

Edgar Filing: Unum Group - Form 10-Q

Unum Group  
Form 10-Q  
May 01, 2019

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2019

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

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

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

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

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

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

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

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

---

Edgar Filing: Unum Group - Form 10-Q

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

(Check one):

Large accelerated filer  Accelerated filer

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

Smaller reporting company

Emerging growth company

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

211,880,640 shares of the registrant's common stock were outstanding as of April 29, 2019.

---

TABLE OF CONTENTS

	Page
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>1</u>
 <u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	<u>3</u>
<u>Consolidated Balance Sheets at March 31, 2019 and December 31, 2018</u>	<u>3</u>
<u>Consolidated Statements of Income for the three months ended March 31, 2019 and 2018</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	<u>6</u>
<u>Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2019 and 2018</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>59</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>90</u>
<u>Item 4. Controls and Procedures</u>	<u>90</u>
 <u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>91</u>
<u>Item 1A. Risk Factors</u>	<u>91</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>91</u>
<u>Item 6. Exhibits</u>	<u>92</u>
<u>Signatures</u>	<u>93</u>



### Cautionary Statement Regarding Forward-Looking Statements

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

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

• Sustained periods of low interest rates.

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

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

• Changes in or interpretations of laws and regulations, including tax laws and regulations.

• 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.

• 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.

• 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.

• Our ability to execute on our technology systems upgrades or replacements.

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

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

• Changes in accounting standards, practices, or policies.

• Effectiveness of our risk management program.

• Contingencies and the level and results of litigation.

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

• 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.

Edgar Filing: Unum Group - Form 10-Q

Fluctuation in foreign currency exchange rates.

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

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

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

1

---

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, 2018.

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

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

## Unum Group and Subsidiaries

	March 31 2019	December 31 2018
	(in millions of dollars) (Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$40,474.2; \$40,275.2)	\$44,782.6	\$43,011.7
Mortgage Loans	2,206.6	2,295.0
Policy Loans	3,673.3	3,729.9
Other Long-term Investments	696.7	702.9
Short-term Investments	1,194.4	968.1
Total Investments	52,553.6	50,707.6
Other Assets		
Cash and Bank Deposits	62.1	94.0
Accounts and Premiums Receivable	1,712.2	1,615.5
Reinsurance Recoverable	4,717.7	4,662.4
Accrued Investment Income	742.2	690.6
Deferred Acquisition Costs	2,298.2	2,309.4
Goodwill	351.0	350.3
Property and Equipment	548.2	546.9
Deferred Income Tax	30.2	109.9
Other Assets	906.3	789.0
Total Assets	\$63,921.7	\$61,875.6

See notes to consolidated financial statements.



## CONSOLIDATED BALANCE SHEETS - Continued

## Unum Group and Subsidiaries

	March 31 2019	December 31 2018
	(in millions of dollars) (Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,708.6	\$1,695.7
Reserves for Future Policy and Contract Benefits	46,109.4	44,841.9
Unearned Premiums	417.7	363.3
Other Policyholders' Funds	1,608.2	1,594.8
Income Tax Payable	268.3	24.0
Long-term Debt	2,958.7	2,971.3
Other Liabilities	1,790.3	1,762.8
 Total Liabilities	 54,861.2	 53,253.8
Commitments and Contingent Liabilities - Note 11		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 305,565,569 and 305,104,548 shares	30.5	30.5
Additional Paid-in Capital	2,328.5	2,321.7
Accumulated Other Comprehensive Loss	(502.3 )	(814.2 )
Retained Earnings	10,083.1	9,863.1
Treasury Stock - at cost: 93,275,293 and 90,551,513 shares	(2,879.3 )	(2,779.3 )
 Total Stockholders' Equity	 9,060.5	 8,621.8
 Total Liabilities and Stockholders' Equity	 \$63,921.7	 \$61,875.6

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars, except share data)	
Revenue		
Premium Income	\$2,338.7	\$2,250.0
Net Investment Income	594.7	602.3
Realized Investment Gain (Loss)		
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	(1.0 )
Net Realized Investment Gain (Loss), Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	1.1	(1.2 )
Net Realized Investment Gain (Loss)	1.1	(2.2 )
Other Income	53.1	49.5
Total Revenue	2,987.6	2,899.6
Benefits and Expenses		
Benefits and Change in Reserves for Future Benefits	1,840.8	1,807.9
Commissions	290.1	282.3
Interest and Debt Expense	42.1	40.2
Deferral of Acquisition Costs	(173.7 )	(169.3 )
Amortization of Deferred Acquisition Costs	170.6	151.5
Compensation Expense	226.5	221.7
Other Expenses	237.9	224.2
Total Benefits and Expenses	2,634.3	2,558.5
Income Before Income Tax	353.3	341.1
Income Tax (Benefit)		
Current	54.3	89.4
Deferred	18.1	(21.8 )
Total Income Tax	72.4	67.6
Net Income	\$280.9	\$273.5
Net Income Per Common Share		
Basic	\$1.31	\$1.23
Assuming Dilution	\$1.31	\$1.23

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Net Income	\$ 280.9	\$ 273.5
Other Comprehensive Income (Loss)		
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of \$326.8; \$(274.9))	1,245.1	(1,042.1 )
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of \$(245.5); \$212.1)	(932.8 )	807.9
Change in Net Gain on Hedges (net of tax benefit of \$5.8; \$2.3)	(20.5 )	(8.8 )
Change in Foreign Currency Translation Adjustment (net of tax expense of \$0.3; \$ -)	17.3	47.5
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$0.7; \$0.7)	2.8	3.1
Total Other Comprehensive Income (Loss)	311.9	(192.4 )
Comprehensive Income	\$ 592.8	\$ 81.1

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
<b>Common Stock</b>		
Balance at Beginning of Year and End of Period	\$30.5	\$30.5
<b>Additional Paid-in Capital</b>		
Balance at Beginning of Year	2,321.7	2,303.3
Common Stock Activity	6.8	(0.9 )
Balance at End of Period	2,328.5	2,302.4
<b>Accumulated Other Comprehensive Loss</b>		
Balance at Beginning of Year	(814.2 )	127.5
Adjustment to Adopt Accounting Standard Update - Note 2	—	(17.5 )
Balance at Beginning of Year, as Adjusted	(814.2 )	110.0
Other Comprehensive Income (Loss)	311.9	(192.4 )
Balance at End of Period	(502.3 )	(82.4 )
<b>Retained Earnings</b>		
Balance at Beginning of Year	9,863.1	9,542.2
Adjustment to Adopt Accounting Standard Update - Note 2	(3.4 )	14.5
Balance at Beginning of Year, as Adjusted	9,859.7	9,556.7
Net Income	280.9	273.5
Dividends to Stockholders (per common share: \$0.26; \$0.23)	(57.5 )	(52.4 )
Balance at End of Period	10,083.1	9,777.8
<b>Treasury Stock</b>		
Balance at Beginning of Year	(2,779.3 )	(2,428.6 )
Purchases of Treasury Stock	(100.0 )	(100.2 )
Balance at End of Period	(2,879.3 )	(2,528.8 )
<b>Total Stockholders' Equity at End of Period</b>	<b>\$9,060.5</b>	<b>\$9,499.5</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

## Unum Group and Subsidiaries

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	\$280.9	\$273.5
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	(10.7 )	(29.4 )
Change in Deferred Acquisition Costs	(3.1 )	(17.8 )
Change in Insurance Reserves and Liabilities	90.7	183.8
Change in Income Taxes	253.1	56.4
Change in Other Accrued Liabilities	(35.8 )	(110.4 )
Non-cash Components of Net Investment Income	(95.6 )	(95.2 )
Net Realized Investment (Gain) Loss	(1.1 )	2.2
Depreciation	27.4	24.6
Other, Net	11.0	12.2
Net Cash Provided by Operating Activities	516.8	299.9
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	361.0	84.8
Proceeds from Maturities of Fixed Maturity Securities	369.6	469.8
Proceeds from Sales and Maturities of Other Investments	133.3	82.3
Purchases of Fixed Maturity Securities	(822.0 )	(835.4 )
Purchases of Other Investments	(53.2 )	(90.0 )
Net Sales (Purchases) of Short-term Investments	(217.9 )	450.9
Net Decrease in Payables for Collateral on Investments	(107.9 )	(14.0 )
Net Purchases of Property and Equipment	(28.1 )	(29.1 )
Net Cash Provided (Used) by Investing Activities	(365.2 )	119.3
Cash Flows from Financing Activities		
Long-term Debt Repayments	(15.0 )	(15.0 )
Issuance of Common Stock	1.4	1.3
Repurchase of Common Stock	(100.0 )	(105.7 )
Dividends Paid to Stockholders	(55.7 )	(52.4 )
Other, Net	(14.2 )	(15.9 )
Net Cash Used by Financing Activities	(183.5 )	(187.7 )
Net Increase (Decrease) in Cash and Bank Deposits	(31.9 )	231.5
Cash and Bank Deposits at Beginning of Year	94.0	77.4
Cash and Bank Deposits at End of Period	\$62.1	\$308.9

See notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

March 31, 2019

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, 2018.

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 2019:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 220 "Income Statement - Reporting Comprehensive Income"	This update allowed entities to make an accounting policy election to reclassify the disproportionate tax effects arising as a result of the recognition of the enactment of the tax bill, H.R.1, An Act to Provide Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, more commonly known as the Tax Cuts and Jobs Act (TCJA) from accumulated other comprehensive income to retained earnings. Tax effects that are disproportionate in accumulated other comprehensive income for reasons other than the TCJA may not be reclassified. This update required additional disclosures on whether an entity elects to reclassify the disproportionate tax effects and its policy for releasing tax effects from accumulated other comprehensive income. This guidance was applied in the period of adoption.	January 1, 2019	The adoption of this update expanded certain of our disclosures but had no impact on our financial position or results of operations because we did not make the optional accounting policy election to reclassify the disproportionate tax effects resulting from the TCJA from accumulated other comprehensive income to retained earnings. We use an aggregate portfolio approach to release disproportionate tax effects when disposing of an entire business segment's portfolio.
ASC 310 "Receivables - Nonrefundable Fees and Other Costs"	This update shortened the amortization period to the earliest call date for certain callable debt securities held at a premium. This update did not impact securities held at a discount. The guidance was applied in the period of adoption.	January 1, 2019	The adoption of this update did not have a material impact on our financial position or results of operations.

ASC 718  
"Compensation -  
Stock  
Compensation"

This update generally aligned the accounting guidance for share-based payments issued to non-employees with guidance for share-based payments issued to employees. Specifically, the update required non-employee share-based payments to be measured using the grant date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered rather than being remeasured through the performance completion date. Additionally, for non-employee share-based payments that contain performance conditions, the update changed the criteria regarding the recognition of compensation cost to when achievement of a performance condition is probable rather than upon actual achievement of the performance condition. The guidance was applied in the period of adoption.

January 1,  
2019

The adoption of this update did not have an impact on our financial position or results of operations.



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

Unum Group and Subsidiaries

March 31, 2019

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 842 "Leases"	This update changed the accounting for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is also recorded. Expense recognition for lessees remained similar to previous accounting requirements for capital and operating leases. For lessors, the guidance modified the classification criteria and the accounting for sales-type and direct financing leases. The guidance was applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the period of adoption. In addition, the package of practical expedients available to leases that commenced prior to the date of adoption was applied.	January 1, 2019	See the summary table below for the financial statement impacts of this modified retrospective adoption on our financial statement line items at January 1, 2019. In addition, see Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for the additional disclosures required by the update.

## Summary of Financial Statement Impacts of Accounting Updates Adopted in 2019:

	Balance at December 31, 2018	Balance at January 1, 2019	Effect of Change
(in millions of dollars)			
Adjustments due to ASC 842			
Consolidated Balance Sheets			
Assets			
Other Assets	\$789.0	\$ 906.7	\$ 117.7
Deferred Income Tax	109.9	109.5	(0.4 )
Liabilities			
Other Liabilities	1,762.8	1,884.8	122.0
Income Tax Payable	24.0	22.7	(1.3 )
Stockholders' Equity			
Retained Earnings	9,863.1	9,859.7	(3.4 )

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

Effective January 1, 2018, we adopted an update under ASC 825 that changed the accounting and disclosure requirements for certain financial instruments. These changes included a requirement to measure equity investments, other than those that resulted in consolidation or are accounted for under the equity method, at fair value through net income unless the investment qualifies for certain practicability exceptions. The guidance was applied using a

modified retrospective approach through a cumulative-effect reduction to accumulated other comprehensive income of \$17.5 million with a corresponding increase to retained earnings of \$14.5 million, a decrease to other long-term investments of \$3.8 million, and a decrease to deferred income tax liability of \$0.8 million.

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

Unum Group and Subsidiaries

March 31, 2019

Note 2 - Accounting Developments - Continued

## Accounting Updates Outstanding:

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

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

Unum Group and Subsidiaries

March 31, 2019

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 820 "Fair Value Measurement"	<p>This update amended the fair value measurement guidance by removing or clarifying certain existing disclosure requirements, while also adding new disclosure requirements. Specifically, this update removed certain disclosures related to Level 1 and Level 2 transfers and also removed the discussion regarding valuation processes of Level 3 fair value measurements. The update modifies guidance related to investments in certain entities that calculate net asset value to explicitly require disclosure regarding timing of liquidation of the investee's assets and timing of redemption restrictions. The update adds disclosures around the changes in unrealized gains and losses in other comprehensive income for recurring Level 3 investments held at the end of the reporting period and adds disclosures regarding certain unobservable inputs on Level 3 fair value measurements. The guidance was applied retrospectively or prospectively depending on the specific requirement of the update. Entities are permitted to early adopt any removed or modified disclosures and may delay adoption of the additional disclosures until their effective date.</p>	<p>December 31, 2018 for the removal and modification of certain disclosures and January 1, 2020 for the addition of certain disclosures.</p>	<p>We elected to early adopt the removal and modification of disclosures, as permitted by the update. We have elected to delay the adoption of the additional disclosures until the effective date. The adoption of this update will modify our disclosures but will not have an impact on our financial position or results of operations.</p>
ASC 715 "Compensation - Retirement Benefits"	<p>This update amends the defined benefit pension and other postretirement benefit guidance by removing or clarifying certain existing disclosure requirements, while also adding new disclosure requirements. Specifically, this update removes the requirement to disclose the effects of a one-percentage point change in the assumed healthcare cost trend and the requirement to disclose amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost of the next year. This update adds a requirement to describe the reasons for significant gains and losses related to changes in the benefit obligation for the period. The update also clarifies that the projected benefit obligation (PBO) and accumulated benefit obligation (ABO) and fair value of plan assets are to be disclosed for plans with PBOs or ABOs in excess of plan assets. The guidance is to be applied retrospectively and early adoption is permitted.</p>	<p>December 31, 2020</p>	<p>We have not yet determined the expected impact on our disclosures.</p>



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

Unum Group and Subsidiaries

March 31, 2019

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 944 "Financial Services - Insurance"	<p>This update significantly amends the accounting and disclosure requirements for long-duration insurance contracts. These changes include a requirement to review, and if necessary, update cash flow assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually, with changes recognized in earnings. In addition, an entity will be required to update the discount rate assumption at each reporting date using a yield that is reflective of an upper-medium grade fixed-income instrument, with changes recognized in other comprehensive income. These changes result in the elimination of the provision for risk of adverse deviation and premium deficiency (or loss recognition) testing. The update also requires that an entity measure all market risk benefits associated with deposit contracts at fair value, with changes recognized in earnings except for the portion attributable to a change in the instrument-specific credit risk, which is to be recognized in other comprehensive income. This update also simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are no longer subject to an impairment test. Significant additional disclosures will also be required, which include disaggregated rollforwards of certain liability balances and the disclosure of qualitative and quantitative information about expected cash flows, estimates, and assumptions. The application of this guidance will vary based upon the specific requirements of the update but will generally result in either a modified retrospective or full retrospective approach with changes applied as of the beginning of the earliest period presented. Early adoption is permitted.</p>	January 1, 2021	<p>We are currently evaluating the impact of the update and expect that the adoption may have a material impact on our financial position and results of operations. The update will also significantly expand our disclosures.</p>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments

Fair Value Measurements for Financial Instruments Carried at Fair Value

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

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

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

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

Level 2 - valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 - the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

Valuation Methodologies of Financial Instruments Measured at Fair Value

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

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available that can be obtained without undue cost and effort. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In

other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our



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

Unum Group and Subsidiaries

March 31, 2019

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

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 2019, we have applied valuation approaches and techniques on a consistent basis to similar assets and liabilities and consistent with those approaches and techniques used at year end 2018.

## Fixed Maturity and Equity Securities

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

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

Edgar Filing: Unum Group - Form 10-Q

Non-binding broker quotes  
Call provisions

Non-binding broker quotes  
Security and issuer level spreads

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

Edgar Filing: Unum Group - Form 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

Valuation Techniques /  
Inputs

Non-binding broker quotes

Non-binding broker quotes

17

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

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

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

At March 31, 2019, 22.6 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 remaining 77.4 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below:

64.2 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.

3.4 percent of our fixed maturity securities were valued based on one or more non-binding broker quotes, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for

which we were able to validate the price using other observable market data, were classified as Level 2.

9.8 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.

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

## Derivatives

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

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

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

## Private Equity Partnerships

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

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

Investment Category	March 31, 2019		Unfunded Commitments
	Fair Value	Redemption Term / Redemption Notice	
	(in millions of dollars)		(in millions of dollars)
Private Credit	(a) \$ 170.5	Not redeemable	\$ 93.8
	26.5	Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	10.3
	197.0		104.1



Total Private  
Credit

Private Equity	(b) 132.4	Not redeemable	161.5
Real Assets	(c) 135.0	Not redeemable	99.4
	30.3	Quarterly / 90 days notice	—
Total Real Assets	165.3		99.4
Total Partnerships	\$494.7		\$ 365.0

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

Unum Group and Subsidiaries

March 31, 2019

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

Investment Category	December 31, 2018		Unfunded Commitments  (in millions of dollars)
	Fair Value (in millions of dollars)	Redemption Term / Redemption Notice	
Private Credit	(a) \$ 168.6	Not redeemable	\$ 99.5
	25.7	Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	10.3
Total Private Credit	194.3		109.8
Private Equity	(b) 128.3	Not redeemable	169.5
Real Assets	(c) 131.0	Not redeemable	106.0
	30.2	Quarterly / 90 days notice	—
Total Real Assets	161.2		106.0
Total Partnerships	\$483.8		\$ 385.3

Private Credit - The limited partnerships described in this category employ various investment strategies, generally providing direct lending or other forms of debt financing including first-lien, second-lien, mezzanine, and subordinated loans. The limited partnerships have credit exposure to corporates, physical assets, and/or financial assets within variety of industries (including manufacturing, healthcare, energy, business services, technology, (a) materials, and retail) in North America and, to a lesser extent, outside of North America. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemptions. As of March 31, 2019, the estimated remaining life of the investments that do not allow for redemptions is approximately 44 percent in the next 3 years, 20 percent during the period from 3 to 5 years, 33 percent during the period from 5 to 10 years, and 3 percent during the period from 10 to 15 years.

Private Equity - The limited partnerships described in this category employ various strategies generally investing in controlling or minority control equity positions directly in companies and/or assets across various industries (including manufacturing, healthcare, energy, business services, technology, materials, and retail), primarily in (b) private markets within North America and, to a lesser extent, outside of North America. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemptions. As of March 31, 2019, the estimated remaining life of the investments that do not allow for redemptions is approximately 46 percent in the next 3 years, 52 percent during the period from 5 to 10 years, and 2 percent during the period from 10 to 15 years.

(c) Real Assets - The limited partnerships described in this category employ various strategies, which include investing in the equity and/or debt financing of physical assets, including infrastructure (energy, power, water/wastewater, communications), transportation (including airports, ports, toll roads, aircraft, railcars) and real estate in North America, Europe, South America, and Asia. Unless specifically disclosed in the table above, these limited partnerships do not allow for redemption. As of March 31, 2019, the estimated remaining life of the investments

that do not allow for redemptions is approximately 2 percent in the next 3 years, 18 percent during the period from 3 to 5 years, 75 percent during the period from 5 to 10 years, and 5 percent during the period from 10 to 15 years.

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

	March 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total
	(in millions of dollars)				
<b>Assets</b>					
<b>Fixed Maturity Securities</b>					
United States Government and Government Agencies and Authorities	\$466.9	\$1,378.9	\$—	\$—	\$1,845.8
States, Municipalities, and Political Subdivisions	—	2,540.4	—	—	2,540.4
Foreign Governments	—	976.1	31.6	—	1,007.7
Public Utilities	731.2	6,499.3	224.0	—	7,454.5
Mortgage/Asset-Backed Securities	—	1,556.1	—	—	1,556.1
All Other Corporate Bonds	8,942.5	20,899.4	496.0	—	30,337.9
Redeemable Preferred Stocks	—	19.2	21.0	—	40.2
<b>Total Fixed Maturity Securities</b>	<b>10,140.6</b>	<b>33,869.4</b>	<b>772.6</b>	<b>—</b>	<b>44,782.6</b>
<b>Other Long-term Investments</b>					
<b>Derivatives</b>					
Foreign Exchange Contracts	—	24.5	—	—	24.5
Credit Default Swaps	—	0.1	—	—	0.1
Equity Securities	27.5	0.2	4.6	—	32.3
Private Equity Partnerships	—	—	—	494.7	494.7
<b>Total Other Long-term Investments</b>	<b>27.5</b>	<b>24.8</b>	<b>4.6</b>	<b>494.7</b>	<b>551.6</b>
<b>Total Financial Instrument Assets Carried at Fair Value</b>	<b>\$10,168.1</b>	<b>\$33,894.2</b>	<b>\$777.2</b>	<b>\$494.7</b>	<b>\$45,334.2</b>
<b>Liabilities</b>					
<b>Other Liabilities</b>					
<b>Derivatives</b>					
Interest Rate Swaps and Forwards	\$—	\$3.8	\$—	\$—	\$3.8
Foreign Exchange Contracts	—	31.9	—	—	31.9
Embedded Derivative in Modified Coinsurance Arrangement	—	—	25.6	—	25.6
<b>Total Derivatives</b>	<b>—</b>	<b>35.7</b>	<b>25.6</b>	<b>—</b>	<b>61.3</b>
<b>Total Financial Instrument Liabilities Carried at Fair Value</b>	<b>\$—</b>	<b>\$35.7</b>	<b>\$25.6</b>	<b>\$—</b>	<b>\$61.3</b>

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total
	(in millions of dollars)				
<b>Assets</b>					
<b>Fixed Maturity Securities</b>					
United States Government and Government Agencies and Authorities	\$513.4	\$1,301.0	\$—	\$—	\$1,814.4
States, Municipalities, and Political Subdivisions	—	2,424.2	—	—	2,424.2
Foreign Governments	—	952.3	31.4	—	983.7
Public Utilities	286.4	7,041.7	84.7	—	7,412.8
Mortgage/Asset-Backed Securities	—	1,582.7	—	—	1,582.7
All Other Corporate Bonds	4,232.1	23,026.1	1,495.8	—	28,754.0
Redeemable Preferred Stocks	—	18.8	21.1	—	39.9
<b>Total Fixed Maturity Securities</b>	<b>5,031.9</b>	<b>36,346.8</b>	<b>1,633.0</b>	<b>—</b>	<b>43,011.7</b>
<b>Other Long-term Investments</b>					
<b>Derivatives</b>					
Foreign Exchange Contracts	—	30.4	—	—	30.4
Credit Default Swaps	—	0.5	—	—	0.5
Equity Securities	—	24.6	4.6	—	29.2
Private Equity Partnerships	—	—	—	483.8	483.8
<b>Total Other Long-term Investments</b>	<b>—</b>	<b>55.5</b>	<b>4.6</b>	<b>483.8</b>	<b>543.9</b>
<b>Total Financial Instrument Assets Carried at Fair Value</b>	<b>\$5,031.9</b>	<b>\$36,402.3</b>	<b>\$1,637.6</b>	<b>\$483.8</b>	<b>\$43,555.6</b>
<b>Liabilities</b>					
<b>Other Liabilities</b>					
<b>Derivatives</b>					
Interest Rate Swaps	\$—	\$5.2	\$—	\$—	\$5.2
Foreign Exchange Contracts	—	32.8	—	—	32.8
Embedded Derivative in Modified Coinsurance Arrangement	—	—	31.1	—	31.1
<b>Total Derivatives</b>	<b>—</b>	<b>38.0</b>	<b>31.1</b>	<b>—</b>	<b>69.1</b>
<b>Total Financial Instrument Liabilities Carried at Fair Value</b>	<b>\$—</b>	<b>\$38.0</b>	<b>\$31.1</b>	<b>\$—</b>	<b>\$69.1</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

	Three Months Ended March 31, 2019				Level 3			
	Total Realized and Unrealized Investment Gains (Losses) Included in				Transfers			
	Fair Value Beginning of Period	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	Fair Value End of Period	
	(in millions of dollars)							
Fixed Maturity Securities								
Foreign Governments	\$31.4	\$ —	\$ 0.2	\$ —	\$ —	\$ —	\$31.6	
Public Utilities	84.7	—	7.9	—	(0.4)	208.6	224.0	
All Other Corporate Bonds	1,495.8	—	13.3	—	(29)	436.1	1,099.8	
Redeemable Preferred Stocks	21.1	—	(0.1)	—	—	—	21.0	
Total Fixed Maturity Securities	1,633.0	—	21.3	—	(29)	824.7	1,096.6	
Equity Securities	4.6	—	—	—	—	—	4.6	
Embedded Derivative in Modified Coinsurance Arrangement	(31.1)	5.5	—	—	—	—	(25.6)	

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

	Three Months Ended March 31, 2018							
	Total Realized and Unrealized Investment Gains (Losses) Included in				Level 3 Transfers			
Fair Value Beginning of Period	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	Fair Value End of Period		
(in millions of dollars)								
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$—	\$ (0.8 )	\$ —	—\$(0.1)	\$ 36.6	\$ —	\$ 35.7	
Foreign Governments	—	(0.4 )	—	—	32.7	—	32.3	
Public Utilities	207.7	(6.7 )	—	(1.1 )	200.9	(116.6)	284.2	
Mortgage/Asset-Backed Securities	—	—	—	—	0.5	—	0.5	
All Other Corporate Bonds	1,150.1	(22.1 )	—	(11.7)	466.0	(595.1)	987.2	
Redeemable Preferred Stocks	22.8	(0.6 )	—	—	—	—	22.2	
Total Fixed Maturity Securities	1,380.6	(30.6 )	—	(12.9)	736.7	(711.7)	1,362.1	
Equity Securities	1.1	—	—	—	—	—	1.1	
Embedded Derivative in Modified Coinsurance Arrangement	(15.9)	7—	—	—	—	—	(17.6 )	

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for greater transparency, as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation. Gains (losses) which are included in earnings and are attributable to the change in fair value of assets or liabilities valued using significant unobservable inputs and still held at period end were \$5.5 million and \$(1.7) million for the three months ended March 31, 2019 and 2018, respectively. These amounts relate entirely to the change in fair value of an embedded derivative in a modified coinsurance arrangement and are reported as a component of realized investment gains and losses.

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

		March 31, 2019			
		Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
		(in millions of dollars)			
Fixed Maturity Securities					
All Other Corporate Bonds - Private	\$208.2	Market Approach	Lack of Marketability Volatility of Credit Market Convention	(a) 0.25% - 0.25% / 0.25% (b) 0.20% - 12.54% / 1.00% (c) Priced at Par	
Equity Securities - Private	4.6	Market Approach	Market Convention	(c) Priced at Cost or Owner's Equity	
Embedded Derivative in Modified Coinsurance Arrangement	(25.6 )	Discounted Cash Flows	Projected Liability Cash Flows	(d) Actuarial Assumptions	
		December 31, 2018			
		Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
		(in millions of dollars)			
Fixed Maturity Securities					
All Other Corporate Bonds - Private	\$148.5	Market Approach	Lack of Marketability Volatility of Credit Market Convention	(a) 0.25% - 0.25% / 0.25% (b) 0.25% - 10.99% / 1.00% (c) Priced at Par	
Equity Securities - Private	4.6	Market Approach	Market Convention	(c) Priced at Cost or Owner's Equity	
Embedded Derivative in Modified Coinsurance Arrangement	(31.1 )	Discounted Cash Flows	Projected Liability Cash Flows	(d) Actuarial Assumptions	

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

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

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

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

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





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

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

**Mortgage Loans:** Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations.

**Policy Loans:** Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal \$3,390.2 million and \$3,449.3 million as of March 31, 2019 and December 31, 2018, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties.

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

**Long-term Debt:** Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

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

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

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

	March 31, 2019				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
	(in millions of dollars)				
<b>Assets</b>					
Mortgage Loans	\$—	\$2,273.2	\$—	\$2,273.2	\$2,206.6
Policy Loans	—	—	3,780.5	3,780.5	3,673.3
Other Long-term Investments					
Miscellaneous Long-term Investments	—	19.1	82.7	101.8	101.8
Total Financial Instrument Assets Not Carried at Fair Value	\$—	\$2,292.3	\$3,863.2	\$6,155.5	\$5,981.7
<b>Liabilities</b>					
Long-term Debt	\$2,847.6	\$317.1	\$—	\$3,164.7	\$2,958.7
Other Liabilities					
Unfunded Commitments	—	2.3	—	2.3	2.3
Total Financial Instrument Liabilities Not Carried at Fair Value	\$2,847.6	\$319.4	\$—	\$3,167.0	\$2,961.0
	December 31, 2018				
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	Carrying Value
	(in millions of dollars)				
<b>Assets</b>					
Mortgage Loans	\$—	\$2,317.4	\$—	\$2,317.4	\$2,295.0
Policy Loans	—	—	3,831.1	3,831.1	3,729.9
Other Long-term Investments					
Miscellaneous Long-term Investments	—	24.1	91.5	115.6	115.6
Total Financial Instrument Assets Not Carried at Fair Value	\$—	\$2,341.5	\$3,922.6	\$6,264.1	\$6,140.5
<b>Liabilities</b>					
Long-term Debt	\$1,429.8	\$1,639.4	\$—	\$3,069.2	\$2,971.3
Payables for Collateral on Investments					
Federal Home Loan Bank (FHLB) Funding Agreements	—	104.0	—	104.0	104.0
Other Liabilities					
Unfunded Commitments	—	2.3	—	2.3	2.3
Total Financial Instrument Liabilities Not Carried at Fair Value	\$1,429.8	\$1,745.7	\$—	\$3,175.5	\$3,077.6

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

Unum Group and Subsidiaries

March 31, 2019

Note 3 - Fair Values of Financial Instruments - Continued

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

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

## Note 4 - Investments

## Fixed Maturity Securities

At March 31, 2019 and December 31, 2018, all fixed maturity securities were classified as available-for-sale. The amortized cost and fair values of securities by security type are shown as follows:

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,714.2	\$ 135.6	\$ 4.0	\$1,845.8
States, Municipalities, and Political Subdivisions	2,151.0	389.7	0.3	2,540.4
Foreign Governments	822.1	188.6	3.0	1,007.7
Public Utilities	6,451.6	1,027.4	24.5	7,454.5
Mortgage/Asset-Backed Securities	1,473.6	84.5	2.0	1,556.1
All Other Corporate Bonds	27,822.7	2,753.2	238.0	30,337.9
Redeemable Preferred Stocks	39.0	1.2	—	40.2
Total Fixed Maturity Securities	\$40,474.2	\$ 4,580.2	\$ 271.8	\$44,782.6
	December 31, 2018			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$1,702.1	\$ 123.2	\$ 10.9	\$1,814.4
States, Municipalities, and Political Subdivisions	2,121.5	307.1	4.4	2,424.2
Foreign Governments	825.8	162.7	4.8	983.7
Public Utilities	6,626.2	850.0	63.4	7,412.8
Mortgage/Asset-Backed Securities	1,523.8	67.2	8.3	1,582.7
All Other Corporate Bonds	27,436.8	1,981.6	664.4	28,754.0
Redeemable Preferred Stocks	39.0	1.1	0.2	39.9
Total Fixed Maturity Securities	\$40,275.2	\$ 3,492.9	\$ 756.4	\$43,011.7



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

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

	March 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$0.1	\$ —	\$217.6	\$ 4.0
States, Municipalities, and Political Subdivisions	9.6	0.2	9.6	0.1
Foreign Governments	54.7	3.0	—	—
Public Utilities	101.0	1.9	400.1	22.6
Mortgage/Asset-Backed Securities	35.2	0.1	150.2	1.9
All Other Corporate Bonds	1,254.2	42.4	3,830.8	195.6
Total Fixed Maturity Securities	\$1,454.8	\$ 47.6	\$4,608.3	\$ 224.2
	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$68.8	\$ 1.7	\$212.5	\$ 9.2
States, Municipalities, and Political Subdivisions	183.2	2.1	65.0	2.3
Foreign Governments	58.4	3.8	12.0	1.0
Public Utilities	740.1	31.3	325.7	32.1
Mortgage/Asset-Backed Securities	81.5	1.2	201.6	7.1
All Other Corporate Bonds	9,240.2	462.2	1,704.9	202.2
Redeemable Preferred Stocks	18.8	0.2	—	—
Total Fixed Maturity Securities	\$10,391.0	\$ 502.5	\$2,521.7	\$ 253.9

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

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

	March 31, 2019				
	Total	Unrealized Gain Position		Unrealized Loss Position	
	Amortized	Gross Gain	Fair Value	Gross Loss	Fair Value
	Cost				
	(in millions of dollars)				
1 year or less	\$1,039.7	\$ 15.1	\$ 972.8	\$ 9.1	\$ 72.9
Over 1 year through 5 years	6,433.0	387.7	6,244.3	49.6	526.8
Over 5 years through 10 years	12,907.5	1,095.3	11,243.1	80.8	2,678.9
Over 10 years	18,620.4	2,997.6	18,888.6	130.3	2,599.1
	39,000.6	4,495.7	37,348.8	269.8	5,877.7
Mortgage/Asset-Backed Securities	1,473.6	84.5	1,370.7	2.0	185.4
Total Fixed Maturity Securities	\$40,474.2	\$ 4,580.2	\$ 38,719.5	\$ 271.8	\$ 6,063.1
	December 31, 2018				
	Total	Unrealized Gain Position		Unrealized Loss Position	
	Amortized	Gross Gain	Fair Value	Gross Loss	Fair Value
	Cost				
	(in millions of dollars)				
1 year or less	\$1,073.3	\$ 14.5	\$ 1,020.1	\$ 8.4	\$ 59.3
Over 1 year through 5 years	6,267.5	300.6	5,186.9	80.2	1,301.0
Over 5 years through 10 years	12,573.4	795.0	6,812.7	303.9	6,251.8
Over 10 years	18,837.2	2,315.6	15,779.7	355.6	5,017.5
	38,751.4	3,425.7	28,799.4	748.1	12,629.6
Mortgage/Asset-Backed Securities	1,523.8	67.2	1,299.6	8.3	283.1
Total Fixed Maturity Securities	\$40,275.2	\$ 3,492.9	\$ 30,099.0	\$ 756.4	\$ 12,912.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

The following chart depicts an analysis of our fixed maturity security portfolio between investment-grade and below-investment-grade categories as of March 31, 2019:

	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss Amount	Percent of Total Gross Unrealized Loss	
	(in millions of dollars)				
Investment-Grade	\$41,548.7	\$ 4,497.1	\$ 175.3	64.5	%
Below-Investment-Grade	3,233.9	83.1	96.5	35.5	
Total Fixed Maturity Securities	\$44,782.6	\$ 4,580.2	\$ 271.8	100.0	%

The unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities. Below-investment-grade fixed maturity securities are generally more likely to develop credit concerns than investment-grade securities. At March 31, 2019, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of March 31, 2019, we held 270 individual investment-grade fixed maturity securities and 74 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 178 investment-grade fixed maturity securities and 56 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 March 31, 2019 or December 31, 2018 for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At March 31, 2019, we had commitments of \$138.5 million to fund private placement fixed maturity securities, the amount of which may or may not be funded.

31

---

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

## Variable Interest Entities

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

As of March 31, 2019, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$577.3 million, comprised of \$82.6 million of tax credit partnerships and \$494.7 million of private equity partnerships. At December 31, 2018, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$575.3 million, comprised of \$91.5 million of tax credit partnerships and \$483.8 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

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

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Income Tax Credits	\$9.4	\$10.4
Amortization, net of tax	(6.8 )	(7.0 )
Income Tax Benefit	\$2.6	\$3.4

Contractually, we are a limited partner in these tax credit partnerships, and our maximum exposure to loss is limited to the carrying value of our investment, which includes \$2.3 million of unfunded unconditional commitments at March 31, 2019. See Note 3 for commitments to fund private equity partnerships.

We are the sole beneficiary of a special purpose entity which is consolidated in our financial statements. This entity is a securitized asset trust containing a highly rated bond for principal protection which we contributed into the trust at the time it was established. There are no restrictions on the asset held in this trust, and the trust is free to dispose of the asset at any time. The fair values of the bond were \$157.9 million and \$156.7 million as of March 31, 2019 and December 31, 2018, respectively. The bond is reported as a component of fixed maturity securities in our consolidated balance sheets.

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

## Mortgage Loans

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

	March 31, 2019		December 31, 2018	
	(in millions of dollars)			
	Carrying	Percent	Carrying	Percent
	Amount	of Total	Amount	of Total
<b>Property Type</b>				
Apartment	\$471.4	21.4 %	\$491.0	21.4 %
Industrial	588.0	26.6	635.6	27.7
Office	585.0	26.5	604.2	26.3
Retail	517.8	23.5	519.5	22.6
Other	44.4	2.0	44.7	2.0
<b>Total</b>	<b>\$2,206.6</b>	<b>100.0%</b>	<b>\$2,295.0</b>	<b>100.0%</b>
<b>Region</b>				
New England	\$45.0	2.0 %	\$45.9	2.0 %
Mid-Atlantic	159.4	7.2	160.6	7.0
East North Central	311.7	14.1	354.4	15.4
West North Central	188.7	8.6	190.3	8.3
South Atlantic	481.2	21.8	485.2	21.1
East South Central	100.5	4.6	105.5	4.6
West South Central	213.0	9.7	240.6	10.5
Mountain	254.1	11.5	242.7	10.6
Pacific	453.0	20.5	469.8	20.5
<b>Total</b>	<b>\$2,206.6</b>	<b>100.0%</b>	<b>\$2,295.0</b>	<b>100.0%</b>

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

↳ Loan-to-value ratio

↳ Debt service coverage ratio based on current operating income

↳ Property location, including regional economics, trends and demographics

↳ Age, condition, and construction quality of property

↳ Current and historical occupancy of property

↳ Lease terms relative to market

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

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

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

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

	March 31, December 31,	
	2019	2018
	(in millions of dollars)	
Internal Rating		
A	\$394.8	\$ 477.5
Baa	1,811.8	1,814.1
Ba	—	3.4
Total	\$2,206.6	\$ 2,295.0
Loan-to-Value Ratio		
<= 65%	\$1,167.4	\$1,204.8
> 65% <= 75%	1,013.4	1,049.1
> 75% <= 85%	—	11.8
> 85%	25.8	29.3
Total	\$2,206.6	\$2,295.0

There were no troubled debt restructurings during the three months ended March 31, 2019 or 2018. At March 31, 2019, we held no mortgage loans that were greater than 90 days past due regarding principal and/or interest payments. At December 31, 2018, we held one mortgage loan that was greater than 90 days past due regarding principal and/or interest payments which was settled during the first quarter of 2019 resulting in an additional loss of \$0.1 million.

There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans. The activity in the allowance for credit losses is as follows:

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Balance at Beginning of Year	\$0.2	\$ —
Provision	0.1	—
Charge-offs, Net of Recoveries	(0.3 )	—
Balance at End of Period	\$ —	\$ —

Our average investment in impaired mortgage loans was \$2.3 million and \$1.1 million for the three months ended March 31, 2019 and 2018, respectively. We did not recognize any interest income on mortgage loans subsequent to impairment for the three months ended March 31, 2019 and 2018.

At March 31, 2019, we had commitments of \$12.8 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

## Transfers of Financial Assets

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

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. We may receive cash and/or securities as collateral under these agreements. Cash received as collateral is typically reinvested in short-term investments. If securities are received as collateral, we are not permitted to sell or re-post them.

As of March 31, 2019, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$137.6 million, for which we received collateral in the form of a de minimis cash and securities of \$146.1 million. As of December 31, 2018, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$164.1 million, for which we received collateral in the form of cash and securities of \$0.1 million and \$171.4 million, respectively. We had no outstanding repurchase agreements at March 31, 2019 or December 31, 2018.

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

	March 31, 2019	December 31, 2018
	Overnight and Continuous (in millions of dollars)	
All Other Corporate Bonds	\$ —	\$ 0.1
Gross Amount of Recognized Liability for Securities Lending Transactions	—	0.1
Amounts Related to Agreements Not Included in Offsetting Disclosure Contained Herein	\$ —	\$ —

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

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

	March 31,	December 31,
	2019	2018
	(in millions of dollars)	
Carrying Value of FHLB Common Stock	\$ 19.1	\$ 24.1
Advances from FHLB	\$—	\$ 104.0
Carrying Value of Collateral Posted to FHLB		
Fixed Maturity Securities	\$ 223.2	\$ 219.8
Commercial Mortgage Loans	178.4	179.9
Total Carrying Value of Collateral Posted to FHLB	\$ 401.6	\$ 399.7



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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - 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 5 for further discussion of collateral related to our derivative contracts.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity securities. A right of set-off exists that allows us to keep and apply collateral received in the event of default by the counterparty. Default within a securities lending agreement would typically occur if the counterparty failed to return the securities borrowed from us as contractually agreed. In addition, if we default by not returning collateral received, the counterparty has a right of set-off against our securities or any other amounts due to us.

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

	March 31, 2019					
	Gross Amount of Recognized Financial Instruments		Gross Amount Not Offset in Balance Sheet		Gross Amount Not Offset in Balance Sheet	
	Amount	Net Amount Presented in Balance Sheet	Amount	Offset in Balance Sheet	Financial Cash	Net Collateral Amount
	(in millions of dollars)					
<b>Financial Assets:</b>						
Derivatives	\$24.6	\$ —	—\$ 24.6	\$(4.8 )	\$(19.8 )	\$ —
Securities Lending	137.6	—	137.6	(137.6 )	—	—
Total	\$162.2	\$ —	—\$ 162.2	\$(142.4 )	\$(19.8 )	\$ —
<b>Financial Liabilities:</b>						
Derivatives	\$35.7	\$ —	—\$ 35.7	\$(28.6 )	\$ —	\$ 7.1
Total	\$35.7	\$ —	—\$ 35.7	\$(28.6 )	\$ —	\$ 7.1

December 31, 2018

	Gross Amount of Recognized Financial Instruments		Gross Amount Not Offset in Balance Sheet		Gross Amount Not Offset in Balance Sheet	
	Amount	Net Amount Presented in Balance Sheet	Amount	Offset in Balance Sheet	Financial Cash	Net Collateral Amount

Edgar Filing: Unum Group - Form 10-Q

	Financial Instruments	Offset in Balance Sheet	Presented in Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
(in millions of dollars)						
<b>Financial Assets:</b>						
Derivatives	\$30.9	\$	—\$ 30.9	\$(6.9 )	\$(24.0 )	\$ —
Securities Lending	164.1	—	164.1	(164.0 )	(0.1 )	—
<b>Total</b>	<b>\$195.0</b>	<b>\$</b>	<b>—\$ 195.0</b>	<b>\$(170.9)</b>	<b>\$(24.1 )</b>	<b>\$ —</b>
<b>Financial Liabilities:</b>						
Derivatives	\$38.0	\$	—\$ 38.0	\$(33.2 )	\$ —	\$ 4.8
Securities Lending	0.1	—	0.1	(0.1 )	—	—
<b>Total</b>	<b>\$38.1</b>	<b>\$</b>	<b>—\$ 38.1</b>	<b>\$(33.3 )</b>	<b>\$ —</b>	<b>\$ 4.8</b>

36

---

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

Unum Group and Subsidiaries

March 31, 2019

Note 4 - Investments - Continued

## Net Investment Income

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

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Fixed Maturity Securities	\$544.9	\$557.1
Derivatives	17.9	15.4
Mortgage Loans	26.7	27.3
Policy Loans	4.7	4.4
Other Long-term Investments		
Equity Securities <sup>1</sup>	4.1	(0.2 )
Private Equity Partnerships <sup>2</sup>	2.2	5.6
Other	(0.5 )	2.1
Short-term Investments	7.0	3.6
Gross Investment Income	607.0	615.3
Less Investment Expenses	9.0	9.6
Less Investment Income on Participation Fund Account Assets	3.3	3.4
Net Investment Income	\$594.7	\$602.3

<sup>1</sup> The net unrealized gain (loss) recognized in net investment income for the first three months of 2019 and 2018 related to equity securities still held at the end of reporting period was \$3.1 million and (\$2.0) million, respectively.

<sup>2</sup> The net unrealized loss recognized in net investment income for the first three months of 2019 and 2018 related to private equity partnerships still held at the end of reporting period was \$2.7 million and \$1.6 million, respectively.

## Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Fixed Maturity Securities		
Gross Gains on Sales	\$3.3	\$2.0
Gross Losses on Sales	(7.9 )	(1.4 )
Other-Than-Temporary Impairment Loss	—	(1.0 )
Mortgage Loans and Other Invested Assets		
Gross Gains on Sales	0.9	—
Gross Losses on Sales	(0.1 )	—

Edgar Filing: Unum Group - Form 10-Q

Embedded Derivative in Modified Coinsurance Arrangement	5.5	(1.7 )
All Other Derivatives	0.3	0.7
Foreign Currency Transactions	(0.9 )	(0.8 )
Net Realized Investment Gain (Loss)	\$1.1	\$(2.2)

37

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments

Purpose of Derivatives

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

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

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

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

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

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

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

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

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

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

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

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

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

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

## Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives should generally offset the market risk associated with the hedged financial instrument or liability. To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our credit exposure on derivatives is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held. As of March 31, 2019, we did not have any credit exposure on derivatives. As of December 31, 2018, we had \$0.9 million credit exposure on derivatives. The table below summarizes the nature and amount of collateral received from and posted to our derivative counterparties.

	March 31, 2019	December 31, 2018
	(in millions of dollars)	
Carrying Value of Collateral Received from Counterparties		
Cash	\$20.2	\$ 24.0
Carrying Value of Collateral Posted to Counterparties		
Fixed Maturity Securities	\$33.5	\$ 33.4

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

The majority of our derivative instruments contain provisions that require us to maintain specified issuer credit ratings and financial strength ratings. Should our ratings fall below these specified levels, we would be in violation of the provisions, and our derivatives counterparties could terminate our contracts and request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was \$35.7 million and \$38.0 million at March 31, 2019 and December 31, 2018, respectively.





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

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

## Derivative Transactions

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

	Swaps			Credit Default	Forwards	Total
	Receive Variable/ Fixed	Receive/ Pay Fixed	Receive Fixed/ Pay Variable			
	(in millions of dollars)					
Balance at December 31, 2017	\$48.0	\$ 536.5	\$ 250.0	\$ 70.0	\$ —	\$904.5
Additions	—	19.9	—	—	26.8	46.7
Terminations	—	—	—	70.0	—	70.0
Balance at March 31, 2018	\$48.0	\$ 556.4	\$ 250.0	\$ —	\$ 26.8	\$881.2
Balance at December 31, 2018	\$—	\$ 538.2	\$ 250.0	\$ 11.0	\$ —	\$799.2
Additions	—	42.6	—	—	13.0	55.6
Terminations	—	46.9	—	—	—	46.9
Foreign Currency	—	—	—	0.2	—	0.2
Balance at March 31, 2019	\$—	\$ 533.9	\$ 250.0	\$ 11.2	\$ 13.0	\$808.1

## Cash Flow Hedges

As of March 31, 2019 and December 31, 2018, we had \$265.0 million and \$286.4 million, respectively, notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.

As of March 31, 2019, we expect to amortize approximately \$70.7 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected by this amortization are net investment income and interest and debt expense. Additional amounts that may be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of March 31, 2019, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2045.

## Fair Value Hedges

As of March 31, 2019 and December 31, 2018, we had \$120.7 million and \$78.1 million, respectively, notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.



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

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

As of March 31, 2019 and December 31, 2018, we had \$250.0 million notional amount of receive fixed, pay variable interest rate swaps to hedge the changes in the fair value of certain fixed rate long-term debt. These swaps effectively convert the associated fixed rate long-term debt into floating rate debt and provide for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security.

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

	Carrying Amount of Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	(in millions of dollars)			
Fixed maturity securities:				
Receive fixed functional currency interest, pay fixed foreign currency interest	\$88.2	\$ 56.2	\$(3.0)	\$( 2.7 )
Long-term Debt	(245.9)	(244.4 )	3.7	5.1

For the three months ended March 31, 2019, \$0.1 million of the derivative instruments' loss was excluded from the assessment of hedge effectiveness. For the three months ended March 31, 2018, a de minimis amount of the derivative instruments' loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

## Derivatives not Designated as Hedging Instruments

As of March 31, 2019 and December 31, 2018, we held \$148.2 million and \$173.7 million, respectively, notional amount of receive fixed, pay fixed, foreign currency interest rate swaps. These derivatives are not designated as hedges, and as such, changes in fair value related to these derivatives are reported in earnings as a component of net realized investment gain or loss.

As of March 31, 2019 and December 31, 2018, we held \$11.2 million and \$11.0 million, respectively, notional amount of single name credit default swaps. We entered into these swaps in order to mitigate the credit risk associated with specific securities owned.

We have an embedded derivative in a modified coinsurance arrangement for which we include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time

during the reinsurance contract or at termination of the reinsurance contract. There are no credit-related counterparty triggers, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down.

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

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

## Locations and Amounts of Derivative Financial Instruments

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

	March 31, 2019	
	Derivative Assets Balance Sheet Location (in millions of dollars)	Derivative Liabilities Balance Sheet Location Fair Value
Designated as Hedging Instruments		
Cash Flow Hedges		
Forwards	Other L-T Investments	\$— Other Liabilities \$0.1
Foreign Exchange Contracts	Other L-T Investments	19.4 Other Liabilities 9.8
Total Cash Flow Hedges		19.4 9.9
Fair Value Hedges		
Interest Rate Swaps	Other L-T Investments	— Other Liabilities 3.7
Foreign Exchange Contracts	Other L-T Investments	5.1 Other Liabilities 0.4
Total Fair Value Hedges		5.1 4.1
Total Designated as Hedging Instruments		\$24.5 \$14.0
Not Designated as Hedging Instruments		
Credit Default Swaps	Other L-T Investments	\$0.1 Other Liabilities \$—
Foreign Exchange Contracts	Other L-T Investments	— Other Liabilities 21.7
Embedded Derivative in Modified Coinsurance Arrangement	Other L-T Investments	— Other Liabilities 25.6
Total Not Designated as Hedging Instruments		\$0.1 \$47.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

	December 31, 2018	
	Derivative Assets	Derivative Liabilities
	Balance Sheet	Balance Sheet
	Fair Value	Fair Value
	Location	Location
	(in millions of dollars)	
Designated as Hedging Instruments		
Cash Flow Hedges		
Foreign Exchange Contracts	Other L-T Investments	\$25.0
	Other Liabilities	\$7.9
Fair Value Hedges		
Interest Rate Swaps	Other L-T Investments	—
Foreign Exchange Contracts	Other L-T Investments	5.4
Total Fair Value Hedges		5.4
		5.6
Total Designated as Hedging Instruments		\$30.4
		\$13.5
Not Designated as Hedging Instruments		
Credit Default Swaps	Other L-T Investments	\$0.5
Foreign Exchange Contracts	Other L-T Investments	—
Embedded Derivative in Modified Coinsurance Arrangement	Other L-T Investments	—
Total Not Designated as Hedging Instruments		\$0.5
		\$55.6

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

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

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

	Three Months Ended March 31					
	2019			2018		
	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense
Total Income and Expense Presented in the Consolidated Statements of Income of Which Hedged Items are Recorded	\$594.7	\$ 1.1	\$ 42.1	\$602.3	\$ (2.2 )	\$ 40.2
<b>Gain (Loss) on Cash Flow Hedging Relationships</b>						
<b>Interest Rate Swaps:</b>						
Hedged items	73.0	(3.5 )	7.7	77.8	0.1	11.4
Derivatives Designated as Hedging Instruments	17.7	4.1	0.6	15.9	(0.1 )	0.6
<b>Foreign Exchange Contracts</b>						
Hedged items	4.6	0.8	—	5.0	—	—
Derivatives Designated as Hedging Instruments	(0.1 )	(0.8 )	—	(0.3 )	—	—
<b>Gain (Loss) on Fair Value Hedging Relationships</b>						
<b>Interest Rate Swaps:</b>						
Hedged items	—	(1.5 )	3.6	0.7	1.9	3.6
Derivatives Designated as Hedging Instruments	—	1.5	0.8	(0.4 )	(1.9 )	0.1
<b>Foreign Exchange Contracts</b>						
Hedged items	0.5	(0.3 )	—	0.1	(0.3 )	—
Derivatives Designated as Hedging Instruments	0.3	0.3	—	—	0.3	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 5 - Derivative Financial Instruments - Continued

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

	Three Months Ended March 31 2019    2018 (in millions of dollars)	
Gain		
(Loss)		
Recognized		
in		
Other		
Comprehensive		
Income		
(Loss)		
on		
Derivatives		
Interest		
Rate		
Swaps	\$—	\$(0.2)
and		
Forwards		
Foreign		
Exchange	(2.3 )	3.8
Contracts		
Total	\$(12.3)	\$3.6

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

	Three Months Ended March 31 2019    2018 (in millions of dollars)	
Net Realized Investment Gain (Loss)		
Credit Default Swaps	\$(0.5)	\$—
Foreign Exchange Contracts	0.7	0.7
Embedded Derivative in Modified Coinsurance Arrangement	5.5	(1.7 )
Total	\$5.7	\$(1.0)



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

Unum Group and Subsidiaries

March 31, 2019

Note 6 - Accumulated Other Comprehensive Loss

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

	Net Unrealized Gain (Loss) on Securities (in millions of dollars)	Net Gain on Hedges	Foreign Currency Translation Adjustment	Unrecognized Pension and Postretirement Benefit Costs	Total
Balance at December 31, 2018	\$(312.4)	\$250.6	\$ (305.2 )	\$ (447.2 )	\$(814.2)
Other Comprehensive Income (Loss) Before Reclassifications	305.4	(4.7 )	17.3	(0.8 )	317.2
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	6.9	(15.8 )	—	3.6	(5.3 )
Net Other Comprehensive Income (Loss)	312.3	(20.5 )	17.3	2.8	311.9
Balance at March 31, 2019	\$(0.1 )	\$230.1	\$ (287.9 )	\$ (444.4 )	\$(502.3)
Balance at December 31, 2017	\$607.8	\$282.3	\$ (254.5 )	\$ (508.1 )	\$127.5
Adjustment to Adopt Accounting Standard Update - Note 2	(17.5 )	—	—	—	(17.5 )
Other Comprehensive Income (Loss) Before Reclassifications	(234.8 )	2.9	47.5	(1.2 )	(185.6 )
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	0.6	(11.7 )	—	4.3	(6.8 )
Net Other Comprehensive Income (Loss)	(234.2 )	(8.8 )	47.5	3.1	(192.4 )
Balance at March 31, 2018	\$356.1	\$273.5	\$ (207.0 )	\$ (505.0 )	\$(82.4 )

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

	March 31 2019	December 31 2018	Change
	(in millions of dollars)		
Fixed Maturity Securities	\$4,308.4	\$2,736.5	\$1,571.9
Deferred Acquisition Costs	(42.6 )	(27.9 )	(14.7 )
Reserves for Future Policy and Contract Benefits	(4,451.0 )	(3,220.3 )	(1,230.7 )
Reinsurance Recoverable	328.5	261.4	67.1
Income Tax	(143.4 )	(62.1 )	(81.3 )
Total	\$(0.1 )	\$(312.4 )	\$312.3
	March 31 2018	January 1 2018	Change
	(in millions of dollars)		
Fixed Maturity Securities	\$4,348.2	\$5,665.2	\$(1,317.0)
Deferred Acquisition Costs	(41.2 )	(51.4 )	10.2
Reserves for Future Policy and Contract Benefits	(4,030.1 )	(5,094.7 )	1,064.6
Reinsurance Recoverable	321.0	375.8	(54.8 )
Income Tax	(241.8 )	(304.6 )	62.8

Edgar Filing: Unum Group - Form 10-Q

Total	\$356.1	\$590.3	\$(234.2 )
-------	---------	---------	------------

46

---

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

Unum Group and Subsidiaries

March 31, 2019

Note 6 - Accumulated Other Comprehensive Loss - Continued

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

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Net Unrealized Gain (Loss) on Securities		
Net Realized Investment Gain (Loss)		
Net Gain (Loss) on Sales of Securities and Other Invested Assets	\$(8.7 )	\$0.2
Other-Than-Temporary Impairment Loss	—	(1.0 )
	(8.7 )	(0.8 )
Income Tax Benefit	(1.8 )	(0.2 )
Total	\$(6.9 )	\$(0.6 )
Net Gain on Hedges		
Net Investment Income		
Gain on Interest Rate Swaps and Forwards	\$17.4	\$15.6
Loss on Foreign Exchange Contracts	(0.1 )	(0.3 )
Net Realized Investment Gain (Loss)		
Gain (Loss) on Interest Rate Swaps	4.0	(0.1 )
Loss on Foreign Exchange Contracts	(0.8 )	—
Interest and Debt Expense		
Loss on Interest Rate Swaps	(0.5 )	(0.5 )
	20.0	14.7
Income Tax Expense	4.2	3.0
Total	\$15.8	\$11.7
Unrecognized Pension and Postretirement Benefit Costs		
Other Expenses		
Amortization of Net Actuarial Loss	\$(4.7 )	\$(5.6 )
Amortization of Prior Service Credit	0.1	0.1
	(4.6 )	(5.5 )
Income Tax Benefit	(1.0 )	(1.2 )
Total	\$(3.6 )	\$(4.3 )

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

Unum Group and Subsidiaries

March 31, 2019

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

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

	2019	2018
	(in millions of dollars)	
Balance at January 1	\$23,149.0	\$23,222.0
Less Reinsurance Recoverable	2,227.3	2,182.0
Net Balance at January 1	20,921.7	21,040.0
Incurred Related to		
Current Year	1,556.8	1,543.1
Prior Years		
Interest	280.0	283.6
All Other Incurred	(130.3 )	(192.0 )
Foreign Currency	41.1	72.2
Total Incurred	1,747.6	1,706.9
Paid Related to		
Current Year	(328.7 )	(322.0 )
Prior Years	(1,439.5 )	(1,400.4 )
Total Paid	(1,768.2 )	(1,722.4 )
Net Balance at March 31	20,901.1	21,024.5
Plus Reinsurance Recoverable	2,241.0	2,184.1
Balance at March 31	\$23,142.1	\$23,208.6

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

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

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

Unum Group and Subsidiaries

March 31, 2019

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

## Reconciliation

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

	March 31	
	2019	2018
	(in millions of dollars)	
Policy and Contract Benefits	\$1,708.6	\$1,623.1
Reserves for Future Policy and Contract Benefits	46,109.4	44,668.5
Total	47,818.0	46,291.6
Less:		
Life Reserves for Future Policy and Contract Benefits	8,315.5	8,278.7
Accident and Health Active Life Reserves	11,909.4	10,774.2
Adjustment Related to Unrealized Investment Gains and Losses	4,451.0	4,030.1
Liability for Unpaid Claims and Claim Adjustment Expenses	\$23,142.1	\$23,208.6

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

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

Unum Group and Subsidiaries

March 31, 2019

Note 8 - Segment Information

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

Segment information is as follows:

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Premium Income		
Unum US		
Group Disability		
Group Long-term Disability	\$452.9	\$441.2
Group Short-term Disability	188.7	176.3
Group Life and Accidental Death & Dismemberment		
Group Life	414.4	399.2
Accidental Death & Dismemberment	41.0	38.7
Supplemental and Voluntary		
Individual Disability	110.7	104.9
Voluntary Benefits	234.4	229.8
Dental and Vision	59.8	48.7
	1,501.9	1,438.8
Unum International		
Group Long-term Disability	87.9	90.8
Group Life	27.2	28.6
Supplemental	38.9	20.2
	154.0	139.6
Colonial Life		
Accident, Sickness, and Disability	242.2	231.3
Life	87.6	81.0
Cancer and Critical Illness	89.5	86.0
	419.3	398.3
Closed Block		
Individual Disability	98.1	109.4
Long-term Care	163.0	161.3
All Other	2.4	2.6
	263.5	273.3
Total Premium Income	\$2,338.7	\$2,250.0

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

Unum Group and Subsidiaries

March 31, 2019

Note 8 - Segment Information - Continued

	Unum US	Unum International	Colonial Life	Closed Block	Corporate	Total
(in millions of dollars)						
Three Months Ended March 31, 2019						
Premium Income	\$1,501.9	\$ 154.0	\$ 419.3	\$263.5	\$ —	\$2,338.7
Net Investment Income	182.1	24.8	36.9	346.6	4.3	594.7
Other Income	34.5	—	0.6	18.0	—	53.1
Adjusted Operating Revenue	\$1,718.5	\$ 178.8	\$ 456.8	\$628.1	\$ 4.3	\$2,986.5
Adjusted Operating Income (Loss)	\$252.3	\$ 29.1	\$ 85.2	\$31.0	\$(45.4)	\$352.2
Three Months Ended March 31, 2018						
Premium Income	\$1,438.8	\$ 139.6	\$ 398.3	\$273.3	\$ —	\$2,250.0
Net Investment Income	194.2	27.6	37.3	337.7	5.5	602.3
Other Income	29.0	—	0.3	19.0	1.2	49.5
Adjusted Operating Revenue	\$1,662.0	\$ 167.2	\$ 435.9	\$630.0	\$ 6.7	\$2,901.8
Adjusted Operating Income (Loss)	\$243.9	\$ 29.8	\$ 81.0	\$28.9	\$(40.3)	\$343.3
	March 31	December				
	2019	31				
		2018				
	(in millions of dollars)					
Assets						
Unum US	\$17,802.1	\$17,510.9				
Unum International	3,646.6	3,426.8				
Colonial Life	4,286.8	4,237.9				
Closed Block	35,542.2	34,527.6				
Corporate	2,644.0	2,172.4				
Total Assets	\$63,921.7	\$61,875.6				

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

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

interest rates assumed in calculating our liabilities.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals. We exclude these items as we believe them to be infrequent or unusual in nature, 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.

51

---



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

Unum Group and Subsidiaries

March 31, 2019

Note 8 - Segment Information - Continued

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

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Total Revenue	\$2,987.6	\$2,899.6
Excluding:		
Net Realized Investment Gain (Loss)	1.1	(2.2 )
Adjusted Operating Revenue	\$2,986.5	\$2,901.8
Income Before Income Tax	\$353.3	\$341.1
Excluding:		
Net Realized Investment Gain (Loss)	1.1	(2.2 )
Adjusted Operating Income	\$352.2	\$343.3

## Note 9 - Employee Benefit Plans

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

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

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

	Three Months Ended March 31					
	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
	2019	2018	2019	2018	2019	2018
	(in millions of dollars)					
Service Cost	\$2.7	\$2.3	\$—	\$—	\$—	\$—
Interest Cost	20.8	19.9	1.5	1.5	1.3	1.2
Expected Return on Plan Assets	(24.8)	(26.1)	(2.2 )	(2.4 )	(0.1 )	(0.1 )
Amortization of:						
Net Actuarial Loss (Gain)	5.1	5.4	0.2	0.2	(0.6 )	—
Prior Service Credit	—	—	—	—	(0.1 )	(0.1 )
Total	\$3.8	\$1.5	\$(0.5)	\$(0.7)	\$0.5	\$1.0

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

postretirement benefit cost are included in other expenses.

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

Unum Group and Subsidiaries

March 31, 2019

Note 10 - Stockholders' Equity and Earnings Per Common Share

## Earnings Per Common Share

Net income per common share is determined as follows:

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars, except share data)	
Numerator		
Net Income	\$ 280.9	\$ 273.5
Denominator (000s)		
Weighted-Average Common Shares - Basic	214,297	221,894.0
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	132.6	683.0
Weighted-Average Common Shares - Assuming Dilution	214,429	222,577.0
Net Income Per Common Share		
Basic	\$ 1.31	\$ 1.23
Assuming Dilution	\$ 1.31	\$ 1.23

We use the treasury stock method to account for the effect of outstanding stock options, nonvested restricted stock units, and nonvested performance share units on the computation of diluted earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group common stock during the period exceeds the exercise price of the stock options and the grant price of the nonvested restricted stock units and the nonvested performance share units. The outstanding stock options have exercise prices ranging from \$23.35 to \$26.29, the nonvested restricted stock units have grant prices ranging from \$32.38 to \$55.26, and the nonvested performance share units have grant prices ranging from \$37.67 to \$49.86.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares excluded in the computation of diluted earnings per share because the impact would be antidilutive, based on then current market prices, approximated 1.3 million and a de minimis amount for the three months ended March 31, 2019 and 2018, respectively.

## Common Stock

During the second quarter of 2018, our board of directors authorized the repurchase of up to \$750.0 million of Unum Group's outstanding common stock through November 24, 2019. This authorization replaced the previous authorization of \$750.0 million that was scheduled to expire on November 25, 2018. The remaining repurchase amount under the new program was \$400.0 million at March 31, 2019.

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

Edgar Filing: Unum Group - Form 10-Q

	Three Months Ended March 31	
	2019	2018
	(in millions)	
Shares Repurchased	2.7	1.9
Cost of Shares Repurchased <sup>1</sup>	\$ 100.0	\$ 100.2

<sup>1</sup> Includes commissions of a de minimis amount for the three months ended March 31, 2019 and \$0.2 million for the three months ended March 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

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

Preferred Stock

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

Note 11 - Commitments and Contingent Liabilities

Contingent Liabilities

We are a defendant in a number of litigation matters that have arisen in the normal course of business. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations. Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except if noted in connection with specific matters.

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

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

Claims Handling Matters

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

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

#### Miscellaneous Matters

Similar to other insurers, we were recently the subject of an examination by a third party acting on behalf of a number of state treasurers concerning our compliance with the unclaimed property laws of the participating states. We cooperated fully with this examination and in the fourth quarter of 2017, we started the process to reach a Global Resolution Agreement with the third party regarding settlement of the examination, which we finalized in January of 2018. Under the terms of the agreement, the third party acting on behalf of the signatory states compared insured data to the Social Security Administration's Death Master File to identify deceased insureds and contract holders where a valid claim has not been made. During the fourth quarter of 2017, we established reserves which reflect our estimate of the liability expected to be paid as we execute on the terms of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 11 - Commitments and Contingent Liabilities - Continued

settlement. We also are cooperating with a Delaware Market Conduct examination involving the same issue, which is currently inactive. The legal and regulatory environment around unclaimed death benefits continues to evolve. It is possible that the current settlement and/or similar investigations by other state jurisdictions may result in payments to beneficiaries, the payment of abandoned funds under state law, and/or administrative penalties, the total of which may be in excess of the reserves established.

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

**Securities Class Actions:** Three alleged securities class action lawsuits have been filed against Unum Group and individual defendants as follows:

On June 13, 2018, an alleged securities class action lawsuit entitled *Cynthia Pittman v. Unum Group, Richard McKenney, John McGarry, and Daniel Waxenberg* was filed in the United States District Court for the Eastern District of Tennessee. The plaintiff seeks to represent purchasers of Unum Group publicly traded securities between January 31, 2018 and May 2, 2018. The plaintiff alleges the Company caused its shares to trade at artificially high levels by failing to disclose information about the rate of long-term care policy terminations and long-term care claim incidence resulting in misleading statements about capital management plans and long-term care reserves. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and seeks compensatory damages in an amount to be proven at trial. The Company strongly denies these allegations and will vigorously defend the litigation.

On July 13, 2018, an alleged securities class action lawsuit entitled *Scott Cunningham v. Unum Group, Richard McKenney, John McGarry, and Daniel Waxenberg* was filed in the United States District Court for the Eastern District of Tennessee. The allegations, class period, and damages claimed mirror those in the Pittman matter. The Company strongly denies these allegations and will vigorously defend the litigation.

On July 25, 2018, an alleged securities class action lawsuit entitled *City of Taylor Police and Fire Retirement System v. Unum Group, Richard McKenney, John McGarry, Steve Zabel, and Daniel Waxenberg* was filed in the United States District Court for the Eastern District of Tennessee. The plaintiff seeks to represent purchasers of Unum Group publicly traded securities between October 27, 2016 and May 1, 2018. The allegations and damages claimed mirror those in the Pittman matter. The Company strongly denies these allegations and will vigorously defend the litigation.

On November 9, 2018, the court consolidated the Pittman, Cunningham, and City of Taylor Police and Fire Retirement System cases into one matter entitled *In re Unum Group Securities Litigation*, appointed a lead plaintiff and lead plaintiff's counsel, and directed the plaintiff to file a consolidated amended complaint. On January 15, 2019, the plaintiff filed a consolidated amended complaint asserting claims under Sections 10(b) and 20(a) of the Securities

Exchange Act of 1934 and Rule 10b-5 thereunder and seeks compensatory damages in an amount to be proven at trial as well as costs, expenses, and attorney's fees. On March 18, 2019, the Company filed a motion to dismiss the consolidated amended complaint.

These lawsuits are in a very preliminary stage, the outcome is uncertain, and the Company is unable to estimate a range of reasonably possible losses. Reserves have not been established for these matters. Although we believe these claims lack merit, an adverse outcome in one or more of these actions could, depending on the nature, scope, and amount of the ruling, materially adversely affect our consolidated results of operations in a period.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2019

Note 11 - Commitments and Contingent Liabilities - Continued

Shareholder Derivative Actions: Three alleged derivative lawsuits have been filed against individual defendants and Unum Group, as nominal defendant, as follows:

On September 27, 2018, a purported shareholder derivative lawsuit entitled Vladimir Gusinsky Revocable Trust, Derivatively on Behalf of Unum Group v. Richard P. McKenney, John F. McGarry, Daniel J. Waxenberg, Steve Zabel, Kevin T. Kabat, E. Michael Caulfield, Gloria C. Larson, Timothy F. Keaney, Theodore H. Bunting, Jr., Cynthia L. Egan, Ronald P. O'Hanley, Francis L. Shammo, Joseph J. Echevarria, Thomas R. Watjen, Pamela H. Godwin, Edward J. Muhl, and Unum Group as nominal defendant was filed in the United States District Court for the District of Delaware. The complaint purports to assert claims on behalf of the Company against certain current and past members of our Board of Directors and Mr. McKenney for alleged misleading statements about the Company's long-term care business in the Company's proxy statement filed with the Securities and Exchange Commission on April 13, 2017 in violation of Section 14(a) of the Securities Exchange Act of 1934. The complaint also purports to assert claims on behalf of the Company against all individual defendants arising out of the Company's long-term care business for breach of fiduciary duties, waste of corporate assets and unjust enrichment. The complaint seeks compensatory damages in an amount to be proven at trial, changes to corporate governance and internal procedures, equitable and injunctive relief, restitution, costs, expenses, and attorney's fees. The Company strongly denies these allegations and will vigorously defend the litigation.

On October 23, 2018, a purported shareholder derivative lawsuit entitled Steven Jenkins, Derivatively on Behalf of Unum Group v. Richard P. McKenney, John F. McGarry, Daniel J. Waxenberg, Steve Zabel, Kevin T. Kabat, E. Michael Caulfield, Gloria C. Larson, Timothy F. Keaney, Theodore H. Bunting, Jr., Cynthia L. Egan, Ronald P. O'Hanley, Francis J. Shammo, Joseph J. Echevarria, Thomas R. Watjen, Pamela H. Godwin, Edward J. Muhl, and Unum Group as nominal defendant was filed in the United States District Court for the District of Delaware. The defendants, allegations, and damages claimed mirror those in the Gusinsky matter. The Company strongly denies these allegations and will vigorously defend the litigation.

On November 1, 2018, a purported shareholder derivative lawsuit entitled Julie Nguyen, Derivatively on Behalf of Unum Group v. Richard P. McKenney, John F. McGarry, Daniel J. Waxenberg, Steve Zabel, Kevin T. Kabat, E. Michael Caulfield, Gloria C. Larson, Timothy F. Keaney, Theodore H. Bunting, Jr., Cynthia L. Egan, Ronald P. O'Hanley, Francis J. Shammo, Joseph J. Echevarria, Thomas R. Watjen, Pamela H. Godwin, Edward J. Muhl, and Unum Group as nominal defendant was filed in the United States District Court for the District of Delaware. The defendants, allegations, and damages claimed mirror those in the Gusinsky matter. The Company strongly denies these allegations and will vigorously defend the litigation.

On December 10, 2018, the court consolidated the Gusinsky, Jenkins, and Nguyen cases into one matter entitled In re Unum Group Stockholder Derivative Litigation, appointed co-lead counsel and liaison counsel for plaintiffs and directed the parties to propose a schedule of proceedings for the consolidated matter. On February 27, 2019, the court granted plaintiffs' motion to voluntarily dismiss the action without prejudice.

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

Unum Group and Subsidiaries

March 31, 2019

Note 12 - Leases

We lease certain buildings and equipment under various noncancelable operating lease agreements. In addition, we have sub-lease agreements on a limited number of our building lease agreements. The majority of our building leases and sub-leases expire within a five to ten year period and we generally have the option to renew at the end of the lease term for an additional five to ten year period at the fair rental value at the time of renewal. The majority of our equipment leases expire within a one to three year period and we generally have the option to renew at the end of the lease term for an additional one to three year period at the fair rental value at the time of renewal.

We do not have any lease agreements or sub-lease agreements that contain variable lease payments. In addition, we do not have lease agreements or sub-lease agreements that contain residual value guarantees or impose any restrictions or covenants with the lessors.

We determine if an arrangement is a lease at inception through a formal process that evaluates our right to control the use of an identified asset for a period of time in exchange for consideration. We account for the lease and non-lease components of our building leases separately and have elected to use the available practical expedient to account for the lease and non-lease components of our equipment leases as a single component. All of our leases are classified as operating, none of which are classified as short-term leases. For each operating lease, we calculate a lease liability at commencement date based on the present value of lease payments over the lease term and a corresponding right-of-use (ROU) asset, adjusted for lease incentives.

ROU assets represent our right to use an underlying asset for a specified lease term and are included in other assets in our consolidated balance sheet. Lease liabilities represent the present value of lease payments that we are obligated to pay arising from a lease and are included in other liabilities in our consolidated balance sheet. We consider the likelihood of renewal in determining the lease terms for the calculation of the ROU asset and lease liability. As most of our leases do not provide an implicit rate of interest, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate of interest when readily determinable.

Operating lease cost is calculated on a straight-line basis over the lease term and is included in other expenses in our consolidated statement of income. We amortize the ROU asset over the lease term on a pattern determined by the difference between the straight-line lease liability expense and the accretion of the imputed interest calculated on the lease liability.

Operating lease information is as follows:

	Three Months Ended March 31, 2019 (in millions of dollars)
Lease Cost	
Operating Lease Cost	\$ 7.5
Sublease Income	(0.4 )
Total Lease Cost	\$ 7.1

Other Information

Edgar Filing: Unum Group - Form 10-Q

Cash Paid for Amounts Included in the Measurement of Lease Liabilities	\$ 7.3
Weighted-Average Remaining Lease Term	7 years
Weighted-Average Discount Rate	4.68 %

57

---

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

Unum Group and Subsidiaries

March 31, 2019

Note 12 - Leases - Continued

As of March 31, 2019, aggregate undiscounted minimum net lease payments and the reconciliation to our lease liability are as follows:

Remainder of 2019	\$	21.0
2020		24.7
2021		21.1
2022		17.7
2023		12.1
2024 and Thereafter		49.5
Total	\$	146.1
Less Imputed Interest		24.0
Lease Liability	\$	122.1

As of March 31, 2019, the right-of-use asset was \$116.0 million.

## Note 13 - Debt

During the three months ended March 31, 2019, we made principal payments of \$15.0 million on our senior secured non-recourse notes issued by Northwind Holdings, LLC.

On April 29, 2019, we amended the terms of our existing five-year unsecured revolving credit facility, increasing it from \$400.0 million to \$500.0 million. The credit facility, which was previously set to expire in 2021, was extended through April 2024. Under the terms of the amended agreement, we may request that the credit facility be increased up to \$700.0 million, up from the previous amount of \$600.0 million. We also may request, on up to two occasions, that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At March 31, 2019, letters of credit totaling \$2.1 million had been issued from the credit facility, but there were no borrowed amounts outstanding.

Also on April 29, 2019, we separately entered into a three-year, \$100.0 million unsecured revolving credit facility with a different syndicate of lenders, which is set to expire in April 2022. Under the terms of the agreement, we may request that the credit facility be increased up to \$140.0 million. We also may request that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations.

Borrowings under the credit facilities are for general corporate uses and are subject to financial covenants, negative covenants, and events of default that are customary. The two primary financial covenants include limitations based on our leverage ratio and consolidated net worth. We are also subject to covenants that limit subsidiary indebtedness. The credit facilities provide for borrowings at an interest rate based either on the prime rate or LIBOR.

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

### Executive Summary

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

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

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

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

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

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the "Cautionary Statement Regarding Forward-Looking Statements" included below the Table of Contents, as well as the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2018.

### Operating Performance and Capital Management

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

For the first quarter of 2019, we reported net income of \$280.9 million, or \$1.31 per diluted common share, compared to net income of \$273.5 million, or \$1.23 per diluted common share, in the same period of 2018. Net income includes net realized investment gains and losses. Excluding net realized investment gains and losses, after-tax adjusted operating income was \$280.3 million, or \$1.31 per diluted common share, in the first quarter of 2019. Excluding net realized investment gains and losses, after-tax adjusted operating income was \$275.1 million, or \$1.24 per diluted common share, in the first quarter of 2018. See "Reconciliation of Non-GAAP and Other Financial Measures" contained in this Item 2 for a reconciliation of these items.

Our Unum US segment reported an increase in adjusted operating income of 3.4 percent in the first quarter of 2019 compared to the same period of 2018, due primarily to growth in premium income and favorable benefits experience, partially offset by lower net investment income and higher amortization of deferred acquisition costs. The benefit ratio for our Unum US segment for the first quarter of 2019 was 65.3 percent, compared to 66.8 percent in the same period of 2018. Unum US sales increased 1.4 percent in the first quarter of 2019 compared to the same period of 2018. Relative to the prior year, persistency in our group product lines was favorable while persistency in our supplemental and voluntary product lines was less favorable.

Our Unum International segment reported a decline in adjusted operating income of 2.3 percent in the first quarter of 2019 compared to the same period of 2018, as measured in U.S. dollars. As measured in local currency, our Unum UK line of business reported an increase of 0.9 percent in adjusted operating income in the first quarter of 2019 compared to the same period of 2018 due primarily to growth in premium income and favorable benefits experience, partially offset by lower net investment income. The benefit ratio for Unum UK was 70.2 percent in the first quarter of 2019 compared to 71.9 percent in the same period of 2018. Unum UK sales in local currency increased 19.5 percent in the first quarter of 2019 compared to the same period of 2018. Persistency was favorable relative to the prior year.

Our Colonial Life segment reported an increase in adjusted operating income of 5.2 percent in the first quarter of 2019 compared to the same period of 2018, due primarily to an increase in premium income and favorable benefits experience, partially offset by lower net investment income. The benefit ratio for Colonial Life was 51.1 percent in the first quarter of 2019 compared to 51.6 percent in the same period of 2018. Colonial Life sales increased 4.9 percent in the first quarter of 2019 compared to the same period of 2018. Persistency was lower relative to the prior year.

Our Closed Block segment reported an increase in adjusted operating income of 7.3 percent in the first quarter of 2019 compared to the same period of 2018 due primarily to an increase in net investment income, partially offset by lower premium income. Benefits experience in our individual disability line of business was less favorable in the first quarter of 2019 compared to the prior year but remains consistent with our expectations. Benefits experience in our long-term care line of business during the first quarter of 2019 was not comparable to the first quarter of 2018 due to the update in our assumptions during the third quarter of 2018 but was consistent with our expectations. See "Long-term Care Reserve Increase" herein for further information.

Although our profit margins continue to be pressured by the impact of the low interest rate environment on our net investment income yields, our invested asset quality remains strong. The net unrealized gain on our fixed maturity securities was \$4.3 billion at March 31, 2019 compared to \$2.7 billion at December 31, 2018, with the increase due to a decrease in U.S. Treasury rates and credit spreads during the first three months of 2019. The earned book yield on our investment portfolio was 4.94 percent for the first quarter of 2019 compared to a yield of 5.15 percent for full year 2018.

We believe our capital and financial positions are strong. At March 31, 2019, the risk-based capital (RBC) ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 360 percent, in line with our expectations. During the first quarter of 2019, we repurchased 2.7 million shares of Unum Group common stock under our share repurchase program, at a cost of approximately \$100 million. Our weighted average common shares outstanding, assuming dilution, equaled 214.4 million and 222.6 million for the first quarter of 2019 and 2018, respectively, reflecting our capital management strategy of returning capital to shareholders through repurchases of our common stock. As of March 31, 2019, Unum Group and our intermediate holding companies held fixed maturity securities, short-term investments, and cash of \$594 million.

#### 2018 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 third quarter of 2018, were valued based on assumptions established as of December 31, 2014, the date of our last assumption update under 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.

During the third quarter of 2018, we completed our annual review of policy reserve adequacy, which incorporated our most recent experience and included a review of all assumptions. The review utilized internal and external data and outside consulting firms for quality assurance and industry benchmarking. Based on our analysis, during the third quarter of 2018, we updated our reserve assumptions and determined that our policy and claim reserves should be increased by \$750.8 million, or \$593.1 million after-tax, to reflect our current estimate of future benefit obligations. This increase was primarily driven by the update to our liability and interest rate assumptions, particularly claims incidence and claim termination rates, which resulted in an increase to reserves of approximately \$2.2 billion. Partially offsetting the increase was the update to our assumptions for premium rate increases which decreased reserves approximately \$1.4 billion, resulting in the net increase to reserves of \$750.8 million.

#### U.K. Referendum

During 2016, the U.K. held a referendum and voted to leave the EU. The U.K. subsequently invoked Article 50 of the Treaty on European Union (EU) and the deadline to leave the EU is currently set for October 31, 2019, which was recently extended from the original date of March 29, 2019. We may see some continued dampening of growth in the U.K. as well as earnings volatility



due to the current disruption and uncertainty in the U.K. economy. We may also experience volatility in the fair values of our investments in U.K. and EU-based issuers, but we do not expect a material increase in other-than-temporary impairments or defaults, nor do we believe this volatility will impact our ability to hold these investments. The magnitude and longevity of potential negative economic impacts on our growth will depend on whether an agreement is reached between the U.K. and EU as a result of exit negotiations and, if reached, the nature of the agreement and the resulting response of the U.K. marketplace. There are currently no indications that capital requirements for our U.K. operations will change, but economic conditions may cause volatility in our solvency ratios. Our reported consolidated financial results may continue to be impacted by fluctuations in the British pound sterling to dollar exchange rate. Further discussion is contained herein in "Unum International Segment" in this Item 2.

### Consolidated Company Outlook

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength as we seek to capitalize on the growing and largely unfilled need for our products and services. We believe the need for our products and services remains strong, and we intend to continue protecting our solid margins and returns through our pricing and risk actions. Our strategy is underpinned by our core values and is centered on market growth through the expansion of our product portfolio, distribution system, and geographic footprint, and enhancing the customer experience through efficiency, simplification, and investment in digital capabilities.

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

The low interest rate environment continues to place pressure on our profit margins. Our reported consolidated financial results may also continue to be unfavorably impacted by political and economic uncertainty in the U.K., specifically lower interest rates, wage inflation and employer spending, and claims volatility. We expect our effective tax rate for 2019 to be approximately 20 percent. The reduction in the corporate tax rate resulting from tax reform has improved the statutory earnings and cash generation of our insurance subsidiaries and our capital position remains strong.

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

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

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

We analyze our performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measure of "after-tax adjusted operating income" differs from net income as presented in our consolidated operating results and income statements prepared in accordance with GAAP due to the

exclusion of net realized investment gains and losses as specified in the reconciliations below. We believe after-tax adjusted operating income is a better performance measure and better indicator of the profitability and underlying trends in our business.

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

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals. We exclude these items as

61

---

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

we believe them to be infrequent or unusual in nature, 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.

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

	Three Months Ended March 31		2019		2018	
	(in millions)	per share <sup>*</sup>	(in millions)	per share <sup>*</sup>		
Net Income	\$280.9	\$1.31	\$273.5	\$1.23		
Excluding:						
Net Realized Investment Gain (Loss) (net of tax expense (benefit) of \$0.5; \$(0.6))	0.6	—	(1.6)	(0.01)		
After-tax Adjusted Operating Income	\$280.3	\$1.31	\$275.1	\$1.24		

\* Assuming Dilution

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

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

	Three Months Ended March 31	
	2019	2018
	(in millions of dollars)	
Total Revenue	\$2,987.6	\$2,899.6
Excluding:		
Net Realized Investment Gain (Loss)	1.1	(2.2)
Adjusted Operating Revenue	\$2,986.5	\$2,901.8
Income Before Income Tax	\$353.3	\$341.1
Excluding:		
Net Realized Investment Gain (Loss)	1.1	(2.2)
Adjusted Operating Income	\$352.2	\$343.3

### 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

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

postretirement benefit plans, income taxes, and contingent liabilities. There have been no significant changes in our critical accounting estimates during the first three months of 2019.

For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" in Part II, Item 8 and "Critical Accounting Estimates" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2018.

## Accounting Developments

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

Consolidated Operating Results  
(in millions of dollars)

	Three Months Ended March 31		
	2019	% Change	2018
Revenue			
Premium Income	\$2,338.7	3.9 %	\$2,250.0
Net Investment Income	594.7	(1.3 )	602.3
Net Realized Investment Gain (Loss)	1.1	(150.0 )	(2.2 )
Other Income	53.1	7.3	49.5
Total Revenue	2,987.6	3.0	2,899.6
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	1,840.8	1.8	1,807.9
Commissions	290.1	2.8	282.3
Interest and Debt Expense	42.1	4.7	40.2
Deferral of Acquisition Costs	(173.7 )	2.6	(169.3 )
Amortization of Deferred Acquisition Costs	170.6	12.6	151.5
Compensation Expense	226.5	2.2	221.7
Other Expenses	237.9	6.1	224.2
Total Benefits and Expenses	2,634.3	3.0	2,558.5
Income Before Income Tax	353.3	3.6	341.1
Income Tax	72.4	7.1	67.6
Net Income	\$280.9	2.7	\$273.5

Fluctuations in exchange rates, particularly between the British pound sterling and the U.S. dollar for our U.K. operations, have an effect on our consolidated financial results. In periods when the pound strengthens, translating pounds into dollars increases current period results relative to the prior period. In periods when the pound weakens relative to the preceding period, translating pounds into dollars decreases current period results relative to the prior period.

The weighted average pound/dollar exchange rate for our Unum UK line of business was 1.306 and 1.393 for the three months ended March 31, 2019 and 2018, respectively. If the first quarter of 2018 results for our U.K. operations had been translated at the lower exchange rate of 2019, our adjusted operating revenue and adjusted operating income by segment would have been lower by approximately \$10 million and \$2 million, respectively, in the first quarter of 2018. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Premium income for the first quarter of 2019 increased relative to the same period of 2018, with growth in each of our principal operating business segments, due to sales growth, the expansion of our dental and vision products, the addition of our Unum Poland line of business, and generally stable persistency. Premium income continues to decline, as expected, in our Closed Block segment.

Net investment income decreased in the first quarter of 2019 relative to the same period of 2018 due to a decline in the yield on invested assets and lower miscellaneous investment income, partially offset by an increase in the level of invested assets.

There were no other-than-temporary impairment losses on fixed maturity securities included in net realized investment gains and losses for the first quarter of 2019, compared to \$1.0 million for the first quarter of 2018. Also included in net realized investment gains and losses were changes in the fair value of an embedded derivative in a modified coinsurance arrangement, which resulted in realized gains (losses) of \$5.5 million and \$(1.7) million in the first quarters of 2019 and 2018, respectively. See Note 4 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on realized investment gains and losses.

Overall benefits experience was favorable in the first quarter 2019 relative to the same prior year period. The benefits experience for each of our operating business segments is discussed more fully in "Segment Results" as follows.

Commissions and the deferral of acquisition costs increased in the first quarter of 2019 relative to the same period of 2018 due primarily to sales growth. The amortization of deferred acquisition costs increased in the first quarter of 2019 compared to the first quarter of 2018 due to growth in the level of the deferred asset in our Unum US and Colonial Life segments. Also contributing to the increase was a higher level of policy terminations experienced in the first quarter of 2019 in Colonial Life and the Unum US voluntary benefits line of business.

Interest and debt expense was slightly higher in the first quarter 2019 relative to the same period of 2018 due primarily to a higher level of outstanding debt and a higher overall rate of interest.

Other expenses, including compensation expense, increased in the first quarter of 2019 compared to the same period of 2018, however, the other expense ratio remained generally stable relative to the prior year due to growth in premium income and our continued balancing of investments in the growth of our business with our continued focus on expense management and operating efficiencies.

Our effective income tax rate for the first quarter of 2019 was 20.5 percent of income before income tax, compared to 19.9 percent for the first quarter of 2018. Our effective tax rate differed from the U.S. statutory rate in effect for the first quarters of 2019 and 2018 primarily due to tax credits.

#### Consolidated Sales Results

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

	Three Months Ended		
	March 31		
	2019	% Change	2018
Unum US	\$278.4	1.4 %	\$274.6
Unum International	\$22.6	32.2 %	\$17.1
Colonial Life	\$108.8	4.9 %	\$103.7

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 levels 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 International, 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, voluntary benefits, and dental and vision products.

## Unum US Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended March 31				
	2019	% Change		2018	
Adjusted Operating Revenue					
Premium Income	\$1,501.9	4.4	%	\$1,438.8	
Net Investment Income	182.1	(6.2	)	194.2	
Other Income	34.5	19.0		29.0	
Total	1,718.5	3.4		1,662.0	
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	980.7	2.1		960.9	
Commissions	163.0	1.0		161.4	
Deferral of Acquisition Costs	(87.6	)	(2.1	)	(89.5
Amortization of Deferred Acquisition Costs	103.9	16.5		89.2	
Other Expenses	306.2	3.4		296.1	
Total	1,466.2	3.4		1,418.1	
Adjusted Operating Income	\$252.3	3.4		\$243.9	
Operating Ratios (% of Premium Income):					
Benefit Ratio	65.3	%		66.8	
Other Expense Ratio	20.4	%		20.6	
Adjusted Operating Income Ratio	16.8	%		17.0	

## Unum US Group Disability Operating Results

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

	Three Months Ended March 31				
	2019		% Change	2018	
Adjusted Operating Revenue					
Premium Income					
Group Long-term Disability	\$452.9	2.7	%	\$441.2	
Group Short-term Disability	188.7	7.0		176.3	
Total Premium Income	641.6	3.9		617.5	
Net Investment Income	100.0	(7.6	)	108.2	
Other Income	32.2	22.4		26.3	
Total	773.8	2.9		752.0	
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	479.1	2.6		466.9	
Commissions	50.3	2.9		48.9	
Deferral of Acquisition Costs	(11.8	)	(4.1	)	(12.3
Amortization of Deferred Acquisition Costs	12.2	8.9		11.2	
Other Expenses	161.4	4.6		154.3	
Total	691.2	3.3		669.0	
Adjusted Operating Income	\$82.6	(0.5	)	\$83.0	
Operating Ratios (% of Premium Income):					
Benefit Ratio	74.7	%		75.6	
Other Expense Ratio	25.2	%		25.0	
Adjusted Operating Income Ratio	12.9	%		13.4	
Persistency:					
Group Long-term Disability	90.9	%		90.8	
Group Short-term Disability	90.5	%		86.6	

Premium income in the first quarter of 2019 increased compared to the same period of 2018 with growth in the in-force block due to higher sales and improved persistency. Net investment income was lower in the first quarter of 2019 relative to the same period of 2018 due to a decrease in the level of invested assets, a decline in yield on invested assets, and lower miscellaneous investment income. Other income increased in the first quarter of 2019 compared to the same period of 2018 due to growth in our fee-based service products.

Benefits experience was favorable in the first quarter of 2019 compared to the same period of 2018 due primarily to lower claims incidence and favorable claim recovery experience in our group long-term disability product line, partially offset by higher paid claim volumes in our group short-term disability product line.

Commissions were higher in the first quarter of 2019 compared to same period of 2018 due primarily to sales growth. The deferral of acquisition costs was lower in the first quarter of 2019 compared to same period of 2018 due to lower deferrable incentive compensation costs. The amortization of deferred acquisition costs increased in the first quarter of 2019 relative to the same period of 2018 due to growth in the level of the deferred asset. Our other expense ratio was slightly higher in the first quarter of 2019 compared to the same period of 2018 due primarily to an increase in operational investments in our business balanced with our continued focus on expense management and operating

efficiencies.

66

---

Edgar Filing: Unum Group - Form 10-Q

Unum US Group Life and Accidental Death and Dismemberment Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2019	% Change		2018
<b>Adjusted Operating Revenue</b>				
<b>Premium Income</b>				
Group Life	\$414.4	3.8	%	\$399.2
Accidental Death & Dismemberment	41.0	5.9		38.7
Total Premium Income	455.4	4.0		437.9
Net Investment Income	25.6	(4.5	)	26.8
Other Income	0.6	(45.5	)	1.1
Total	481.6	3.4		465.8
<b>Benefits and Expenses</b>				
Benefits and Change in Reserves for Future Benefits	322.9	4.2		309.8
Commissions	37.6	2.5		36.7
Deferral of Acquisition Costs	(9.1	)	(10.8	) (10.2
Amortization of Deferred Acquisition Costs	9.5	4.4		9.1
Other Expenses	53.3	(4.5	)	55.8
Total	414.2	3.2		401.2
Adjusted Operating Income	\$67.4	4.3		\$64.6
<b>Operating Ratios (% of Premium Income):</b>				
Benefit Ratio	70.9	%		70.7 %
Other Expense Ratio	11.7	%		12.7 %
Adjusted Operating Income Ratio	14.8	%		14.8 %
<b>Persistency:</b>				
Group Life	91.0	%		89.3 %
Accidental Death & Dismemberment	90.3	%		86.2 %

Premium income increased in the first quarter of 2019 compared to the same period of 2018 due to prior period sales growth and overall favorable persistency. Net investment income was lower in the first quarter of 2019 relative to the same period of 2018 due to a decline in yield on invested assets and lower miscellaneous investment income, partially offset by an increase in the level of invested assets.

Benefits experience in the first quarter of 2019 was generally consistent with the first quarter of 2018.

Commissions were higher in the first quarter of 2019 compared to same period of 2018 due primarily to prior period sales growth. The deferral of acquisition costs was lower in the first quarter of 2019 compared to same period of 2018 due to lower deferrable expenses related to certain sales-based incentive compensation costs. The amortization of deferred acquisition costs increased in the first quarter of 2019 relative to the same period of 2018 due to growth in the level of the deferred asset. The other expense ratio declined in the first quarter of 2019 compared to the same period of 2018 due to growth in premium income and our continued focus on expense management and operating efficiencies.



## Unum US Supplemental and Voluntary Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended March 31			
	2019	% Change		2018
<b>Adjusted Operating Revenue</b>				
<b>Premium Income</b>				
Individual Disability	\$110.7	5.5	%	\$104.9
Voluntary Benefits	234.4	2.0		229.8
Dental and Vision	59.8	22.8		48.7
Total Premium Income	404.9	5.6		383.4
Net Investment Income	56.5	(4.6)	)	59.2
Other Income	1.7	6.3		1.6
Total	463.1	4.3		444.2
<b>Benefits and Expenses</b>				
Benefits and Change in Reserves for Future Benefits	178.7	(3.0)	)	184.2
Commissions	75.1	(0.9)	)	75.8
Deferral of Acquisition Costs	(66.7)	(0.4)	)	(67.0)
Amortization of Deferred Acquisition Costs	82.2	19.3		68.9
Other Expenses	91.5	6.4		86.0
Total	360.8	3.7		347.9
Adjusted Operating Income	\$102.3	6.2		\$96.3
<b>Operating Ratios (% of Premium Income):</b>				
<b>Benefit Ratios:</b>				
Individual Disability	49.9	%		51.0 %
Voluntary Benefits	35.4	%		42.3 %
Dental and Vision	67.7	%		68.6 %
Other Expense Ratio	22.6	%		22.4 %
Adjusted Operating Income Ratio	25.3	%		25.1 %
<b>Persistency:</b>				
Individual Disability	90.3	%		90.7 %
Voluntary Benefits	73.0	%		76.9 %
Dental and Vision	84.3	%		85.0 %

Premium income increased in the first quarter of 2019 compared to the same period of 2018 driven by higher prior period sales, particularly in dental and vision. Net investment income was lower in the first quarter of 2019 relative to the comparable period of 2018 due to a decline in yield on invested assets and lower miscellaneous investment income, partially offset by growth in the level of invested assets. Other income is comprised primarily of surrender fees in our voluntary benefits product line.

Benefits experience was favorable for the individual disability product line in the first quarter of 2019 compared to the same period of 2018 due to favorable claims incidence and lower average claim size. Benefits experience for voluntary benefits in the first quarter of 2019 was favorable to the comparable period of 2018 due primarily to the release of active life reserves resulting from a higher level of policy terminations. Benefits experience for the dental

and vision product line in the first quarter of 2019 was favorable compared to the same period of 2018 due primarily to lower claims utilization.

Commissions and the deferral of acquisition costs were lower for the first quarter of 2019 relative to the same period of 2018 due primarily to a shift in product mix that resulted in lower first-year commissions and a lower corresponding deferral of acquisition costs. The amortization of deferred acquisition costs increased in the first quarter of 2019 relative to the same period of 2018 due to the impact of a higher level of policy terminations, particularly in the voluntary benefits product line, and growth in the level of the deferred asset across all product lines. Our other expense ratio increased slightly in the first quarter of 2019 compared to the same period of 2018 due to an increase in operational investments in our business.

## Sales

(in millions of dollars)

	Three Months Ended		
	March 31		
	2019	% Change	2018
Sales by Product			
Group Disability and Group Life and AD&D			
Group Long-term Disability	\$36.9	22.6 %	\$30.1
Group Short-term Disability	20.9	28.2	16.3
Group Life and AD&D	40.6	(9.0 )	44.6
Subtotal	98.4	8.1	91.0
Supplemental and Voluntary			
Individual Disability	15.1	(15.6 )	17.9
Voluntary Benefits	152.4	(0.7 )	153.5
Dental and Vision	12.5	2.5	12.2
Subtotal	180.0	(2.0 )	183.6
Total Sales	\$278.4	1.4	\$274.6
Sales by Market Sector			
Group Disability and Group Life and AD&D			
Core Market (< 2,000 employees)	\$48.7	(11.3 )%	\$54.9
Large Case Market	49.7	37.7	36.1
Subtotal	98.4	8.1	91.0
Supplemental and Voluntary	180.0	(2.0 )	183.6
Total Sales	\$278.4	1.4	\$274.6

Group sales increased in the first quarter of 2019 compared to the same period of 2018, primarily driven by an increase in sales to new customers in our large case market segment, partially offset by a decline in sales to both new and existing customers in our core market segment, which we define as employee groups with fewer than 2,000 employees. The sales mix in the group market sector for the first three months of 2019 was approximately 49 percent core market and 51 percent large case market.

Individual disability sales, which are primarily concentrated in the multi-life market, decreased in the first quarter of 2019 compared to the same period of 2018 driven by lower sales to both new and existing customers. Sales of voluntary benefits declined slightly in the first quarter of 2019 compared to the same period of 2018, driven by lower sales to both new and existing customers in the core market segment, partially offset by an increase in sales to both new and existing customers in the large case market. Dental and vision sales increased in the first quarter of 2019 compared to the same period of 2018, primarily driven by higher sales to both new and existing customers.





## Segment Outlook

We remain committed to offering consumers a broad set of financial protection benefit products at the worksite. We will continue to invest in a unique customer experience defined by simplicity, empathy, and deep industry expertise through the re-design of our processes and the increased utilization of digital capabilities and technology to enhance enrollment, underwriting, and claims processing. We will continue to focus on the expansion of products, which includes dental and vision, medical stop-loss, and leave management services, while also introducing new voluntary benefits products. Additionally, we will focus on client expansion, consumer engagement, and collaborative partnerships, all underpinned by strong risk management. We believe our active client management and differentiated integrated customer experience across our product lines will continue to enable us to grow our market.

We anticipate continued stable adjusted operating income growth in 2019, with disciplined sales and premium growth, consistent risk management, and improving operational efficiency. We believe our underlying profitability will remain strong throughout the year, driven primarily by our continued product mix shift, expense efficiencies, and consistent operating effectiveness.

The low interest rate environment continues to place pressure on our profit margins by impacting net investment income yields as well as discount rates on our insurance liabilities. Our net investment income may continue to be unfavorably impacted by fluctuations in miscellaneous investment income and lower asset levels resulting from improved capital efficiency. As part of our pricing discipline and our reserving methodology, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We expect that our underwriting results for the remainder of 2019 will continue at a level generally consistent with 2018. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

## Unum International Segment

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

## Operating Results

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

	Three Months Ended		
	March 31		
	2019	% Change	2018
Adjusted Operating Revenue			
Premium Income			
Group Long-term Disability	\$87.9	(3.2 )%	\$90.8
Group Life	27.2	(4.9 )	28.6
Supplemental	38.9	92.6	20.2
Total Premium Income	154.0	10.3	139.6
Net Investment Income	24.8	(10.1 )	27.6
Total	178.8	6.9	167.2
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	106.5	6.2	100.3
Commissions	12.1	28.7	9.4
Deferral of Acquisition Costs	(2.9 )	93.3	(1.5 )
Amortization of Deferred Acquisition Costs	1.8	(14.3 )	2.1
Other Expenses	32.2	18.8	27.1
Total	149.7	9.0	137.4
Adjusted Operating Income	\$29.1	(2.3 )	\$29.8

## Foreign Currency Translation

The functional currencies of Unum UK and Unum Poland are the British pound sterling and Polish zloty, respectively. Premium income, net investment income, claims, and expenses are received or paid in the functional currency, and we hold functional currency-denominated assets to support functional currency-denominated policy reserves and liabilities. We translate functional currency-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 exchange rates have an effect on Unum International's reported financial results and our consolidated financial results. In periods when the functional currency strengthens relative to the preceding period, translation increases current period results relative to the prior period. In periods when the functional currency weakens, translation decreases current period results relative to the prior period.

## Unum UK Operating Results

Shown below are financial results and key performance indicators for the Unum UK product lines in functional currency.

(in millions of pounds, except ratios)

	Three Months Ended March		
	31		
	2019	% Change	2018
Adjusted Operating Revenue			
Premium Income			
Group Long-term Disability	£67.5	3.5 %	£65.2
Group Life	20.8	1.0	20.6
Supplemental	16.7	15.2	14.5
Total Premium Income	105.0	4.7	100.3
Net Investment Income	17.8	(10.6 )	19.9
Total	122.8	2.2	120.2
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	73.7	2.2	72.1
Commissions	7.0	2.9	6.8
Deferral of Acquisition Costs	(1.1 )	—	(1.1 )
Amortization of Deferred Acquisition Costs	1.4	(6.7 )	1.5
Other Expenses	20.2	3.6	19.5
Total	101.2	2.4	98.8
Adjusted Operating Income	£21.6	0.9	£21.4
Weighted Average Pound/Dollar Exchange Rate	1.306		1.393
Operating Ratios (% of Premium Income):			
Benefit Ratio	70.2 %		71.9 %
Other Expense Ratio	19.2 %		19.4 %
Adjusted Operating Income Ratio	20.6 %		21.3 %
Persistency:			
Group Long-term Disability	89.3 %		86.7 %
Group Life	85.7 %		85.5 %
Supplemental	91.5 %		91.5 %

Premium income increased in the first quarter of 2019 compared to the same period of 2018 driven by higher overall persistency and sales growth.

Net investment income was lower in the first quarter of 2019 relative to the same prior year period due primarily to a lower yield on fixed-rate bonds and lower investment 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. The decrease in net investment income attributable to these index-linked bonds was more than offset by a decrease in the reserves for future claims payments related to the inflation index-linked group long-term disability and group life policies. Partially offsetting the decrease in net investment income was a higher level of invested assets.

Overall benefits experience was favorable in the first quarter of 2019 relative to the same prior year period due primarily to the impact of inflation-linked decreases in benefits related to our group products.

Commissions increased in the first quarter of 2019 relative to the same prior year period due primarily to an overall increase in sales. The deferral and amortization of acquisition costs in the first quarter of 2019 were generally consistent with the same period of 2018. The other expense ratio was lower in the first quarter of 2019 compared to the same prior year period due to an increase in premium income and a continued focus on expense management and operating efficiencies.

Sales

(in millions of dollars and pounds)

	Three Months Ended		
	March 31		
	2019	% Change	2018
Unum International Sales by Product			
Group Long-term Disability	\$8.2	5.1 %	\$7.8
Group Life	6.1	35.6	4.5
Supplemental	8.3	72.9	4.8
Total Sales	\$22.6	32.2	\$17.1

Unum International Sales by Market Sector

Group Long-term Disability and Group Life			
Core Market (< 500 employees)	\$8.5	11.8 %	\$7.6
Large Case Market	5.8	23.4	4.7
Subtotal	14.3	16.3	12.3
Supplemental	8.3	72.9	4.8
Total Sales	\$22.6	32.2	\$17.1

Unum UK Sales by Product

Group Long-term Disability	£6.2	10.7 %	£5.6
Group Life	4.7	42.4	3.3
Supplemental	3.8	11.8	3.4
Total Sales	£14.7	19.5	£12.3

Unum UK Sales by Market Sector

Group Long-term Disability and Group Life			
Core Market (< 500 employees)	£6.5	20.4 %	£5.4
Large Case Market	4.4	25.7	3.5
Subtotal	10.9	22.5	8.9
Supplemental	3.8	11.8	3.4
Total Sales	£14.7	19.5	£12.3

The following discussion of sales results relates only to our Unum UK product lines and is based on functional currency.

Group long-term disability sales increased in the first quarter of 2019 relative to the first quarter of 2018 due primarily to an increase in sales to existing customers in our large case market and an increase in sales to new customers in our core market, which we define as employee groups with fewer than 500 employees, partially offset by lower sales to new customers in our large case market.

Group life sales were higher in the first quarter of 2019 compared to the first quarter of 2018 with an increase in sales to new customers in the core market and an increase in sales to existing customers in both the large case and core markets.

Supplemental sales increased during the first quarter of 2019 compared to the same period of 2018 due to an increase in sales in the dental product line.

73

---

## Segment Outlook

We are committed to driving growth in the Unum International segment and will build on the capabilities that we believe will generate growth and profitability in our businesses. Expanding our Unum UK group long-term disability market position remains a significant opportunity and priority. Completing the integration of our Unum Poland business and growing that business through the expansion of its product offerings is also a significant priority and opportunity. Other key priorities, specifically for our Unum UK business, include the continued disciplined implementation of price increases across interest sensitive product lines, which has been successful in offsetting pressure from lower interest rates and heightened disability claims experience, while maintaining solid persistency results and continuing to follow a disciplined approach to new sales activity in the competitive pricing environment. We intend to build upon the strong sales momentum we have seen in our group critical illness and dental products through increased participation rates as well as accelerate growth in our group life line of business. We have simplified our processes and operations to deliver efficiencies and further improvements to customer service and remain focused on risk discipline. The investments that we have made in the operating model for our UK business have significantly improved our operational effectiveness and we plan to reinvest a portion of these expense savings to build marketing and digital capabilities, which we believe will drive sustainable growth through the development of new distribution capabilities and reaching new customers.

Negotiations regarding the U.K.'s formal notice to withdraw from the EU are continuing to generate uncertainty in the U.K. economy. The magnitude and longevity of potential negative economic impacts on our growth will depend on the agreements reached by the U.K. and EU as a result of exit negotiations and the resulting response of the U.K. marketplace, but we believe we are well positioned to capitalize on future growth opportunities as these negotiations are resolved and the operating environment improves. Overall, we expect the economic conditions experienced in 2018 to continue into 2019 for the U.K., with lower economic growth, wage inflation, and interest rates presenting challenges in the short to medium term.

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



## Colonial Life Segment

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

## Operating Results

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

	Three Months Ended March 31			
	2019	% Change	2018	
Adjusted Operating Revenue				
Premium Income				
Accident, Sickness, and Disability	\$242.2	4.7	%	\$231.3
Life	87.6	8.1		81.0
Cancer and Critical Illness	89.5	4.1		86.0
Total Premium Income	419.3	5.3		398.3
Net Investment Income	36.9	(1.1)	)	37.3
Other Income	0.6	100.0		0.3
Total	456.8	4.8		435.9
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	214.2	4.1		205.7
Commissions	94.4	4.7		90.2
Deferral of Acquisition Costs	(83.2)	)	6.3	(78.3)
Amortization of Deferred Acquisition Costs	64.9	7.8		60.2
Other Expenses	81.3	5.4		77.1
Total	371.6	4.7		354.9
Adjusted Operating Income	\$85.2	5.2		\$81.0
Operating Ratios (% of Premium Income):				
Benefit Ratio	51.1	%		51.6 %
Other Expense Ratio	19.4	%		19.4 %
Adjusted Operating Income Ratio	20.3	%		20.3 %
Persistency:				
Accident, Sickness, and Disability	73.4	%		75.3 %
Life	83.3	%		84.2 %
Cancer and Critical Illness	81.2	%		83.1 %

Premium income increased in the first quarter of 2019 relative to the same period of 2018 as a result of sales growth, which includes the expansion of our dental and vision products, offset partially by a lower level of persistency. Net investment income was slightly lower in the first quarter of 2019 compared to the same period of 2018 due to a decline in yield on invested assets and lower miscellaneous investment income, partially offset by an increase in the level of invested assets.

Benefits experience in the first quarter of 2019 was generally consistent with the same period of 2018, with favorable experience in the life product line, partially offset by unfavorable experience in the cancer and critical illness product

line.

75

---

Commissions and the deferral of acquisition costs were higher in the first quarter of 2019 relative to the same period of 2018 due to sales growth. The amortization of deferred acquisition costs increased during the first quarter of 2019 relative to the same period of 2018 due to growth in the level of the deferred asset. The other expense ratio was consistent in the first quarter of 2019 compared to the same period of 2018, with an increase in operational investments in our business balanced with our continued focus on expense management and operating efficiencies.

## Sales

(in millions of dollars)

	Three Months Ended		
	March 31		
	2019	% Change	2018
<b>Sales by Product</b>			
Accident, Sickness, and Disability	\$72.2	8.7 %	\$66.4
Life	19.7	(7.5 )	21.3
Cancer and Critical Illness	16.9	5.6	16.0
Total Sales	\$108.8	4.9	\$103.7

## Sales by Market Sector

### Commercial

Core Market (< 1,000 employees)	\$71.4	5.2 %	\$67.9
Large Case Market	14.3	(8.9 )	15.7
Subtotal	85.7	2.5	83.6
Public Sector	23.1	14.9	20.1
Total Sales	\$108.8	4.9	\$103.7

Sales were higher in the first quarter of 2019 relative to the same period of 2018 due to growth in existing customer account sales and the expansion of our dental and vision products, partially offset by a decrease in new customer account sales. Commercial market sales increased in the first quarter of 2019 as compared to the same period of 2018 due primarily to higher sales to existing customer accounts in the core market, which we define as accounts with fewer than 1,000 employees, and large case market, partially offset by lower sales to new customer accounts in both the core and large case markets. Growth in our public sector market sales for the first quarter of 2019 was due to an increase in new customer account sales, partially offset by a slight decrease in existing customer account sales. The number of new accounts increased 3.9 percent in the first quarter of 2019 relative to the same period of 2018, and the average new case size decreased 5.1 percent.

## Segment Outlook

We remain committed to providing employees and their families with simple, modern, and personal benefit solutions. We will continue to focus on expanding our distribution system through the growth and development of our agency sales force and establishing effective broker partnerships. We will also invest in new solutions and digital capabilities to enhance the customer experience for our business partners and further improve productivity. We will seek to capitalize on the expansion of our new dental products, which we believe will create opportunities for new cases while also allowing for further cross-selling opportunities to existing clients. We will continue to focus on accelerating growth through territory expansion, territory growth, persistency investments, and increased participation rates. We believe our distribution system, customer service capabilities, the expansion of our new dental products, and ability to serve all market sizes position us well for future growth.

We expect to see continued favorable sales, premium, and adjusted operating earnings growth trends for the remainder of 2019. We also anticipate a decline in the operating expense ratio as we continue to balance operating efficiencies with the continued investments in future growth. The lower interest rate environment will continue to have an

unfavorable impact on our profit margins, and volatility in miscellaneous investment income is likely to continue. We expect our annual benefit ratio for 2019 to be generally consistent with the level of 2018. While we believe our underlying profitability will remain strong, current economic conditions and increasing competition in the voluntary workplace market are seen as external risks to achievement of our business plans. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

## Closed Block Segment

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

## Operating Results

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

	Three Months Ended March			
	2019		2018	
		% Change		
Adjusted Operating Revenue				
Premium Income				
Individual Disability	\$98.1	(10.3 )%	\$109.4	
Long-term Care	163.0	1.1	161.3	
All Other	2.4	(7.7 )	2.6	
Total Premium Income	263.5	(3.6 )	273.3	
Net Investment Income	346.6	2.6	337.7	
Other Income	18.0	(5.3 )	19.0	
Total	628.1	(0.3 )	630.0	
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	539.4	(0.3 )	541.0	
Commissions	20.6	(3.3 )	21.3	
Interest and Debt Expense	1.6	(5.9 )	1.7	
Other Expenses	35.5	(4.3 )	37.1	
Total	597.1	(0.7 )	601.1	
Adjusted Operating Income	\$31.0	7.3	\$28.9	
Interest Adjusted Loss Ratios:				
Individual Disability	80.1 %		77.1 %	
Long-term Care	88.5 %		96.6 %	
Operating Ratios (% of Premium Income):				
Other Expense Ratio	13.5 %		13.6 %	
Adjusted Operating Income Ratio	11.8 %		10.6 %	
Persistency:				
Individual Disability	88.1 %		89.3 %	
Long-term Care	95.6 %		95.7 %	



Premium income for individual disability decreased in the first quarter of 2019 compared to the same period of 2018 due to policy terminations and maturities. Premium income for long-term care was slightly higher compared to the prior year, with rate increases mostly offset by policy terminations. 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 which reflect assumptions as of the date of filings. In states for which a rate increase is submitted and approved, we routinely provide customers options for coverage changes or other approaches that might fit their current financial and insurance needs.

Net investment income was higher in the first quarter of 2019 relative to the same period of 2018 due to a higher level of invested assets, partially offset by lower miscellaneous investment income. Other income, which includes the underlying results and associated net investment income of certain blocks of individual disability reinsured business, continues to decline due to expected terminations and maturities.

Individual disability benefits experience in the first quarter of 2019 compared to the same period of 2018 was driven by less favorable mortality experience and average new claim size. Long-term care benefits experience in the first quarter of 2019 was not comparable to the same period of 2018 due to the previously discussed update in our assumptions during the third quarter of 2018, but was consistent with our expectations. The interest adjusted loss ratio for the period subsequent to the update in our assumptions was 86.4 percent.

The other expense ratio in the first quarter of 2019 was generally consistent with the same period of 2018.

#### Segment Outlook

We will continue to execute on our well-defined strategy of implementing long-term care premium rate increases, efficient capital management, improved financial analysis, and operational effectiveness. Despite continued anticipated premium rate increases in our long-term care business, we expect overall premium income and adjusted operating revenue to decline over time as these closed blocks of business wind down. We will likely experience volatility in net investment income due to fluctuations of miscellaneous investment income and the increased allocation towards alternative assets in the long-term care product line portfolio. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Profitability of our long-tailed products is affected by claims experience related to mortality and morbidity, resolutions, investment returns, premium rate increases, and persistency. We believe that the interest adjusted loss ratios for the individual disability and long-term care lines of business will be relatively flat over the long term, but these product lines may continue to experience quarterly volatility, particularly in the near term for our long-term care product lines as our claim block matures and as we continue the implementation of premium rate increases. Specific to our long-term care line of business, which is in loss recognition and should report levels of benefits plus operating expenses that equal the gross premium reported, we expect the long term interest adjusted loss ratio to be in the 85 to 90 percent range with some quarterly volatility. 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, resolutions, premium rate increases, benefit change elections, and persistency, could result in a material impact on the adequacy of our reserves, including adjustments to reserves established under loss recognition.

## Corporate Segment

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

## Operating Results

(in millions of dollars)

	Three Months Ended		
	March 31		
	2019	% Change	2018
Adjusted Operating Revenue			
Net Investment Income	\$4.3	(21.8 )%	\$5.5
Other Income	—	(100.0 )	1.2
Total	4.3	(35.8 )	6.7
Interest and Other Expenses	49.7	5.7	47.0
Adjusted Operating Loss	\$(45.4)	(12.7 )	\$(40.3)

Net investment income was lower in the first quarter of 2019 relative to the same period of 2018 due to a lower level of invested assets, partially offset by an increase in the yield on invested assets.

Interest and other expenses were higher in the first quarter of 2019 relative to the same period of 2018 due primarily to a higher level of outstanding debt, a higher overall rate of interest, and higher pension costs.

## Segment Outlook

We expect to continue to generate excess capital on an annual basis through the statutory earnings in our insurance subsidiaries, aided in part by the reduction in the corporate tax rate resulting from tax reform. We believe we are well positioned with flexibility to preserve our capital strength while also continuing to return capital to our shareholders.



## Investments

### Overview

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

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

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

## Fixed Maturity Securities

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

## Fixed Maturity Securities - By Industry Classification

As of March 31, 2019

(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	\$3,029.8	\$ 185.1	\$ 606.6	\$ 23.7	\$ 2,423.2	\$ 208.8
Capital Goods	4,317.1	364.9	775.2	28.6	3,541.9	393.5
Communications	2,941.8	337.2	398.2	20.9	2,543.6	358.1
Consumer Cyclical	1,551.7	113.4	255.5	9.1	1,296.2	122.5
Consumer Non-Cyclical	6,646.8	494.0	1,559.5	89.7	5,087.3	583.7
Energy	4,698.5	492.2	528.4	38.4	4,170.1	530.6
Financial Institutions	3,258.8	251.7	361.2	7.7	2,897.6	259.4
Mortgage/Asset-Backed	1,556.1	82.5	185.4	2.0	1,370.7	84.5
Sovereigns	1,007.7	185.6	54.7	3.0	953.0	188.6
Technology	1,774.5	69.5	272.4	10.0	1,502.1	79.5
Transportation	2,159.1	208.4	328.0	9.9	1,831.1	218.3
U.S. Government Agencies and Municipalities	4,386.2	521.0	236.9	4.3	4,149.3	525.3
Public Utilities	7,454.5	1,002.9	501.1	24.5	6,953.4	1,027.4
Total	\$44,782.6	\$ 4,308.4	\$ 6,063.1	\$ 271.8	\$ 38,719.5	\$ 4,580.2

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of March 31, 2019 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after March 31, 2019. The decrease in the unrealized loss on fixed maturity securities during the first quarter of 2019 was due primarily to a decrease in credit spreads and U.S. Treasury rates.

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

(in millions of dollars)

	2019	2018			
	March	December	September	June	March
	31	31	30	30	31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$3.0	\$52.1	\$ 25.9	\$56.0	\$79.8
> 90 <= 180 days	3.4	36.0	61.7	149.1	40.5
> 180 <= 270 days	7.4	90.2	158.2	40.3	30.5
> 270 days <= 1 year	24.0	200.0	43.9	38.8	—
> 1 year <= 2 years	97.0	94.5	95.7	51.3	44.8
> 2 years <= 3 years	27.1	50.5	9.7	2.0	2.9
> 3 years	0.7	1.7	1.9	1.2	0.2
Sub-total	162.6	525.0	397.0	338.7	198.7
Fair Value < 70% >= 40% of Amortized Cost					
<=90 days	—	1.6	—	—	—
> 90 <= 180 days	1.6	—	—	—	—
> 180 <= 270 days	—	—	—	13.9	—
> 270 days <= 1 year	—	—	14.2	—	—
> 1 year <= 2 years	11.1	2.9	—	—	—
Sub-total	12.7	4.5	14.2	13.9	—
Total	\$175.3	\$529.5	\$ 411.2	\$352.6	\$198.7

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

(in millions of dollars)

	2019 March 31	2018 December 31	September 30	June 30	March 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	\$ 1.0	\$39.7	\$ 2.3	\$6.4	\$19.8
> 90 <= 180 days	2.1	19.0	6.9	29.3	13.6
> 180 <= 270 days	3.8	11.1	19.5	14.8	2.9
> 270 days <= 1 year	1.3	52.8	11.5	4.7	—
> 1 year <= 2 years	29.1	27.1	13.8	10.3	10.5
> 2 years <= 3 years	10.6	4.8	1.9	9.5	13.1
> 3 years	28.8	31.6	24.4	22.5	26.6
Sub-total	76.7	186.1	80.3	97.5	86.5
Fair Value < 70% >= 40% of Amortized Cost					
> 1 year <= 2 years	—	0.7	—	—	—
> 2 years <= 3 years	—	11.3	—	5.0	7.9
> 3 years	7.2	17.8	5.1	—	—
Sub-total	7.2	29.8	5.1	5.0	7.9
Fair Value <= 40% of Amortized Cost					
> 3 years	12.6	11.0	—	—	—
Sub-total	12.6	11.0	—	—	—
Total	\$96.5	\$226.9	\$ 85.4	\$102.5	\$94.4

At March 31, 2019, we held two below-investment grade fixed maturity securities with a gross unrealized loss greater than \$10.0 million. One security is related to a global pharmaceutical company and had a fair value of \$66.0 million and a gross unrealized loss of \$11.0 million. The other security is related to a U.S. based oil and natural gas producer and had a fair value of \$3.4 million and a gross unrealized loss of \$12.6 million. We intend to and have the ability to continue to hold these securities to maturity and believe that the declines in fair value are temporary.

We had no individual realized investment losses of \$10.0 million or greater from the sale of fixed-maturity securities during the first quarters of 2019 or 2018, nor did we have individual realized investment losses of \$10.0 million or greater from other-than-temporary impairments

At March 31, 2019, our mortgage/asset-backed securities had an average life of 6.09 years, effective duration of 4.95 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 March 31, 2019, the amortized cost and fair value of our below-investment-grade fixed maturity securities was \$3,247.3 million and \$3,233.9 million, respectively. Below-investment-grade securities are inherently riskier than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

#### Fixed Maturity Securities - Foreign Exposure

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

#### Mortgage Loans

Our mortgage loan portfolio was \$2,206.6 million and \$2,295.0 million on an amortized cost basis at March 31, 2019 and December 31, 2018, 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 no impaired mortgage loans at March 31, 2019. We held one impaired mortgage loan at December 31, 2018 with a net realizable value of \$3.4 million, net of a valuation allowance of \$0.2 million. During the first quarter of 2019, the impaired mortgage loan was settled, and we recognized an additional loss of \$0.1 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. Credit exposure on derivatives is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held. At March 31, 2019, we had no credit exposure on derivatives. We held \$20.2 million of cash collateral from our counterparties at March 31, 2019. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$33.5 million at March 31, 2019. We had no cash collateral posted to our counterparties at March 31, 2019. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have an investment-grade credit rating,

and by our use of cross-collateralization agreements.

Other

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 \$32.6 million and \$36.0 million on a fair value basis at March 31, 2019 and December 31, 2018, respectively.

For further information see "Investments" in Part I, Item 1 and "Critical Accounting Estimates" and "Investments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2018, and Notes 4 and 5 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

84

---

## Liquidity and Capital Resources

### Overview

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

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

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

The liquidity requirements of the holding company Unum Group include common stock dividends, interest and debt service, acquisitions, and ongoing investments in our businesses. Unum Group's liquidity requirements are met by assets held by Unum Group and our intermediate holding companies, dividends from primarily our insurance subsidiaries, and issuance of common stock, debt, or other capital securities and borrowings from existing credit facilities, as needed. As of March 31, 2019, Unum Group and our intermediate holding companies held fixed maturity securities, short-term investments, and cash of \$594 million. Fixed maturity securities consisted primarily of mortgage/asset-backed securities with an average maturity date of 4.8 years. Short-term investments consisted primarily of commercial paper. No significant restrictions exist on our ability to use or access funds in any of our U.S. or foreign intermediate holding companies. Future amounts repatriated from our foreign subsidiaries are eligible for a 100 percent exemption from U.S. income tax but may be subject to tax on foreign currency gain or loss.

As part of our capital deployment strategy, we repurchase shares of Unum Group's common stock, as authorized by our board of directors. Our current share repurchase program was approved by our board of directors in May 2018 and authorizes the repurchase of up to \$750 million of common stock through November 2019, 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. During the first three months of 2019, we repurchased 2.7 million shares at a cost of approximately \$100 million. The dollar value of shares remaining under the current repurchase program was approximately \$400 million at March 31, 2019. See Note 10 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

### Cash Available from Subsidiaries



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

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

Certain of our domestic insurance subsidiaries cede blocks of business to Northwind Reinsurance Company (Northwind Re) and Fairwind Insurance Company (Fairwind), both of which are affiliated captive reinsurance subsidiaries domiciled in the

United States with Unum Group as the ultimate parent. The ability of Northwind Re and Fairwind to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Northwind Re and Fairwind.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries also depends on additional factors such as RBC ratios and capital adequacy and/or solvency requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. The RBC ratios for our U.S. insurance subsidiaries at March 31, 2019 are in line with our expectations and are significantly above the level that would require state regulatory action.

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

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

During 2019, we intend to maintain a level of capital in our insurance subsidiaries above the applicable capital adequacy requirements and minimum solvency margins.

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

#### Funding for Employee Benefit Plans

During the first three months of 2019, we made contributions of \$20.0 million and £0.8 million to our U.S. and U.K. defined contribution plans, respectively, and expect to make additional contributions of approximately \$55 million and £2 million during the remainder of 2019. We do not expect to make contributions to our U.S. or U.K. qualified defined benefit pension plans during 2019. We have met all minimum pension funding requirements set forth by the Employee Retirement Income Security Act. We have estimated our future funding requirements under the Pension Protection Act of 2006 and under applicable U.K. law and do not believe that any future funding requirements will cause a material adverse effect on our liquidity.

#### Debt

Our long-term debt balance at March 31, 2019 was \$2,958.7 million, net of deferred debt issuance costs of \$29.8 million, and consisted primarily of secured and unsecured senior notes and junior subordinated debt securities.

Northwind Holdings made principal payments on its floating rate, senior secured non-recourse notes of \$15.0 million in the first three months of 2019.

On April 29, 2019, we amended the terms of our existing five-year unsecured revolving credit facility, increasing it from \$400.0 million to \$500.0 million. The credit facility, which was previously set to expire in 2021, was extended through April 2024. Under the terms of the amended agreement, we may request that the credit facility be increased up to \$700.0 million, up from the previous amount of \$600.0 million. We also may request, on up to two occasions, that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At March 31, 2019, letters of credit totaling \$2.1 million had been issued from the credit facility, but there were no borrowed amounts outstanding.

Also on April 29, 2019, we separately entered into a three-year, \$100.0 million unsecured revolving credit facility with a different syndicate of lenders, which is set to expire in April 2022. Under the terms of the agreement, we may request that the credit facility be increased up to \$140.0 million. We also may request that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations.

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. Our credit facilities include financial covenants that place limitations on our leverage ratio and consolidated net worth. The credit facilities also include covenants that limit subsidiary indebtedness. We have not observed any current trends that would cause a breach of any of our debt or credit facility covenants. See Note 13 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Debt" and Note 8 of the "Notes to Consolidated Financial Statements" contained in Part II, Items 7 and 8, respectively, of our annual report on Form 10-K for the year ended December 31, 2018 for further discussion.

#### Commitments

At March 31, 2019, we had unfunded unconditional commitments of \$2.3 million to fund tax credit partnership investments and \$14.7 million to fund the purchase of transferable state tax credits. These commitments are recognized as liabilities in our consolidated balance sheets, with a corresponding recognition of other long-term investments and other assets, respectively. In addition, we had commitments of \$138.5 million to fund certain investments in private placement fixed maturity securities, \$365.0 million to fund certain private equity partnerships, and \$12.8 million to fund certain commercial mortgage loans, which may or may not be funded.

With respect to our commitments and off-balance sheet arrangements, see the discussion under "Commitments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2018. During the first three months of 2019, there were no substantive changes in our commitments, contractual obligations, or other off-balance sheet arrangements other than the changes noted herein.

#### Transfers of Financial Assets

Our investment policy permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increases our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as secured borrowings. We had a de minimis amount of securities lending agreements outstanding at March 31, 2019 which were collateralized by cash and reported as payables for collateral on investments in our consolidated balance sheets. The cash received as collateral was reinvested in short-term investments. The average balance during the first three months of 2019 was de minimis, and the maximum amount outstanding at any month end was \$0.1 million. In addition, at March 31, 2019, we had \$146.1 million of off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the first three months of 2019 was \$182.6 million, and the maximum amount outstanding at any month end was \$220.3 million.

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. We had no repurchase agreements outstanding at March 31, 2019, nor did we utilize any repurchase agreements during the first three months of 2019. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

Certain of our U.S. insurance subsidiaries are members of regional Federal Home Loan Banks (FHLB). As of March 31, 2019, we owned \$19.1 million of FHLB common stock and had no outstanding advances from the regional FHLBs.

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

Consolidated Cash Flows  
(in millions of dollars)

	Three Months	
	Ended March 31	
	2019	2018
Net Cash Provided by Operating Activities	\$516.8	\$299.9
Net Cash Provided (Used) by Investing Activities	(365.2 )	119.3
Net Cash Used by Financing Activities	(183.5 )	(187.7 )
Net Increase (Decrease) in Cash and Bank Deposits	\$(31.9 )	\$231.5

Operating Cash Flows

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

Investing Cash Flows

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

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

Financing Cash Flows

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

During each of the first three months of 2019 and 2018, we made principal payments of \$15.0 million on our senior secured non-recourse notes issued by Northwind Holdings.

Cash used to repurchase shares of Unum Group's common stock during the first quarters of 2019 and 2018 was \$100.0 million and \$105.7 million, respectively, with a portion of the cash used in the first quarter of 2018 related to the settlement of amounts due on shares purchased in the fourth quarter of 2017. During the first three months of 2019 and 2018, we paid dividends of \$55.7 million and \$52.4 million, respectively, to holders of Unum Group's common stock.

See Notes 10 and 13 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Debt" contained in this Item 2 for further information.

Ratings

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

financial strength ratings incorporate quantitative and qualitative analyses by rating agencies and are routinely reviewed and updated on an ongoing basis.

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

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

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

NR = not rated

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans as well as other pertinent issues. A significant component of our communications involves our annual review meeting with each of the four agencies. We hold other meetings throughout the year regarding our business, including, but not limited to, quarterly updates. There have been no changes in any of the rating agencies' outlook statements or ratings during 2019 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.



Edgar Filing: Unum Group - Form 10-Q

See our annual report on Form 10-K for the year ended December 31, 2018 for further information regarding our debt and financial strength ratings and the risks associated with rating changes.

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

We are subject to various market risk exposures including interest rate risk and foreign exchange rate risk. With respect to our exposure to market risk, see the discussion under "Investments" in Item 2 of this Form 10-Q and in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2018. During the first three months of 2019, there was no substantive change to our market risk or the management of this risk.

### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. We assessed those controls based on criteria established in the 2013 Internal Control - Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective as of March 31, 2019.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2018.

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

The following table provides information about our share repurchase activity for the first quarter of 2019:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
January 1 - January 31, 2019	—	\$	—	\$ 499,965,321
February 1 - February 28, 2019	746,300	37.43	746,300	472,028,828
March 1 - March 31, 2019	1,977,480	36.44	1,977,480	399,965,353
Total	2,723,780		2,723,780	

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

(2) In May 2018, our board of directors authorized the repurchase of up to \$750 million of Unum Group's common stock through November 24, 2019.

ITEM 6. EXHIBITS

Index to Exhibits

Exhibit 3.1 Amended and Restated Bylaws of Unum Group, effective February 19, 2019 (incorporated by reference to Exhibit 3.1 of Unum Group's Form 8-K filed on February 22, 2019).

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

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

Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101 The following financial statements from Unum Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed on May 1, 2019, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Unum Group  
(Registrant)

Date: May 1, 2019 By: /s/ John F. McGarry

John F. McGarry

Executive Vice President and Chief Financial Officer

Date: May 1, 2019 By: /s/ Daniel J. Waxenberg

Daniel J. Waxenberg

Senior Vice President, Chief Accounting Officer