Unum Group
Form 10-Q
July 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

¨ 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 x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
(Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
234,642,863 shares of the registrant's common stock were outstanding as of July 26, 2016.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

- Sustained periods of low interest rates.
- Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality and morbidity rates, and policy benefit offsets due to, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of our claims operational processes, and changes in government programs.
- Unfavorable economic or business conditions, both domestic and foreign.
- Legislative, regulatory, or tax changes, both domestic and foreign, including the effect of potential legislation and increased regulation in the current political environment.
- Investment results, including, but not limited to, changes in interest rates, defaults, changes in credit spreads, impairments, and the lack of appropriate investments in the market which can be acquired to match our liabilities.
- A cyber attack or other security breach could result in the unauthorized acquisition of confidential data.
- The failure of our business recovery and incident management processes to resume our business operations in the event of a natural catastrophe, cyber attack, or other event.
- Increased competition from other insurers and financial services companies due to industry consolidation, new entrants to our markets, or other factors.
- Execution risk related to our technology needs.
- Changes in our financial strength and credit ratings.
- Damage to our reputation due to, among other factors, regulatory investigations, legal proceedings, external events, and/or inadequate or failed internal controls and procedures.
- Actual experience that deviates from our assumptions used in pricing, underwriting, and reserving.
- Actual persistency and/or sales growth that is higher or lower than projected.
- Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, consumer confidence, and/or legislative and regulatory changes, including healthcare reform.
- Effectiveness of our risk management program.
- Contingencies and the level and results of litigation.
- Availability of reinsurance in the market and the ability of our reinsurers to meet their obligations to us.
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- Ineffectiveness of our derivatives hedging programs due to changes in the economic environment, counterparty risk, ratings downgrades, capital market volatility, changes in interest rates, and/or regulation.
- Changes in accounting standards, practices, or policies.
- Fluctuation in foreign currency exchange rates.
- Ability to generate sufficient internal liquidity and/or obtain external financing.
- Recoverability and/or realization of the carrying value of our intangible assets, long-lived assets, and deferred tax assets.
- Terrorism, both within the U.S. and abroad, ongoing military actions, and heightened security measures in response to these types of threats.

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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, 2015.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Unum Group and Subsidiaries

	June 30	December 31
	2016	2015
	(in millions of dollars)	
		As Adjusted
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: $39,562.5; $39,658.7)	$45,862.0	$43,354.4
Mortgage Loans	1,941.3	1,883.6
Policy Loans	3,316.2	3,395.4
Other Long-term Investments	592.2	583.0
Short-term Investments	1,402.3	807.3
Total Investments	53,114.0	50,023.7
Other Assets		
Cash and Bank Deposits	93.8	112.9
Accounts and Premiums Receivable	1,654.2	1,598.4
Reinsurance Recoverable	4,801.6	4,725.1
Accrued Investment Income	803.4	702.8
Deferred Acquisition Costs	2,023.7	2,008.5
Goodwill	226.7	230.9
Property and Equipment	510.9	523.9
Other Assets	624.8	637.4
Total Assets	$63,853.1	$60,563.6

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED) - Continued

Unum Group and Subsidiaries

	June 30	December 31
	2016	2015
	(in millions of dollars)	
		As Adjusted
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	$1,486.4	$1,484.6
Reserves for Future Policy and Contract Benefits	45,463.4	43,540.6
Unearned Premiums	457.5	384.2
Other Policyholders’ Funds	1,641.4	1,674.6
Income Tax Payable	29.6	6.0
Deferred Income Tax	315.8	91.8
Short-term Debt	350.7	352.0
Long-term Debt	3,042.6	2,449.4
Payables for Collateral on Investments	450.2	415.4
Other Liabilities	1,458.5	1,501.1
Total Liabilities	54,696.1	51,899.7
Commitments and Contingent Liabilities - Note 10		
Stockholders' Equity		
Common Stock, $0.10 par		
Authorized: 725,000,000 shares		
Issued: 303,299,730 and 302,702,811 shares	30.3	30.3
Additional Paid-in Capital	2,258.7	2,247.2
Accumulated Other Comprehensive Income	339.8	16.1
Retained Earnings	8,353.2	7,995.2
Treasury Stock - at cost: 68,288,466 and 61,785,466 shares	(1,825.0)	(1,624.9)
Total Stockholders' Equity	9,157.0	8,663.9
Total Liabilities and Stockholders' Equity	$63,853.1	$60,563.6

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(in millions of dollars, except share data)			
Revenue				
Premium Income	$2,081.6	$2,017.5	$4,169.1	$4,023.8
Net Investment Income	623.3	630.7	1,229.7	1,232.7
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(9.4)	(8.1)	(30.5)	(12.6)
Net Realized Investment Gain (Loss), Excluding Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	14.7	8.9	15.3	(1.9)
Net Realized Investment Gain (Loss)	5.3	0.8	(15.2)	(14.5)
Other Income	51.1	54.7	103.1	109.1
Total Revenue	2,761.3	2,703.7	5,486.7	5,351.1
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,733.5	1,702.8	3,463.3	3,356.7
Commissions	255.0	244.6	514.9	501.5
Interest and Debt Expense	42.4	38.0	81.0	75.8
Deferral of Acquisition Costs	(146.7)	(140.7)	(299.2)	(285.7)
Amortization of Deferred Acquisition Costs	126.2	124.1	258.4	258.4
Compensation Expense	202.9	205.0	410.5	418.1
Other Expenses	207.8	210.1	413.4	403.5
Total Benefits and Expenses	2,421.1	2,383.9	4,842.3	4,728.3
Income Before Income Tax	340.2	319.8	644.4	622.8
Income Tax (Benefit)				
Current	107.7	105.9	158.7	146.5
Deferred	(4.3)	(10.4)	38.3	39.1
Total Income Tax	103.4	95.5	197.0	185.6
Net Income	$236.8	$224.3	$447.4	$437.2
Net Income Per Common Share				
Basic	$1.00	$0.90	$1.88	$1.75
Assuming Dilution	$1.00	$0.90	$1.87	$1.74

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(in millions of dollars)			
Net Income	$236.8	$224.3	$447.4	$437.2
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of $479.9; $(654.9); $894.2; $(472.1))	921.9	(1,267.1)	1,722.0	(916.9)
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of $(367.6); $507.2; $(655.3); $386.9)	(699.2)	964.9	(1,265.2)	738.7
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of $(4.4); $(6.2); $(18.0); $2.8)	(8.2)	(20.2)	(34.4)	0.7
Change in Foreign Currency Translation Adjustment (net of tax benefit of $-; $-; $-; $0.1)	(79.4)	64.9	(105.8)	10.9
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of $2.0; $0.4; $3.6; $1.9)	4.0	0.5	7.1	3.6
Total Other Comprehensive Income (Loss)	139.1	(257.0)	323.7	(163.0)
Comprehensive Income (Loss)	$375.9	$(32.7)	$771.1	$274.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2016	2015
	(in millions of dollars)	
Common Stock		
Balance at Beginning of Year and End of Period	$30.3	$30.2
Additional Paid-in Capital		
Balance at Beginning of Year	2,247.2	2,221.2
Common Stock Activity	11.5	14.3
Balance at End of Period	2,258.7	2,235.5
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	16.1	166.4
Other Comprehensive Income (Loss)	323.7	(163.0)
Balance at End of Period	339.8	3.4
Retained Earnings		
Balance at Beginning of Year	7,995.2	7,302.3
Net Income	447.4	437.2
Dividends to Stockholders (per common share: $0.385; $0.330)	(89.4)	(83.5)
Balance at End of Period	8,353.2	7,656.0
Treasury Stock		
Balance at Beginning of Year	(1,624.9)	(1,198.2)
Purchases of Treasury Stock	(200.1)	(211.2)
Balance at End of Period	(1,825.0)	(1,409.4)
Total Stockholders' Equity at End of Period	$9,157.0	$8,515.7

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2016	2015
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	$447.4	$437.2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	48.1	134.9
Change in Deferred Acquisition Costs	(40.8)	(27.3)
Change in Insurance Reserves and Liabilities	211.0	204.9
Change in Income Taxes	44.5	141.2
Change in Other Accrued Liabilities	(37.6)	(55.9)
Non-cash Components of Net Investment Income	(190.5)	(195.4)
Net Realized Investment Loss	15.2	14.5
Depreciation	50.6	48.6
Other, Net	13.5	23.7
Net Cash Provided by Operating Activities	561.4	726.4
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	674.7	266.3
Proceeds from Maturities of Fixed Maturity Securities	917.2	1,164.4
Proceeds from Sales and Maturities of Other Investments	166.7	153.8
Purchases of Fixed Maturity Securities	(1,741.1)	(2,239.2)
Purchases of Other Investments	(259.0)	(194.7)
Net Sales (Purchases) of Short-term Investments	(604.2)	213.7
Net Increase in Payables for Collateral on Investments	34.8	336.1
Net Purchases of Property and Equipment	(41.6)	(53.1)
Net Cash Used by Investing Activities	(852.5)	(352.7)
Cash Flows from Financing Activities		
Issuance of Long-term Debt	609.1	—
Long-term Debt Repayments	(24.0)	(48.4)
Issuance of Common Stock	2.7	2.2
Repurchase of Common Stock	(208.9)	(211.2)
Dividends Paid to Stockholders	(89.4)	(83.5)
Other, Net	(17.5)	(12.7)
Net Cash Provided (Used) by Financing Activities	272.0	(353.6)
Net Increase (Decrease) in Cash and Bank Deposits	(19.1)	20.1
Cash and Bank Deposits at Beginning of Year	112.9	102.5
Cash and Bank Deposits at End of Period	$93.8	$122.6

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Unum Group and Subsidiaries
June 30, 2016
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, 2015.

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 2016:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 820 "Fair Value Measurement"	This update eliminated the requirement to categorize within the fair value hierarchy table investments whose fair value is measured at net asset value using the practical expedient. Instead, entities are required to disclose the fair value of these investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table to the amounts reported on the consolidated balance sheets. The guidance is to be applied retrospectively.	January 1, 2016	The adoption of this update had no effect on our financial position or results of operations but will modify certain of our annual reporting period disclosures for invested assets held in our employee benefit plans.
ASC 835 "Interest - Imputation of Interest"	This update simplified the presentation of deferred debt issuance costs by requiring these costs to be presented in the balance sheet as a reduction of the carrying amount of the debt liability to which the deferred costs relate, rather than classifying the deferred costs as an asset. This classification is consistent with the treatment of debt discounts. We applied the amendments in the update retrospectively, adjusting all prior periods in our consolidated financial statements and accompanying notes.	January 1, 2016	The adoption of this update resulted in the following reclassification adjustments to our consolidated balance sheets but had no effect on our financial position or results of operations.

December 31, 2015		
Historical Accounting Method	As Adjusted	Effect of Change
(in millions of dollars)		

Consolidated Balance Sheets			
Short-term Debt	$352.4	$ 352.0	$ (0.4)
Long-term Debt	2,475.1	2,449.4	(25.7)
Other Assets	663.5	637.4	(26.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2016
Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 944 "Financial Services - Insurance"	This update changes the disclosure requirements for certain insurance contracts. These changes include a requirement to disclose the rollforward of the liability for unpaid claims and claim adjustment expenses in both interim and annual reporting periods for long-duration and short-duration insurance contracts. Additional claims disclosures will also be required for short-duration contracts. The guidance is to be applied retrospectively.	January 1, 2016 for annual reporting period disclosures and January 1, 2017 for interim reporting period disclosures.	The disclosure requirements for annual reporting period 2016 are not applicable to our insurance contracts. We will adopt the interim reporting period disclosures effective January 1, 2017. The adoption of this update will have no effect on our financial position or results of operations.
ASC 718 "Compensation - Stock Compensation"	This update changes the accounting and disclosure requirements for certain aspects of share-based payments to employees. The update requires all income tax effects of stock-based compensation awards to be recognized in the income statement when the awards vest or are settled. The update also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. Transition guidance for the amendments varies between the retrospective, modified retrospective, and prospective methods depending on the specific requirement of the update. Early adoption is also permitted.	January 1, 2017	The adoption of this update will not have a material effect on our financial position or results of operations. During periods in which the vesting date fair value differs materially from the grant date fair value of certain stock-based compensation awards, we may experience volatility in the income tax recognized in our results of operations.
ASC 606 "Revenue from Contracts with Customers"	This update supersedes virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of this update are insurance contracts, although our fee-based service products are included within the scope. The core principle of this guidance is that revenue recognition should depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.	January 1, 2018	The adoption of this update will not have a material effect on our financial position or results of operations.

The guidance is to be applied retrospectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2016
Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 825 "Financial Instruments - Overall"	This update changes the accounting and disclosure requirements for certain financial instruments. These changes include a requirement to measure equity investments, other than those that result in consolidation or are accounted for under the equity method, at fair value through net income unless the investment qualifies for certain practicability exceptions. In addition, the update clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale fixed maturity securities. Changes also include the modification of certain disclosures around the fair value of financial instruments, including the requirement for separate presentation of financial assets and liabilities by measurement category, as well as the elimination of certain disclosures around methods and significant assumptions used to estimate fair value. The guidance is to be applied retrospectively.	January 1, 2018	We have not yet determined the expected impact on our financial position or results of operations.
ASC 842 "Leases"	This update changes the accounting for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is also recorded. Expense recognition for lessees will remain similar to current accounting requirements for capital and operating leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period presented.	January 1, 2019	We have not yet determined the expected impact on our financial position or results of operations.
ASC 326 "Financial Instruments - Credit Losses"	This update amends the guidance on the impairment of financial instruments. The update adds an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses and will generally result in earlier recognition of allowances for losses. The current expected credit loss model applies to financial instruments such as mortgage loans, fixed maturity securities classified as held-to-maturity, and certain receivables. The update also modifies the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit losses are recognized as an allowance rather than as a reduction in the amortized cost of the security. The reversal of previously recognized credit losses on available-for-sale fixed maturity securities is allowed under specified circumstances. Additional disclosures will also be required, including information used to develop the allowance for losses. The guidance is to be applied to most instruments in scope using a modified retrospective approach at the beginning of the earliest	January 1, 2020	We have not yet determined the expected impact on our financial position or results of operations.

comparative period presented. 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 securities prior to adoption of the update cannot be reversed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2016
Note 3 - Fair Values of Financial Instruments

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

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	$45,862.0	$45,862.0	$43,354.4	$43,354.4
Mortgage Loans	1,941.3	2,119.2	1,883.6	2,013.9
Policy Loans	3,316.2	3,442.2	3,395.4	3,498.0
Other Long-term Investments				
Derivatives	40.4	40.4	49.8	49.8
Equity Securities	1.5	1.5	1.4	1.4
Miscellaneous Long-term Investments	499.9	499.9	474.4	474.4
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	$604.9	$604.9	$608.8	$608.8
Supplementary Contracts without Life Contingencies	611.9	611.9	641.1	641.1
Short-term Debt	350.7	354.6	352.0	366.2
Long-term Debt	3,042.6	3,333.8	2,449.4	2,645.9
Payables for Collateral on Investments				
Federal Home Loan Bank (FHLB) Funding Agreements	349.5	349.5	350.0	350.0
Other Liabilities				
Derivatives	57.0	57.0	50.2	50.2
Embedded Derivative in Modified Coinsurance Arrangement	83.0	83.0	87.6	87.6
Unfunded Commitments to Investment Partnerships	5.3	5.3	5.0	5.0

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

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

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

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal $3,066.5 million and $3,150.1 million as of June 30, 2016 and December 31, 2015, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in railcar leasing, the financial services industry, mezzanine debt, and bank loans. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of June 30, 2016, we estimate that the underlying assets of the funds will be liquidated over the next one to eleven years. These financial instruments are assigned a Level 3 within the fair value hierarchy. Our shares of FHLB common stock are carried at cost, which approximates fair value. These financial instruments are considered restricted investments and are assigned a Level 2 within the fair value hierarchy.

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

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

Short-term Debt: Fair values for short-term debt are determined based on prices from independent pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques. These financial instruments are assigned a Level 1.

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued by pricing services using active trades for which there was current market activity in that specific debt instrument have fair values of $2,444.4 million and $956.4 million as of June 30, 2016 and December 31, 2015, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued by pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of $889.4 million and $1,689.5 million as of June 30, 2016 and December 31, 2015, respectively, and are assigned a Level 2.

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

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

Fair Value Measurements for Financial Instruments Carried at Fair Value

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2016
Note 3 - Fair Values of Financial Instruments - Continued

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

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2016, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2015.

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

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
United States Government and Government Agencies and Authorities		
Valuation Techniques	Principally the market approach	Not applicable
Key Inputs	Prices obtained from external pricing services	
States, Municipalities, and Political Subdivisions		