixed Maturity Securities	\$ 1,837.1	\$ 1,851.7	\$ 1,607.1	\$ 1,191.7

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 - Continued  
Unum Group and Subsidiaries

Note 2 - 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:

	Year Ended December 31, 2014							
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Year
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ 175.1	\$—	\$ 21.0	\$—	\$(1.4 )	\$—	\$(54.6 )	\$ 140.1
Foreign Governments	78.5	1.1	0.8	—	(11.1 )	—	—	69.3
Public Utilities	139.3	—	6.9	—	(0.8 )	199.9	(30.3 )	315.0
Mortgage/Asset-Backed Securities	0.5	(0.2 )	0.3	—	(0.6 )	—	—	—
All Other Corporate Bonds	1,923.3	0.7	44.8	91.1	(147.7 )	626.9	(1,113.8)	1,425.3
Redeemable Preferred Stocks	23.8	—	1.1	—	—	—	—	24.9
Total Fixed Maturity Securities	2,340.5	1.6	74.9	91.1	(161.6 )	826.8	(1,198.7)	1,974.6
Equity Securities	4.6	10.5	(0.2 )	—	(13.5 )	—	—	1.4
Embedded Derivative in Modified Coinsurance Arrangement	(53.2 )	3.3	—	—	—	—	—	(49.9 )
	Year Ended December 31, 2013							
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Year
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ 128.7	\$—	\$(13.1 )	\$—	\$(1.0 )	\$ 60.5	\$—	\$ 175.1
Foreign Governments	82.1	—	(3.6 )	—	—	—	—	78.5
Public Utilities	226.4	—	(1.1 )	—	(3.1 )	101.9	(184.8 )	139.3
	0.5	—	0.1	—	(0.1 )	—	—	0.5

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Mortgage/Asset-Backed Securities									
All Other Corporate Bonds	1,525.8	1.1	(156.8	)	186.7	(122.0 )	1,511.9	(1,023.4)	1,923.3
Redeemable Preferred Stocks	24.8	—	(1.0	)	—	—	—	—	23.8
Total Fixed Maturity Securities	1,988.3	1.1	(175.5	)	186.7	(126.2 )	1,674.3	(1,208.2)	2,340.5
Equity Securities	4.3	—	0.3	—	—	—	—	—	4.6
Embedded Derivative in Modified Coinsurance Arrangement	(83.9	)	30.7	—	—	—	—	—	(53.2 )

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 2 - 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 for the years ended December 31, 2014 and 2013 which are included in earnings and are attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at each year end were \$3.3 million and \$30.7 million, respectively. These amounts relate entirely to the changes in fair value of an embedded derivative in a modified coinsurance arrangement which are reported as realized investment gains and losses.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 2 - Fair Values of Financial Instruments - Continued

	December 31, 2013		Range/Weighted Average
	Fair Value	Unobservable Input (in millions of dollars)	
Fixed Maturity Securities			
States, Municipalities, and Political Subdivisions - Private	\$ 142.7	- Comparability Adjustment	(b) 0.25% - 1.25% / 0.65%
Mortgage/Asset-Backed Securities - Private	0.5	- Discount for Size	(c) 4.93% - 5.03% / 5.01%
		- Change in Benchmark Reference	(a) 3.36% - 3.36% / 3.36%
		- Comparability Adjustment	(b) (0.70)% - (0.40)% / (0.60)%
All Other Corporate Bonds - Private	371.3	- Discount for Size	(c) 0.50% - 0.50% / 0.50%
		- Lack of Marketability	(d) 0.20% - 1.00% / 0.55%
		- Volatility of Credit	(e) 0.07% - 4.00% / 0.85%
		- Market Convention	(f) Priced at Par
		- Change in Benchmark Reference	(a) (0.32)% - 0.25% / 0.04%
All Other Corporate Bonds - Public	514.4	- Comparability Adjustment	(b) (0.23)% - 1.00% / 0.41%
		- Lack of Marketability	(d) 0.20% - 0.20% / 0.20%
		- Volatility of Credit	(e) (0.88)% - 0.46% / (0.26)%
Equity Securities - Private	4.2	- Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(53.2 )	- Projected Liability Cash Flows	(g) Actuarial Assumptions

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 3 - Investments

Fixed Maturity Securities

At December 31, 2014 and 2013, all fixed maturity securities were classified as available-for-sale. In the following charts, prior year amounts have been reclassified, where applicable, between public utilities and all other corporate bonds to conform to the current year categorization of certain securities.

The amortized cost and fair values of securities by security type are shown as follows.

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$983.5	\$255.5	\$0.5	\$1,238.5
States, Municipalities, and Political Subdivisions	1,745.0	377.6	1.1	2,121.5
Foreign Governments	1,101.1	206.3	—	1,307.4
Public Utilities	7,046.1	1,505.4	0.9	8,550.6
Mortgage/Asset-Backed Securities	2,224.9	207.0	0.1	2,431.8
All Other Corporate Bonds	25,658.8	3,828.6	122.2	29,365.2
Redeemable Preferred Stocks	44.0	5.9	—	49.9
Total Fixed Maturity Securities	\$38,803.4	\$6,386.3	\$124.8	\$45,064.9
	December 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,028.6	\$173.1	\$5.6	\$1,196.1
States, Municipalities, and Political Subdivisions	1,706.0	117.2	40.0	1,783.2
Foreign Governments	1,226.4	149.6	2.8	1,373.2
Public Utilities	7,121.7	901.2	25.7	7,997.2
Mortgage/Asset-Backed Securities	1,858.7	184.6	4.0	2,039.3
All Other Corporate Bonds	25,315.2	2,828.3	225.8	27,917.7
Redeemable Preferred Stocks	33.0	4.7	—	37.7
Total Fixed Maturity Securities	\$38,289.6	\$4,358.7	\$303.9	\$42,344.4

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

	December 31, 2014	
	Less Than 12 Months	12 Months or Greater
	Fair Value	Fair Value
	Gross Unrealized Loss	Gross Unrealized Loss
	(in millions of dollars)	
	\$—	\$7.4
	\$—	\$0.5

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United States Government and Government  
Agencies and Authorities

States, Municipalities, and Political Subdivisions	1.6	—	42.0	1.1
Public Utilities	5.1	0.2	58.2	0.7
Mortgage/Asset-Backed Securities	28.0	—	1.9	0.1
All Other Corporate Bonds	1,666.2	82.2	729.4	40.0
Total Fixed Maturity Securities	\$1,700.9	\$82.4	\$838.9	\$42.4

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
Unum Group and Subsidiaries

Note 3 - Investments - Continued

	December 31, 2013		12 Months or Greater	
	Less Than 12 Months			
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$41.1	\$3.1	\$5.2	\$2.5
States, Municipalities, and Political Subdivisions	412.5	33.5	37.2	6.5
Foreign Governments	87.2	2.8	—	—
Public Utilities	506.0	23.7	27.5	2.0
Mortgage/Asset-Backed Securities	341.0	3.6	2.5	0.4
All Other Corporate Bonds	3,776.9	197.4	238.6	28.4
Total Fixed Maturity Securities	\$5,164.7	\$264.1	\$311.0	\$39.8

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.

	December 31, 2014				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
	(in millions of dollars)				
1 year or less	\$1,372.0	\$34.3	\$1,406.3	\$—	\$—
Over 1 year through 5 years	6,871.2	719.3	7,434.0	9.4	147.1
Over 5 years through 10 years	9,532.9	1,003.3	8,792.3	80.9	1,663.0
Over 10 years	18,802.4	4,422.4	22,490.6	34.4	699.8
	36,578.5	6,179.3	40,123.2	124.7	2,509.9
Mortgage/Asset-Backed Securities	2,224.9	207.0	2,401.9	0.1	29.9
Total Fixed Maturity Securities	\$38,803.4	\$6,386.3	\$42,525.1	\$124.8	\$2,539.8
	December 31, 2013				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
	(in millions of dollars)				
1 year or less	\$903.9	\$20.6	\$915.5	\$—	\$9.0
Over 1 year through 5 years	7,098.2	727.1	7,678.5	0.6	146.2
Over 5 years through 10 years	9,492.6	940.2	8,137.4	95.8	2,199.6
Over 10 years	18,936.2	2,486.2	18,441.5	203.5	2,777.4
	36,430.9	4,174.1	35,172.9	299.9	5,132.2
Mortgage/Asset-Backed Securities	1,858.7	184.6	1,695.8	4.0	343.5
Total Fixed Maturity Securities	\$38,289.6	\$4,358.7	\$36,868.7	\$303.9	\$5,475.7

At December 31, 2014, the fair value of investment-grade fixed maturity securities was \$41,539.7 million, with a gross unrealized gain of \$6,238.0 million and a gross unrealized loss of \$47.5 million. The gross unrealized loss on investment-grade fixed maturity securities was 38.1 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 December 31, 2014, the fair value of below-investment-grade fixed maturity securities was \$3,525.2 million, with a gross unrealized gain of \$148.3 million and a gross unrealized loss of \$77.3 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 61.9 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Unum Group and Subsidiaries

Note 3 - Investments - Continued

December 31, 2014, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of December 31, 2014, we held 75 individual investment-grade fixed maturity securities and 68 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 31 investment-grade fixed maturity securities and 15 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

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

- Whether we expect to recover the entire amortized cost basis of the security
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis
- Whether the security is current as to principal and interest payments
- The significance of the decline in value
  - The time period during which there has been a significant decline in value
- Current and future business prospects and trends of earnings
- The valuation of the security's underlying collateral
- Relevant industry conditions and trends relative to their historical cycles
- Market conditions
- Rating agency and governmental actions
- Bid and offering prices and the level of trading activity
- Adverse changes in estimated cash flows for securitized investments
- Changes in fair value subsequent to the balance sheet date
- Any other key measures for the related security

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

We held no fixed maturity securities as of December 31, 2014 and 2013, for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At December 31, 2014, we had non-binding commitments of \$15.0 million to fund private placement fixed maturity securities.

Variable Interest Entities

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

As of December 31, 2014, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$484.1 million, comprised of \$289.0 million of tax credit partnerships and \$195.1 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

## Unum Group and Subsidiaries

## Note 3 - Investments - Continued

Additionally, we recognize a liability for all legally binding unfunded commitments to these partnerships, with a corresponding recognition of an invested asset. Our liability for legally binding unfunded commitments to the tax credit partnerships was \$12.8 million at December 31, 2014. Contractually, we are a limited partner in these investments, and our maximum exposure to loss is limited to the carrying value of our investment. We also had non-binding commitments of \$161.6 million to fund certain private equity partnerships at December 31, 2014, the amount of which may or may not be funded.

We are the sole beneficiary of a special purpose entity which is consolidated in our financial statements. This entity is a securitized asset trust containing a highly rated bond for principal protection and a private equity partnership investment which we contributed into the trust at the time it was established. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. The fair values of the bond and partnership were \$143.9 million and \$1.4 million, respectively, as of December 31, 2014 and \$136.2 million and \$4.4 million, respectively, as of December 31, 2013. The bond is reported as a component of fixed maturity securities, and the partnership is reported as a component of other long-term investments in our consolidated balance sheets. At December 31, 2014, we had no commitments to fund the underlying partnership, nor did we fund any amounts to the partnership during the years ended December 31, 2014, 2013, and 2012.

## Mortgage Loans

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

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

	December 31					
	2014		2013			
	(in millions of dollars)					
	Carrying	Percent of	Carrying	Percent of		
	Amount	Total	Amount	Total		
Property Type						
Apartment	\$110.1	5.9	% \$61.1	3.3		%
Industrial	542.9	29.2	567.8	31.3		
Office	794.0	42.8	776.5	42.8		
Retail	409.6	22.1	409.7	22.6		
Total	\$1,856.6	100.0	% \$1,815.1	100.0		%
Region						
New England	\$105.6	5.7	% \$100.9	5.6		%
Mid-Atlantic	179.4	9.7	191.5	10.5		
East North Central	210.6	11.4	244.3	13.5		
West North Central	166.2	8.9	162.3	8.9		
South Atlantic	453.6	24.4	447.7	24.7		

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East South Central	75.3	4.1	67.7	3.7	
West South Central	215.6	11.6	190.9	10.5	
Mountain	116.0	6.2	101.9	5.6	
Pacific	334.3	18.0	307.9	17.0	
Total	\$1,856.6	100.0	% \$1,815.1	100.0	%

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

## Unum Group and Subsidiaries

## Note 3 - Investments - Continued

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.

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

	December 31	
	2014	2013
	(in millions of dollars)	
Internal Rating		
Aa	\$7.7	\$10.8
A	666.0	683.1
Baa	1,156.7	1,094.6
Ba	13.1	13.5
B	13.1	13.1
Total	\$1,856.6	\$1,815.1
Loan-to-Value Ratio		
≤ 65%	\$898.7	\$777.4
> 65% ≤ 75%	818.0	867.5
> 75% ≤ 85%	102.3	107.6
> 85%	37.6	62.6
Total	\$1,856.6	\$1,815.1

A summary of our troubled debt restructurings is as follows:

	Year Ended December 31		
	2014	2013	2012
	(in millions of dollars)		
Foreclosure			
Carrying Amount	\$18.1	\$4.3	\$17.3

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Number of Loans	1	1	3
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We had no realized losses on loan foreclosures for the years ended December 31, 2014, 2013, and 2012 other than the initial impairment losses recognized prior to foreclosure. During 2014, we modified the terms of a mortgage loan with a carrying value of \$18.1 million, recognized a \$3.0 million realized loss on the troubled debt restructuring, and foreclosed on the property in a subsequent quarter of 2014.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

## Unum Group and Subsidiaries

## Note 3 - Investments - Continued

At December 31, 2014 and 2013, we held no mortgage loans that were on nonaccrual status or past due regarding principal and/or interest payments.

There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans. The activity in the allowance for credit losses is as follows:

	Year Ended December 31		
	2014	2013	2012
	(in millions of dollars)		
Balance at Beginning of Year	\$1.5	\$1.5	\$1.5
Provision	3.0	—	1.8
Charge-offs, Net of Recoveries	(3.0	) —	(1.8
Balance at End of Year	\$1.5	\$1.5	\$1.5

As of December 31, 2014 and 2013 we held one impaired mortgage loan with an unpaid principal balance of \$14.6 million, a related allowance for credit losses of \$1.5 million, and a carrying value of \$13.1 million.

Our average investment in impaired mortgage loans was \$26.7 million, \$14.9 million, and \$19.1 million for the years ended December 31, 2014, 2013, and 2012, respectively. For the years ended December 31, 2014, 2013, and 2012, we recognized \$1.0 million, \$0.8 million, and \$0.8 million, respectively, of interest income on mortgage loans subsequent to impairment.

At December 31, 2014, we had non-binding commitments of \$49.3 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. Generally, cash is received as collateral under these agreements and is typically reinvested in short-term investments. In the event that securities are received as collateral, we are not permitted to sell or re-post them.

As of December 31, 2014, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$176.5 million, for which we received collateral in the form of cash and securities of \$58.4 million and \$128.5 million, respectively. As of December 31, 2013, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$201.6 million, for which we received collateral in

the form of cash and securities of \$76.5 million and \$132.9 million, respectively. We had no outstanding repurchase agreements at December 31, 2014 or 2013.

During 2014, we were approved for membership of the Federal Home Loan Bank System (FHLB). As a member, we obtain access to low-cost funding and also receive dividends based on our stock ownership. Membership requires that we purchase a minimum amount of FHLB common stock based on a percentage of our total assets. Additional common stock purchases are required based upon the amount of funds borrowed from the FHLB. We will be required to post mortgage-related assets, U.S. Treasury securities, or other acceptable forms of collateral for any borrowings we make from the FHLB. As of December 31, 2014 we had not funded any FHLB common stock purchases or obtained any advances from the FHLB. We expect to fund our initial common stock membership purchase in the first quarter of 2015 at a cost of approximately \$17.7 million, \$12.5 million of which was a non-binding commitment as of December 31, 2014.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

## Unum Group and Subsidiaries

## Note 3 - Investments - Continued

## 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 4 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.

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.

	December 31, 2014			December 31, 2013		
	Gross Amount of Recognized Financial Instruments (in millions of dollars)	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Gross Amount Not Offset in Balance Sheet Financial Instruments	Cash Collateral	Net Amount
<b>Financial Assets:</b>						
Derivatives	\$28.0	\$—	\$28.0	\$(7.2)	\$(15.4)	\$5.4
Securities Lending	176.5	—	176.5	(118.1)	(58.4)	—
<b>Total</b>	<b>\$204.5</b>	<b>\$—</b>	<b>\$204.5</b>	<b>\$(125.3)</b>	<b>\$(73.8)</b>	<b>\$5.4</b>
<b>Financial Liabilities:</b>						
Derivatives	\$92.9	\$—	\$92.9	\$(67.0)	\$—	\$25.9
Securities Lending	58.4	—	58.4	(58.4)	—	—
<b>Total</b>	<b>\$151.3</b>	<b>\$—</b>	<b>\$151.3</b>	<b>\$(125.4)</b>	<b>\$—</b>	<b>\$25.9</b>

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Total	\$212.4	\$—	\$212.4	\$(134.6	) \$(77.6	) \$0.2
Financial Liabilities:						
Derivatives	\$135.6	\$—	\$135.6	\$(98.6	) \$—	\$37.0
Securities Lending	76.5	—	76.5	(76.5	)	