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Unum Group
Form 10-Q
October 26, 2017

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017

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

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

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

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

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

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

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

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

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

(Check one):

Large accelerated filer Accelerated filer

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

Smaller reporting company

Emerging growth company

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

224,389,084 shares of the registrant's common stock were outstanding as of October 24, 2017.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

• Sustained periods of low interest rates.

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

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

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

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

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

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

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

• Execution risk related to our technology needs.

• Changes in our financial strength and credit ratings.

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

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

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

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

• Effectiveness of our risk management program.

• Contingencies and the level and results of litigation.

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

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

• Changes in accounting standards, practices, or policies.

• Fluctuation in foreign currency exchange rates.

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

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

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

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part 1, Item 1A of our annual report on Form 10-K for the year ended December 31, 2016.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Unum Group and Subsidiaries

	September 30 2017	December 31 2016
	(in millions of dollars) (Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$39,834.9; \$39,552.7)	\$45,422.6	\$44,217.3
Mortgage Loans	2,145.3	2,038.9
Policy Loans	3,567.5	3,463.2
Other Long-term Investments	654.5	631.5
Short-term Investments	1,046.5	780.0
Total Investments	52,836.4	51,130.9
Other Assets		
Cash and Bank Deposits	70.1	100.4
Accounts and Premiums Receivable	1,697.7	1,610.8
Reinsurance Recoverable	4,893.7	4,858.9
Accrued Investment Income	692.5	693.3
Deferred Acquisition Costs	2,155.3	2,094.2
Goodwill	338.2	335.1
Property and Equipment	489.9	500.6
Other Assets	631.9	617.3
Total Assets	\$63,805.7	\$61,941.5

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - Continued

Unum Group and Subsidiaries

	September 30 2017	December 31 2016
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,539.0	\$1,507.9
Reserves for Future Policy and Contract Benefits	45,456.9	44,245.9
Unearned Premiums	430.1	363.7
Other Policyholders' Funds	1,606.9	1,623.8
Income Tax Payable	40.7	20.6
Deferred Income Tax	231.8	130.3
Short-term Debt	199.9	—
Long-term Debt	2,754.1	2,999.4
Payables for Collateral on Investments	398.3	406.0
Other Liabilities	1,699.4	1,675.9
Total Liabilities	54,357.1	52,973.5
Commitments and Contingent Liabilities - Note 11		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 304,416,454 and 303,552,934 shares	30.4	30.4
Additional Paid-in Capital	2,295.2	2,272.8
Accumulated Other Comprehensive Income (Loss)	124.3	(51.0)
Retained Earnings	9,327.2	8,744.0
Treasury Stock - at cost: 80,049,859 and 73,729,992 shares	(2,328.5)	(2,028.2)
Total Stockholders' Equity	9,448.6	8,968.0
Total Liabilities and Stockholders' Equity	\$63,805.7	\$61,941.5

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
	(in millions of dollars, except share data)			
Revenue				
Premium Income	\$2,153.6	\$2,089.4	\$6,438.7	\$6,258.5
Net Investment Income	609.0	611.4	1,831.9	1,841.1
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	—	—	(30.5)
Net Realized Investment Gain, Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	9.8	11.0	28.9	26.3
Net Realized Investment Gain (Loss)	9.8	11.0	28.9	(4.2)
Other Income	46.7	51.5	148.1	154.6
Total Revenue	2,819.1	2,763.3	8,447.6	8,250.0
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,765.6	1,742.6	5,266.6	5,205.9
Commissions	262.4	256.8	793.9	771.7
Interest and Debt Expense	40.1	45.2	119.8	126.2
Deferral of Acquisition Costs	(154.8)	(147.8)	(470.1)	(447.0)
Amortization of Deferred Acquisition Costs	123.7	118.8	403.5	377.2
Compensation Expense	221.8	210.1	644.7	620.6
Other Expenses	193.5	205.5	630.5	618.9
Total Benefits and Expenses	2,452.3	2,431.2	7,388.9	7,273.5
Income Before Income Tax	366.8	332.1	1,058.7	976.5
Income Tax (Benefit)				
Current	139.4	84.0	301.8	242.7
Deferred	(24.9)	12.1	29.6	50.4
Total Income Tax	114.5	96.1	331.4	293.1
Net Income	\$252.3	\$236.0	\$727.3	\$683.4
Net Income Per Common Share				
Basic	\$1.12	\$1.01	\$3.20	\$2.89
Assuming Dilution	\$1.12	\$1.01	\$3.19	\$2.88

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
	(in millions of dollars)			
Net Income	\$252.3	\$236.0	\$727.3	\$683.4
Other Comprehensive Income				
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense of \$39.2; \$113.9; \$334.7; \$1,008.1)	66.1	277.2	616.3	1,999.2
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax benefit of \$31.8; \$51.7; \$261.7; \$707.0)	(66.9)	(135.1)	(499.5)	(1,400.3)
Change in Net Gain on Cash Flow Hedges (net of tax benefit of \$7.4; \$4.3; \$19.7; \$22.3)	(13.8)	(8.4)	(36.8)	(42.8)
Change in Foreign Currency Translation Adjustment	31.8	(25.8)	88.7	(131.6)
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$1.5; \$1.7; \$4.3; \$5.3)	2.2	3.0	6.6	10.1
Total Other Comprehensive Income	19.4	110.9	175.3	434.6
Comprehensive Income	\$271.7	\$346.9	\$902.6	\$1,118.0

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Nine Months Ended September 30	
	2017	2016
	(in millions of dollars)	
Common Stock		
Balance at Beginning of Year and End of Period	\$30.4	\$30.3
Additional Paid-in Capital		
Balance at Beginning of Year	2,272.8	2,247.2
Common Stock Activity	22.4	15.8
Balance at End of Period	2,295.2	2,263.0
Accumulated Other Comprehensive Income (Loss)		
Balance at Beginning of Year	(51.0)	16.1
Other Comprehensive Income	175.3	434.6
Balance at End of Period	124.3	450.7
Retained Earnings		
Balance at Beginning of Year	8,744.0	7,995.2
Net Income	727.3	683.4
Dividends to Stockholders (per common share: \$0.63; \$0.57)	(144.1)	(136.2)
Balance at End of Period	9,327.2	8,542.4
Treasury Stock		
Balance at Beginning of Year	(2,028.2)	(1,624.9)
Purchases of Treasury Stock	(300.3)	(300.3)
Balance at End of Period	(2,328.5)	(1,925.2)
Total Stockholders' Equity at End of Period	\$9,448.6	\$9,361.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Nine Months Ended September 30	
	2017	2016
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	\$727.3	\$683.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	(119.0)	(65.7)
Change in Deferred Acquisition Costs	(66.6)	(69.8)
Change in Insurance Reserves and Liabilities	348.1	274.1
Change in Income Taxes	81.4	(0.8)
Change in Other Accrued Liabilities	(6.6)	(37.6)
Non-cash Components of Net Investment Income	(145.7)	(135.0)
Net Realized Investment (Gain) Loss	(28.9)	4.2
Depreciation	78.4	75.9
Other, Net	(2.4)	26.2
Net Cash Provided by Operating Activities	866.0	754.9
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	303.2	726.6
Proceeds from Maturities of Fixed Maturity Securities	1,848.5	1,504.1
Proceeds from Sales and Maturities of Other Investments	172.3	257.7
Purchases of Fixed Maturity Securities	(2,063.4)	(2,452.3)
Purchases of Other Investments	(313.5)	(431.4)
Net Sales (Purchases) of Short-term Investments	(252.6)	38.6
Net Increase (Decrease) in Payables for Collateral on Investments	(7.7)	24.7
Acquisition of Business, Net of Cash Acquired	—	(128.5)
Net Purchases of Property and Equipment	(64.7)	(60.1)
Net Cash Used by Investing Activities	(377.9)	(520.6)
Cash Flows from Financing Activities		
Issuance of Long-term Debt	—	609.1
Long-term Debt Repayments	(48.5)	(399.0)
Issuance of Common Stock	9.5	3.6
Repurchase of Common Stock	(307.2)	(309.1)
Dividends Paid to Stockholders	(144.1)	(136.2)
Other, Net	(28.1)	(27.7)
Net Cash Used by Financing Activities	(518.4)	(259.3)
Net Decrease in Cash and Bank Deposits	(30.3)	(25.0)
Cash and Bank Deposits at Beginning of Year	100.4	112.9

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Cash and Bank Deposits at End of Period	\$70.1	\$87.9
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See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

September 30, 2017

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2016.

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

Note 2 - Accounting Developments

Accounting Updates Adopted in 2017:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 944 "Financial Services - Insurance"	This update changed the disclosure requirements for certain insurance contracts. These changes included a requirement to disclose the rollforward of the liability for unpaid claims and claim adjustment expenses in both interim and annual reporting periods for long-duration and short-duration insurance contracts. Additional claims disclosures were also required for short-duration contracts. The guidance is to be applied retrospectively.	January 1, 2016 for annual reporting period disclosures and January 1, 2017 for interim reporting period disclosures.	The adoption of this update expanded our interim reporting period disclosures but had no effect on our financial position or results of operations. The annual reporting period disclosure requirements were only applicable to our individual dental products, which we deem immaterial, and therefore did not alter our annual disclosures.
ASC 718 "Compensation - Stock Compensation"	This update changed the accounting and disclosure requirements for certain aspects of share-based payments to employees. The update required all income tax effects of stock-based compensation awards to be recognized in the income statement when the awards vest or are settled. The update also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. Additionally, the update required reclassification of tax-related cash flows	January 1, 2017	The adoption of this update did not have a material effect on our financial position or results of operations. The impact of the update reduced our effective income tax rate by a de minimis amount during the three and nine months ended September 30, 2017. During periods in which the vesting date fair value differs from the grant date fair value of certain stock-based compensation awards, we may experience volatility in the income tax recognized in our results of

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2017

Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 230 "Statement of Cash Flows"	This update provides clarifying guidance intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues that relate to various transactions. The guidance is to be applied retrospectively, with early adoption permitted.	January 1, 2018	The adoption of this update will result in reclassifications to certain cash receipts and payments within our consolidated statements of cash flows but will have no effect on our financial position or results of operations.
ASC 606 "Revenue from Contracts with Customers"	These updates supersede virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of these updates are insurance contracts, although our fee-based service products are included within the scope. Our fee-based service products, which are primarily sold in our Unum US segment, are reported in other income within our consolidated statements of income and represent less than one percent of our total revenue. The core principle of this guidance is that revenue recognition should depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption, with early adoption permitted.	January 1, 2018	The adoption of these updates will not have a material effect on our financial position or results of operations.
ASC 740 "Income Taxes"	This update eliminates the exception that requires the tax effect of intra-entity asset transfers other than inventory to be deferred until the transferred asset is sold to a third party or otherwise recovered through use. It requires recognition of tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The guidance is to be applied retrospectively, with early adoption permitted.	January 1, 2018	The adoption of this update will not have a material effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2017

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 825 "Financial Instruments - Overall"	This update changes the accounting and disclosure requirements for certain financial instruments. These changes include a requirement to measure equity investments, other than those that result in consolidation or are accounted for under the equity method, at fair value through net income unless the investment qualifies for certain practicability exceptions. In addition, the update clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale fixed maturity securities. Changes also include the modification of certain disclosures around the fair value of financial instruments, including the requirement for separate presentation of financial assets and liabilities by measurement category, as well as the elimination of certain disclosures around methods and significant assumptions used to estimate fair value. The guidance is to be applied using a modified retrospective approach through a cumulative-effect adjustment to accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year the guidance is adopted. Early adoption is generally not permitted, with certain exceptions as defined in the update.	January 1, 2018	We have determined that certain of our limited partnership investments are within the scope of this update. Although we do not expect this update to have a material impact on our financial position or results of operations, we may experience an increase in volatility in net investment income. In addition, we will be required to modify certain of our disclosures upon adoption.
ASC 715 "Compensation - Retirement Benefits"	This update requires the service cost component of net periodic pension and postretirement benefit costs to be included as a component of compensation costs in an entity's statement of income. Other components of net periodic pension and postretirement benefit costs are required to be presented separately from the service cost along with a disclosure identifying the line items in which these costs are presented in the statement of income. The amendments in this update are to be applied retrospectively or prospectively depending on the specific requirement of the update, with early adoption permitted.	January 1, 2018	The adoption of this update will result in reclassifications to certain line items within our consolidated statements of income but will have no effect on our financial position or results of operations.
ASC 842 "Leases"	This update changes the accounting for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is	January 1, 2019	We have not yet determined the expected impact on our financial position or results of operations.

also recorded. Expense recognition for lessees will remain similar to current accounting requirements for capital and operating leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period presented and early adoption is permitted.

ASC 310
"Receivables -
Nonrefundable
Fees and Other
Costs"

This update shortens the amortization period to the earliest call date for certain callable debt securities held at a premium. This update does not impact securities held at a discount. The guidance is to be applied using a modified retrospective approach, with early adoption permitted.

January 1,
2019

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2017

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 815 "Derivatives and Hedge Accounting"	This update provides targeted improvements to accounting for hedging activities for both nonfinancial and financial risk components, aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements, eases certain documentation and effectiveness assessment requirements, and enhances transparency through expanded disclosures. For cash flow and net investment hedges existing at the date of adoption, the guidance is to be applied using a modified retrospective approach through a cumulative-effect adjustment to accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year the guidance is adopted. The amended presentation and disclosure guidance is required prospectively. Early adoption is permitted.	January 1, 2019	We have not yet determined the expected impact on our financial position or results of operations.
ASC 350 "Intangibles - Goodwill and Other"	This update eliminates the requirement to calculate the implied fair value of goodwill (the second step in the current two-step test) to measure a goodwill impairment charge. Instead, entities should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of the carrying amount over the fair value, with the loss not to exceed the total amount of goodwill allocated to that reporting unit. The guidance is to be applied prospectively, with early adoption permitted for goodwill impairment tests performed on testing dates after January 1, 2017.	January 1, 2020	The adoption of this update will not have a material effect on our financial position or results of operations.
ASC 326 "Financial Instruments - Credit Losses"	This update amends the guidance on the impairment of financial instruments. The update adds an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses and will generally result in earlier recognition of allowances for losses. The current expected credit loss model applies to financial instruments such as mortgage loans, fixed maturity securities classified as held-to-maturity, and certain receivables. The update also modifies the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit losses are recognized as an allowance rather than as a reduction in the amortized cost of the security. The reversal of previously recognized credit losses on available-for-sale fixed maturity securities is allowed under specified circumstances. Additional disclosures will also be required, including information used to develop the allowance for losses. The guidance is to be applied to most instruments in scope using a modified retrospective approach at the beginning of the earliest comparative period presented with	January 1, 2020	We have not yet determined the expected impact on our financial position or results of operations.

early adoption permitted. For available-for-sale fixed maturity securities, the update is applied prospectively. Other-than-temporary impairment losses recognized on available-for-sale fixed maturity securities prior to adoption of the update cannot be reversed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2017

Note 3 - Fair Values of Financial Instruments

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

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	\$45,422.6	\$45,422.6	\$44,217.3	\$44,217.3
Mortgage Loans	2,145.3	2,246.7	2,038.9	2,122.2
Policy Loans	3,567.5	3,674.7	3,463.2	3,564.2
Other Long-term Investments				
Derivatives	20.6	20.6	32.7	32.7
Equity Securities	1.3	1.3	1.2	1.2
Miscellaneous Long-term Investments	577.6	577.6	541.9	541.9
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	\$589.9	\$589.9	\$597.4	\$597.4
Supplementary Contracts without Life Contingencies	602.2	602.2	608.8	608.8
Long-term Debt	2,754.1	3,054.5	2,999.4	3,175.8
Payables for Collateral on Investments				
Federal Home Loan Bank (FHLB) Funding Agreements	350.0	350.0	350.0	350.0
Other Liabilities				
Derivatives	52.2	52.2	52.8	52.8
Embedded Derivative in Modified Coinsurance Arrangement	25.2	25.2	46.7	46.7
Unfunded Commitments to Investment Partnerships	4.5	4.5	5.0	5.0

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

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

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

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal \$3,306.2 million and \$3,206.1 million as of September 30, 2017 and December 31, 2016, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2017

Note 3 - Fair Values of Financial Instruments - Continued

shares of FHLB common stock are carried at cost, which approximates fair value. These financial instruments are considered restricted investments and are assigned a Level 2 within the fair value hierarchy.

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

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

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued by pricing services using active trades for which there was current market activity in that specific debt instrument have fair values of \$2,150.9 million and \$709.8 million as of September 30, 2017 and December 31, 2016, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued by pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of \$903.6 million and \$2,466.0 million as of September 30, 2017 and December 31, 2016, respectively, and are assigned a Level 2.

FHLB Funding Agreements: Funding agreements with the FHLB represent cash advances used for the purpose of investing in fixed maturity securities. Carrying amounts approximate fair value and are assigned a Level 2 within the fair value hierarchy.

Unfunded Commitments to Investment Partnerships: Unfunded equity commitments represent amounts that we have committed to fund certain investment partnerships. These commitments are legally binding, subject to the partnerships meeting specified conditions. Carrying amounts approximate fair value and are assigned a Level 2 within the fair value hierarchy.

Fair Value Measurements for Financial Instruments Carried at Fair Value

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

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market trans