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Unum Group
Form 10-Q
November 01, 2012

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission file number 1-11294
Unum Group
(Exact name of registrant as specified in its charter)

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

1 Fountain Square
Chattanooga, Tennessee 37402
(Address of principal executive offices)
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

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

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

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

275,122,712 shares of the registrant's common stock were outstanding as of October 26, 2012.

TABLE OF CONTENTS

	Page
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>1</u>
 <u>PART I</u>	
1. <u>Financial Statements (Unaudited):</u>	
<u>Consolidated Balance Sheets at September 30, 2012 and December 31, 2011</u>	<u>2</u>
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011</u>	<u>5</u>
<u>Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2012 and 2011</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>45</u>
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>81</u>
4. <u>Controls and Procedures</u>	<u>81</u>
 <u>PART II</u>	
1. <u>Legal Proceedings</u>	<u>82</u>
1A. <u>Risk Factors</u>	<u>82</u>
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>82</u>
6. <u>Exhibits</u>	<u>83</u>
<u>Signatures</u>	<u>84</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," "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:

- 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.
- Sustained periods of low interest rates.
- Changes in claim incidence, recovery rates, mortality rates, and 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 claims management operations, and changes in government programs.
- Fluctuation in insurance reserve liabilities.
- Investment results, including, but not limited to, realized investment losses resulting from defaults, contractual terms of derivative contracts, and impairments that differ from our assumptions and historical experience.
- The lack of appropriate investments in the market which can be acquired to match our liability cash flows and duration.
- Changes in interest rates, credit spreads, and securities prices.
- Increased competition from other insurers and financial services companies due to industry consolidation or other factors.
- Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, and consumer confidence.
- Changes in accounting standards, practices, or policies.
- Changes in our financial strength and credit ratings.
- Rating agency actions, state insurance department market conduct examinations and other inquiries, other governmental investigations and actions, and negative media attention.
- Effectiveness in managing our operating risks and the implementation of operational improvements and strategic growth initiatives.
- 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.
- Effectiveness of our risk management program.
- The level and results of litigation.

• Currency exchange rates.

• Ability of our subsidiaries to pay dividends as a result of regulatory restrictions or changes in reserving or capital requirements.

• Ability and willingness of reinsurers to meet their obligations.

• Changes in assumptions related to intangible assets such as deferred acquisition costs, value of business acquired, and goodwill.

• Ability to recover our systems and information in the event of a disaster or unanticipated event and to protect our systems and information from unauthorized access and deliberate attacks.

• Events or consequences relating to political instability, terrorism, or acts of war, both domestic and foreign.

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, 2011.

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

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Unum Group and Subsidiaries

	September 30 2012	December 31 2011
	(in millions of dollars)	
		As Adjusted
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: \$37,457.3; \$36,640.7)	\$44,744.7	\$42,486.7
Mortgage Loans	1,665.2	1,612.3
Policy Loans	3,117.0	3,051.4
Other Long-term Investments	650.9	639.2
Short-term Investments	1,590.2	1,423.5
Total Investments	51,768.0	49,213.1
Other Assets		
Cash and Bank Deposits	53.6	116.6
Accounts and Premiums Receivable	1,704.9	1,672.2
Reinsurance Recoverable	4,824.7	4,854.6
Accrued Investment Income	696.8	681.8
Deferred Acquisition Costs	1,728.3	1,677.1
Goodwill	201.6	201.2
Property and Equipment	497.7	493.3
Other Assets	644.0	645.3
Total Assets	\$62,119.6	\$59,555.2

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED) - Continued

Unum Group and Subsidiaries

	September 30 2012	December 31 2011
	(in millions of dollars)	
		As Adjusted
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$1,442.8	\$1,494.0
Reserves for Future Policy and Contract Benefits	44,537.7	43,051.9
Unearned Premiums	497.2	433.2
Other Policyholders' Funds	1,629.4	1,625.9
Income Tax Payable	47.5	38.2
Deferred Income Tax	347.2	44.7
Short-term Debt	458.3	312.3
Long-term Debt	2,781.5	2,570.2
Other Liabilities	1,704.7	1,815.1
Total Liabilities	53,446.3	51,385.5
Commitments and Contingent Liabilities - Note 9		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 359,705,527 and 358,691,567 shares	36.0	35.9
Additional Paid-in Capital	2,604.2	2,591.1
Accumulated Other Comprehensive Income (Loss)		
Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired	892.2	614.8
Net Gain on Cash Flow Hedges	400.3	408.7
Foreign Currency Translation Adjustment	(78.6	) (117.6
Unrecognized Pension and Postretirement Benefit Costs	(423.6	) (444.1
Retained Earnings	7,173.4	6,611.0
Treasury Stock - at cost: 84,620,240 and 65,975,613 shares	(1,930.6	) (1,530.1
Total Stockholders' Equity	8,673.3	8,169.7
Total Liabilities and Stockholders' Equity	\$62,119.6	\$59,555.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
	(in millions of dollars, except share data)			
		As Adjusted		As Adjusted
Revenue				
Premium Income	\$1,929.4	\$1,881.2	\$5,778.9	\$5,625.7
Net Investment Income	619.2	629.2	1,872.2	1,885.0
Realized Investment Gain (Loss)				
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	—	(1.2	) —	(4.2
Other Net Realized Investment Gain (Loss)	21.3	(22.7	) 31.6	(8.1
Net Realized Investment Gain (Loss)	21.3	(23.9	) 31.6	(12.3
Other Income	58.1	59.1	174.5	174.8
Total Revenue	2,628.0	2,545.6	7,857.2	7,673.2
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,686.9	1,635.6	5,033.0	4,828.0
Commissions	227.7	220.5	690.8	662.7
Interest and Debt Expense	36.6	35.1	107.3	108.1
Deferral of Acquisition Costs	(111.0	) (110.1	) (347.6	) (334.7
Amortization of Deferred Acquisition Costs	87.0	84.3	285.6	273.9
Compensation Expense	187.0	198.3	589.3	598.9
Other Expenses	193.4	193.2	572.0	585.7
Total Benefits and Expenses	2,307.6	2,256.9	6,930.4	6,722.6
Income Before Income Tax	320.4	288.7	926.8	950.6
Income Tax				
Current	85.5	54.4	126.4	210.7
Deferred	4.7	32.3	139.9	86.7
Total Income Tax	90.2	86.7	266.3	297.4
Net Income	\$230.2	\$202.0	\$660.5	\$653.2
Net Income Per Common Share				
Basic	\$0.83	\$0.68	\$2.33	\$2.14
Assuming Dilution	\$0.83	\$0.68	\$2.32	\$2.13

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
	(in millions of dollars)			
		As Adjusted		As Adjusted
Net Income	\$230.2	\$202.0	\$660.5	\$653.2
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain on Securities Before Reclassification Adjustment:				
Change in Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired (net of tax expense of 596.8 \$303.1; \$599.6; \$496.5; \$754.9)		1,124.5	965.0	1,419.0
Change in Net Unrealized Gain on Securities Other-Than-Temporarily Impaired (net of tax benefit of \$ - ; \$ - ; \$ - ; \$1.1)	—	—	—	(2.1)
Total Change in Net Unrealized Gain on Securities Before Reclassification Adjustment (net of tax expense of \$303.1; \$599.6; \$496.5; \$753.8)	596.8	1,124.5	965.0	1,416.9
Reclassification Adjustment for Net Realized Investment Gain (net of tax expense of \$1.4; \$3.4; \$2.0; \$4.6)	(2.6)	(5.3)	(4.0)	(7.7)
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of \$(6.0); \$34.7; \$(5.3); \$32.0)	(10.3)	65.2	(8.4)	60.1
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other (net of tax benefit of \$213.5; \$377.6; \$344.0; \$498.8)	(430.1)	(703.3)	(683.6)	(931.2)
Change in Foreign Currency Translation Adjustment	29.4	(33.8)	39.0	(6.0)
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$3.5; \$2.8; \$11.0; \$6.9)	6.6	5.2	20.5	15.0
Total Other Comprehensive Income	189.8	452.5	328.5	547.1
Comprehensive Income	\$420.0	\$654.5	\$989.0	\$1,200.3

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Nine Months Ended September 30	
	2012	2011
	(in millions of dollars)	
		As Adjusted
Common Stock		
Balance at Beginning of Year	\$35.9	\$36.5
Common Stock Activity	0.1	0.1
Retirement of Repurchased Common Shares	—	(0.8)
Balance at End of Period	36.0	35.8
Additional Paid-in Capital		
Balance at Beginning of Year	2,591.1	2,615.4
Common Stock Activity	13.1	20.7
Retirement of Repurchased Common Shares	—	(55.2)
Balance at End of Period	2,604.2	2,580.9
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	461.8	351.4
Change During Period	328.5	547.1
Balance at End of Period	790.3	898.5
Retained Earnings		
Balance at Beginning of Year	6,611.0	6,591.8
Net Income	660.5	653.2
Dividends to Stockholders (per common share: \$0.34; \$0.29)	(98.1)	(90.3)
Retirement of Repurchased Common Shares	—	(144.0)
Balance at End of Period	7,173.4	7,010.7
Treasury Stock		
Balance at Beginning of Year	(1,530.1)	(1,110.2)
Purchases of Treasury Stock	(400.5)	(419.9)
Balance at End of Period	(1,930.6)	(1,530.1)
Total Stockholders' Equity at End of Period	\$8,673.3	\$8,995.8

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Nine Months Ended September 30	
	2012	2011
	(in millions of dollars)	
		As Adjusted
Cash Flows from Operating Activities		
Net Income	\$660.5	\$653.2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	9.0	(45.8)
Change in Deferred Acquisition Costs	(62.0)	(60.8)
Change in Insurance Reserves and Liabilities	333.8	321.7
Change in Income Taxes	151.9	37.9
Change in Other Accrued Liabilities	(24.4)	12.4
Non-cash Adjustments to Net Investment Income	(160.7)	(206.6)
Net Realized Investment (Gain) Loss	(31.6)	12.3
Depreciation	63.5	60.2
Other, Net	13.8	4.2
Net Cash Provided by Operating Activities	953.8	788.7
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	401.2	908.8
Proceeds from Maturities of Fixed Maturity Securities	1,583.6	1,235.0
Proceeds from Sales and Maturities of Other Investments	112.6	101.3
Purchase of Fixed Maturity Securities	(2,479.6)	(2,162.2)
Purchase of Other Investments	(219.4)	(234.3)
Net Sales (Purchases) of Short-term Investments	(194.6)	86.3
Other, Net	(73.7)	(75.9)
Net Cash Used by Investing Activities	(869.9)	(141.0)
Cash Flows from Financing Activities		
Net Short-term Debt Borrowings	146.0	117.3
Issuance of Long-term Debt	246.4	—
Long-term Debt Repayments	(45.6)	(66.9)
Issuance of Common Stock	4.2	7.6
Repurchase of Common Stock	(400.5)	(619.9)
Dividends Paid to Stockholders	(98.1)	(90.3)
Other, Net	0.7	3.2
Net Cash Used by Financing Activities	(146.9)	(649.0)
Effect of Foreign Exchange Rate Changes on Cash	—	(0.1)
Net Decrease in Cash and Bank Deposits	(63.0)	(1.4)
Cash and Bank Deposits at Beginning of Year	116.6	53.6

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Cash and Bank Deposits at End of Period	\$53.6	\$52.2
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See notes to consolidated financial statements.

7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

September 30, 2012

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, 2011.

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.

In connection with our preparation of the consolidated financial statements, we evaluated events that occurred subsequent to September 30, 2012 for recognition or disclosure in our financial statements and notes to our financial statements.

Note 2 - Accounting Developments

Accounting Updates Adopted in 2012:

Accounting Standards Codification (ASC) 220 "Comprehensive Income"

In June 2011, the Financial Accounting Standards Board (FASB) issued an update related to the financial statement presentation of comprehensive income. This update requires that non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present net income and its components, followed consecutively by a second statement presenting total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued an update to indefinitely defer the effective date pertaining to the presentation of reclassification adjustments and reinstated the previous requirement to present reclassification adjustments either on the face of the statement or in financial statement footnotes. We adopted these updates effective January 1, 2012. The adoption of these updates modified our financial statement presentation but had no effect on our financial position or results of operations.

ASC 350 "Intangibles - Goodwill and Other"

In September 2011, the FASB issued an update which gives companies the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We adopted this update effective January 1, 2012. The adoption of this update had no effect on our financial position or results of operations.

ASC 820 "Fair Value Measurements and Disclosures"

In May 2011, the FASB issued an update to require additional disclosures regarding fair value measurements and to provide clarifying guidance on the application of existing fair value measurement requirements. Specifically, the update requires additional information on Level 1 and Level 2 transfers within the fair value hierarchy; the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed; and information about the sensitivity of a fair value measurement in Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs. We adopted this update effective January 1, 2012. The adoption of this update expanded our disclosures but had no effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 2 - Accounting Developments - Continued

ASC 860 "Transfers and Servicing"

In April 2011, the FASB issued an update to revise the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. This update removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possess adequate collateral to fund substantially all the cost of purchasing replacement financial assets. We adopted this update effective January 1, 2012. The adoption of this update had no effect on our financial position or results of operations.

ASC 944 "Financial Services - Insurance"

In October 2010, the FASB issued an update to address the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The amendments in the update require that only incremental direct costs associated with the successful acquisition of a new or renewal insurance contract can be capitalized. All other costs are to be expensed as incurred. We adopted this update effective January 1, 2012 and applied the amendments retrospectively, adjusting all prior periods. The cumulative effect of the adoption as of January 1, 2011, was a decrease to stockholders' equity of \$459.5 million. The following table summarizes the effects on our financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 2 - Accounting Developments - Continued

	Historical Accounting Method (in millions of dollars, except share data)	As Adjusted	Effect of Change	Historical Accounting Method	As Adjusted	Effect of Change
	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
Consolidated Statements of Income						
Deferral of Acquisition Costs	\$(155.6	) \$(110.1	) \$45.5	\$(472.1	) \$(334.7	) \$137.4
Amortization of Deferred Acquisition Costs	125.2	84.3	(40.9	) 400.4	273.9	(126.5
Income Tax - Deferred	33.3	32.3	(1.0	) 90.0	86.7	(3.3
Net Income	205.6	202.0	(3.6	) 660.8	653.2	(7.6
Net Income Per Common Share						
Basic	0.69	0.68	(0.01	) 2.16	2.14	(0.02
Assuming Dilution	0.69	0.68	(0.01	) 2.15	2.13	(0.02
Consolidated Statements of Comprehensive Income						
Net Income	\$205.6	\$202.0	\$(3.6	) \$660.8	\$653.2	\$(7.6
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other	(705.3	) (703.3	) 2.0	(934.0	) (931.2	) 2.8
Change in Foreign Currency Translation Adjustment	(34.1	) (33.8	) 0.3	(6.0	) (6.0) —
Consolidated Statement of Cash Flows						
Net Income				\$660.8	\$653.2	\$(7.6
Change in Deferred Acquisition Costs				(71.7	) (60.8	) 10.9
Change in Income Taxes				41.2	37.9	(3.3
	December 31, 2011			September 30, 2011		
Consolidated Balance Sheets						
Deferred Acquisition Costs	\$2,300.9	\$1,677.1	\$(623.8	) \$2,572.4	\$1,860.6	\$(711.8
Deferred Income Tax	261.2	44.7	(216.5	) 795.3	547.8	(247.5
Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired	605.8	614.8	9.0	885.6	894.0	8.4
Foreign Currency Translation Adjustment	(121.5	) (117.6	) 3.9	(116.9	) (113.0	) 3.9
Retained Earnings	7,031.2	6,611.0	(420.2	) 7,487.3	7,010.7	(476.6

Accounting Updates Adopted in 2011:

ASC 310 "Receivables"

In January and April 2011, the FASB deferred the effective date of disclosures about troubled debt restructurings and issued updates providing additional clarification to help creditors in determining whether a creditor has granted a concession as well as whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. We adopted these updates effective July 1, 2011. The adoption of these updates expanded our disclosures but had no effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC 210 "Balance Sheet - Disclosures about Offsetting Assets and Liabilities"

In December 2011, the FASB issued an update to require additional disclosures and information about financial instruments and derivative instruments that are either offset on the balance sheet or are subject to an enforceable master netting arrangement. These disclosures are intended to provide information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in this update are effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this update will expand our disclosures but will have no effect on our financial position or results of operations.

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 short-term debt approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the following chart. Certain prior year amounts have been reclassified to conform to current presentation.

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	\$44,744.7	\$44,744.7	\$42,486.7	\$42,486.7
Mortgage Loans	1,665.2	1,868.4	1,612.3	1,789.8
Policy Loans	3,117.0	3,199.6	3,051.4	3,124.4
Other Long-term Investments				
Derivatives	108.2	108.2	137.7	137.7
Equity Securities	13.0	13.0	11.2	11.2
Miscellaneous Long-term Investments	460.3	460.3	436.4	436.4
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	\$642.2	\$642.2	\$641.1	\$641.1
Supplementary Contracts without Life Contingencies	536.6	536.6	502.6	502.6
Long-term Debt	2,781.5	2,928.6	2,570.2	2,540.2
Other Liabilities				
Derivatives	182.5	182.5	173.7	173.7
Embedded Derivative in Modified Coinsurance Arrangement	107.0	107.0	135.7	135.7
Unfunded Commitments to Investment Partnerships	112.2	112.2	160.6	160.6

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

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 \$2,897.5 million and \$2,838.3 million as of September 30, 2012 and December 31, 2011, 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 valuations provided by the general partner in the partnerships' financial statements. These financial instruments are assigned a Level 3 within the fair value hierarchy.

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

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

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have a fair value of \$472.7 million at September 30, 2012 and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have a fair value of \$2,455.9 million at September 30, 2012 and are assigned a Level 2.

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

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and equity securities at fair value in our consolidated balance sheets. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair

value and should be used to measure fair value whenever available. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

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 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 2012, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2011.

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

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades
- Security cash flows and structures
- Recent issuance/supply

Sector and issuer level spreads

Security credit ratings/maturity/capital structure/optionality

Corporate actions

Underlying collateral

Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning

Public covenants

Comparative bond analysis

Derivative spreads

Relevant reports issued by analysts and rating agencies

Audited financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

We actively manage our investment portfolio, establish pricing policy, and review 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 closest to the transaction date.

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

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

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

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing

valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

At September 30, 2012, approximately 15.3 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

The remaining 84.7 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

Approximately 68.7 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Approximately 3.3 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.

Approximately 12.7 percent of our fixed maturity securities were valued based on prices of comparable securities, matrix pricing, market models, and/or internal models or were valued based on non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data. Level 3 is the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Fair value measurements by input level for financial instruments carried at fair value are as follows:

	September 30, 2012 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$539.5	\$836.9	\$—	\$1,376.4
States, Municipalities, and Political Subdivisions	44.0	1,578.5	110.1	1,732.6
Foreign Governments	20.6	1,368.3	46.1	1,435.0
Public Utilities	793.8	9,760.9	499.1	11,053.8
Mortgage/Asset-Backed Securities	—	2,415.2	8.4	2,423.6
All Other Corporate Bonds	5,425.6	20,364.2	894.6	26,684.4
Redeemable Preferred Stocks	24.3	14.6	—	38.9
Total Fixed Maturity Securities	6,847.8	36,338.6	1,558.3	44,744.7
Other Long-term Investments				
Derivatives				
Interest Rate Swaps and Forwards	—	101.3	—	101.3
Foreign Exchange Contracts	—	6.9	—	6.9
Total Derivatives	—	108.2	—	108.2
Equity Securities	—	8.6	4.4	13.0
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$—	\$33.3	\$—	\$33.3
Foreign Exchange Contracts	—	149.2	—	149.2
Embedded Derivative in Modified Coinsurance Arrangement	—	—	107.0	107.0
Total Derivatives	—	182.5	107.0	289.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2011 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities States, Municipalities, and Political Subdivisions	\$326.6	\$977.8	\$—	\$1,304.4
Foreign Governments	107.3	1,416.2	68.1	1,591.6
Public Utilities	—	1,376.7	—	1,376.7
Mortgage/Asset-Backed Securities	718.0	9,576.4	338.9	10,633.3
All Other Corporate Bonds	—	2,941.5	31.7	2,973.2
Redeemable Preferred Stocks	3,469.5	20,415.1	665.5	24,550.1
Total Fixed Maturity Securities	—	20.2	37.2	57.4
	4,621.4	36,723.9	1,141.4	42,486.7
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	134.2	—	134.2
Foreign Exchange Contracts	—	3.5	—	3.5
Total Derivatives	—	137.7	—	137.7
Equity Securities	—	—	11.2	11.2
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	\$—	\$32.9	\$—	\$32.9
Foreign Exchange Contracts	—	140.8	—	140.8
Embedded Derivative in Modified Coinsurance Arrangement	—	—	135.7	135.7
Total Derivatives	—	173.7	135.7	309.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Transfers of assets between Level 1 and Level 2 are as follows:

	Three Months Ended September 30, 2012 (in millions of dollars)		Nine Months Ended September 30, 2012	
	Level 1 from Level 2	Level 2 from Level 1	Level 1 from Level 2	Level 2 from Level 1
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$426.8	\$60.5	\$205.9	\$20.5
States, Municipalities, and Political Subdivisions	43.0	62.9	41.9	74.8
Foreign Governments	21.7	—	20.7	—
Public Utilities	382.4	743.6	479.0	483.6
All Other Corporate Bonds	2,152.9	1,667.4	2,823.3	1,706.0
Total Fixed Maturity Securities	\$3,026.8	\$2,534.4	\$3,570.8	\$2,284.9
Equity Securities	\$—	\$7.4	\$—	\$—
	Three Months Ended September 30, 2011 (in millions of dollars)		Nine Months Ended September 30, 2011	
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	\$177.2	\$16.1	\$169.8	\$—
States, Municipalities, and Political Subdivisions	—	20.0	25.4	301.9
Foreign Governments	—	—	—	0.7
Public Utilities	665.7	694.8	710.5	488.6
All Other Corporate Bonds	1,798.1	2,347.2	2,334.1	1,732.3
Total Fixed Maturity Securities	\$2,641.0	\$3,078.1	\$3,239.8	\$2,523.5

Transfers between Level 1 and Level 2 occurred due to the change in availability of either a TRACE or broker market maker price. Depending on current market conditions, the availability of these Level 1 prices can vary from period to period. For fair value measurements of financial instruments that were transferred either into or out of Level 1 or 2, we reflect the transfers using the fair value at the beginning of the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

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 September 30, 2012 (in millions of dollars)							
	Beginning of Period	Total Realized and Unrealized Investment Gains Included in Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$—	\$—	\$2.0	\$—	\$—	\$108.1	\$—	\$110.1
Foreign Governments	—	—	1.3	—	—	44.8	—	46.1
Public Utilities	162.8	—	8.4	—	(1.7)	340.5	(10.9)	499.1
Mortgage/Asset-Backed Securities	0.6	—	0.4	—	—	7.4	—	8.4
All Other Corporate Bonds	639.6	—	19.8	—	(5.3)	386.7	(146.2)	894.6
Redeemable Preferred Stocks	22.2	—	—	—	—	—	(22.2)	—
Total Fixed Maturity Securities	825.2	—	31.9	—	(7.0)	887.5	(179.3)	1,558.3
Equity Securities	4.4	—	—	—	—	—	—	4.4
Embedded Derivative in Modified Coinsurance Arrangement	(126.7)	19.7	—	—	—	—	—	(107.0)
	Three Months Ended September 30, 2011 (in millions of dollars)							
	Beginning of Period	Total Realized and Unrealized Investment Gains (Losses) Included in Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Period
Fixed Maturity Securities								
Public Utilities	\$217.9	\$0.1	\$9.3	\$30.0	\$(11.9)	\$220.2	\$(69.8)	\$395.8
Mortgage/Asset-Backed Securities	19.7	—	(0.1)	—	—	—	—	19.6
All Other Corporate Bonds	528.3	—	1.3	—	(17.6)	119.6	(164.8)	466.8
	22.6	—	(0.9)	—	—	—	—	21.7

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Redeemable Preferred Stocks									
Total Fixed Maturity Securities	788.5	0.1	9.6	30.0	(29.5)	339.8	(234.6)	903.9	
Equity Securities	3.6	(0.4)	(2.4)	—	—	9.6	—	10.4	
Embedded Derivative in Modified Coinsurance Arrangement	(87.0)	(33.7)	—	—	—	—	—	(120.7)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Nine Months Ended September 30, 2012

(in millions of dollars)

	Beginning of Year	Earnings	Total Realized and Unrealized Investment Gains (Losses) Included in			Level 3 Transfers		End of Period
			Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	
Fixed Maturity Securities States, Municipalities, and Political Subdivisions	\$68.1	\$—	\$ (0.9)	\$—	\$ (0.3)	\$43.2	\$—	\$110.1
Foreign Governments	—	—	5.2	—	—	40.9	—	46.1
Public Utilities	338.9	—	5.4	3.6	(3.7)	361.7	(206.8)	499.1
Mortgage/Asset-Backed Securities	31.7	—	0.9	7.0	(0.1)	—	(31.1)	8.4
All Other Corporate Bonds	665.5	—	34.0	30.2	(49.0)	448.0	(234.1)	894.6
Redeemable Preferred Stocks	37.2	(1.0)	0.8	—	(14.3)	—	(22.7)	—
Total Fixed Maturity Securities	1,141.4	(1.0)	45.4	40.8	(67.4)	893.8	(494.7)	1,558.3
Equity Securities	11.2	—	—	—	(0.1)	—	(6.7)	4.4
Embedded Derivative in Modified Coinsurance Arrangement	(135.7)	28.7	—	—	—	—	—	(107.0)

Nine Months Ended September 30, 2011

(in millions of dollars)

	Beginning of Year	Earnings	Total Realized and Unrealized Investment Gains (Losses) Included in			Level 3 Transfers		End of Period
			Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	
Fixed Maturity Securities Public Utilities	\$173.6	\$0.1	\$17.1	\$30.0	\$ (15.7)	\$299.7	\$ (109.0)	\$395.8
Mortgage/Asset-Backed Securities	0.7	—	(0.4)	19.4	(0.1)	—	—	19.6
All Other Corporate Bonds	829.7	(2.1)	4.7	41.7	(32.5)	96.2	(470.9)	466.8
Redeemable Preferred Stocks	21.7	—	—	—	—	—	—	21.7
Total Fixed Maturity Securities	1,025.7	(2.0)	21.4	91.1	(48.3)	395.9	(579.9)	903.9

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Equity Securities	1.5	(0.4)	(1.7)	2.0	—	9.0	—	10.4
Embedded Derivative in Modified Coinsurance Arrangement	(96.3)	(24.4)	—	—	—	—	—	(120.7)

20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 3 - Fair Values of Financial Instruments - Continued

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. Gains (losses) which are included in earnings and are attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at period end were \$19.7 million and \$28.7 million, respectively, for the three and nine months ended September 30, 2012 and \$(33.7) million and \$(24.4) million, respectively, for the three and nine months ended September 30, 2011. These amounts relate entirely to the changes in fair value of an embedded derivative in a modified coinsurance arrangement which are reported as realized investment gains and losses.

Quantitative information regarding the significant unobservable inputs used in Level 3 fair value measurements, all of which are internally derived, is as follows:

	September 30, 2012		Range/Weighted Average
	(in millions of dollars)		
	Fair Value	Unobservable Input	
Fixed Maturity Securities			
Public Utilities	\$17.4	- Comparability Adjustment	(b) 0.20% - 0.20%/0.20%
Mortgage/Asset-Backed Securities - Private	0.5	- Discount for Size	(c) 5.77% - 5.86%/5.84%
		- Change in Benchmark Reference	(a) (0.05)% - 2.60%/0.15%
		- Comparability Adjustment	(b) (0.50)% - (0.50)%/(0.50)%
All Other Corporate Bonds - Private	485.1	- Discount for Size	(c) 0.50% - 0.50%/0.50%
		- Lack of Marketability	(d) 0.01% - 1.00%/0.22%
		- Volatility of Credit	(e) (0.50)% - 6.92%/1.37%
		- Market Convention	(f) Priced at Par
		- Comparability Adjustment	(b) (1.24)% - 0.50%/(0.16)%
		- Discount for Size	(c) 0.00% - 0.10%/0.04%
All Other Corporate Bonds - Public	115.9	- Lack of Marketability	(d) 0.01% - 0.40%/0.19%
		- Volatility of Credit	(e) 0.01% - 0.01%/0.01%
		- Market Convention	(f) Priced at Par
Equity Securities - Private	4.1	- Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(107.0)	- Projected Liability Cash Flows	(g) Actuarial Assumptions

(a) Represents basis point adjustments for changes in benchmark spreads associated with various ratings categories

(b) Represents basis point adjustments for changes in benchmark spreads associated with various industry sectors

(c) Represents basis point adjustments based on issue/issuer size relative to the benchmark

- (d) Represents basis point adjustments to apply a discount due to the illiquidity of an investment
- (e) Represents basis point adjustments for credit-specific factors
- (f) Represents a decision to price based on par value, cost, or owner's equity when limited data is available
- (g) Represents various actuarial assumptions required to derive the liability cash flows including incidence, termination, and lapse rates

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments

Fixed Maturity Securities

At September 30, 2012 and December 31, 2011, 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.

	September 30, 2012 (in millions of dollars)			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	\$1,031.5	\$345.8	\$0.9	\$1,376.4
States, Municipalities, and Political Subdivisions	1,423.7	316.0	7.1	1,732.6
Foreign Governments	1,209.6	225.4	—	1,435.0
Public Utilities	9,172.9	1,903.2	22.3	11,053.8
Mortgage/Asset-Backed Securities	2,105.3	318.8	0.5	2,423.6
All Other Corporate Bonds	22,481.3	4,263.3	60.2	26,684.4
Redeemable Preferred Stocks	33.0	5.9	—	38.9
Total Fixed Maturity Securities	\$37,457.3	\$7,378.4	\$91.0	\$44,744.7
	December 31, 2011 (in millions of dollars)			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	\$1,005.8	\$299.7	\$1.1	\$1,304.4
States, Municipalities, and Political Subdivisions	1,377.8	222.6	8.8	1,591.6
Foreign Governments	1,139.4	237.3	—	1,376.7
Public Utilities	9,015.7	1,646.2	28.6	10,633.3
Mortgage/Asset-Backed Securities	2,634.6	344.1	5.5	2,973.2
All Other Corporate Bonds	21,411.6	3,314.8	176.3	24,550.1
Redeemable Preferred Stocks	55.8	3.5	1.9	57.4
Total Fixed Maturity Securities	\$36,640.7	\$6,068.2	\$222.2	\$42,486.7

As of September 30, 2012 and December 31, 2011, we held no fixed maturity securities for which a portion of an other-than-temporary impairment had previously been recognized in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

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

	September 30, 2012 (in millions of dollars)			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	\$—	\$—	\$6.6	\$0.9
States, Municipalities, and Political Subdivisions	1.6	—	42.3	7.1
Public Utilities	109.3	7.5	160.2	14.8
Mortgage/Asset-Backed Securities	—	—	8.3	0.5
All Other Corporate Bonds	292.3	11.8	571.4	48.4
Total Fixed Maturity Securities	\$403.2	\$19.3	\$788.8	\$71.7
	December 31, 2011 (in millions of dollars)			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	\$—	\$—	\$6.3	\$1.1
States, Municipalities, and Political Subdivisions	51.6	1.3	75.3	7.5
Public Utilities	192.0	7.9	142.2	20.7
Mortgage/Asset-Backed Securities	94.2	4.8	19.6	0.7
All Other Corporate Bonds	1,703.9	65.5	684.9	110.8
Redeemable Preferred Stocks	—	—	20.9	1.9
Total Fixed Maturity Securities	\$2,041.7	\$79.5	\$949.2	\$142.7

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.

	September 30, 2012 (in millions of dollars)				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	\$990.2	\$23.4	\$988.7	\$0.1	\$24.8
Over 1 year through 5 years	5,613.8	590.6	6,014.8	7.6	182.0
Over 5 years through 10 years	9,776.2	1,623.1	11,051.4	17.0	330.9
Over 10 years	18,971.8	4,822.5	23,082.5	65.8	646.0
	35,352.0	7,059.6	41,137.4	90.5	1,183.7
Mortgage/Asset-Backed Securities	2,105.3	318.8	2,415.3	0.5	8.3
Total Fixed Maturity Securities	\$37,457.3	\$7,378.4	\$43,552.7	\$91.0	\$1,192.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

	December 31, 2011 (in millions of dollars)				
	Total	Unrealized Gain Position		Unrealized Loss Position	
	Amortized Cost	Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	\$715.1	\$16.0	\$701.4	\$0.1	\$29.6
Over 1 year through 5 years	5,161.5	449.8	4,949.0	20.7	641.6
Over 5 years through 10 years	9,630.5	1,266.3	9,903.8	52.8	940.2
Over 10 years	18,499.0	3,992.0	21,082.2	143.1	1,265.7
	34,006.1	5,724.1	36,636.4	216.7	2,877.1
Mortgage/Asset-Backed Securities	2,634.6	344.1	2,859.4	5.5	113.8
Total Fixed Maturity Securities	\$36,640.7	\$6,068.2	\$39,495.8	\$222.2	\$2,990.9

At September 30, 2012, the fair value of investment-grade fixed maturity securities was \$41,593.8 million, with a gross unrealized gain of \$7,193.5 million and a gross unrealized loss of \$38.0 million. The gross unrealized loss on investment-grade fixed maturity securities was 41.8 percent of the total gross unrealized loss on fixed maturity securities. Unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities.

At September 30, 2012, the fair value of below-investment-grade fixed maturity securities was \$3,150.9 million, with a gross unrealized gain of \$184.9 million and a gross unrealized loss of \$53.0 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 58.2 percent of the total gross unrealized loss on fixed maturity securities. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns than investment-grade securities. At September 30, 2012, 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 September 30, 2012, we held 36 individual investment-grade fixed maturity securities and 35 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 22 investment-grade fixed maturity securities and 20 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

We evaluate available information, including the factors noted above, both positive and negative, in reaching our conclusions. In particular, we also consider the strength of the issuer's balance sheet, its debt obligations and near term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

While determining other-than-temporary impairments is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of losses on a timely basis for investments determined to have an other-than-temporary impairment.

If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period, either in earnings or in both earnings and other comprehensive income, as applicable. For those fixed maturity securities with an unrealized loss for which we have not recognized an other-than-temporary impairment, we believe we will recover the entire amortized cost, we do not intend to sell the security, and we do not believe it is more likely than not we will be required to sell the security before recovery of its amortized cost. There have been no defaults in the repayment obligations of any securities for which we have not recorded an other-than-temporary impairment.

Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. The determination of cash flows is inherently subjective, and methodologies may vary depending on the circumstances specific to the security. The timing and amount of our cash flow estimates are developed using historical and forecast financial information from the issuer, including its current and projected liquidity position. We also consider industry analyst reports and forecasts, sector credit ratings, future business prospects and earnings trends, issuer refinancing capabilities, actual and/or potential asset sales by the issuer, and other data relevant to the collectibility of the contractual cash flows of the security. We take into account the probability of default, expected recoveries, third party guarantees, quality of collateral, and where our debt security ranks in terms of subordination. We may use the estimated fair value of collateral as a proxy for the present value of cash flows if we believe the security is dependent on the liquidation of collateral for recovery of our investment. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

The following table presents the before-tax credit related portion of other-than-temporary impairments on fixed maturity securities still held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income. The fixed maturity security to which the impairment pertained was sold during the three months ended March 31, 2011. We held no fixed maturity securities during the three months ended September 30, 2011, as of the beginning of 2012, or during the nine months ended September 30, 2012 for which a portion of an other-than-temporary impairment was previously recognized in other comprehensive income.

	Nine Months Ended September 30, 2011 (in millions of dollars)
Balance at Beginning of Year	\$8.5
Sales or Maturities of Securities	(8.5)
Balance at End of Period	\$—

At September 30, 2012, we had non-binding commitments of \$125.0 million to fund private placement fixed maturity securities.

Variable Interest Entities

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

As of September 30, 2012, the carrying amount of our variable interest entity investments that are not consolidated under the provisions of GAAP was \$452.1 million, comprised of \$337.4 million of tax credit partnerships and \$114.7 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

Additionally, we recognize a liability for all legally binding unfunded commitments to these partnerships, with a corresponding recognition of an invested asset. Our liability for legally binding unfunded commitments to the tax credit partnerships was \$112.2 million at September 30, 2012. Contractually, we are a limited partner in these investments, and our maximum exposure to loss is limited to the carrying value of our investment. We had non-binding commitments of \$73.1 million to fund certain private equity partnerships at September 30, 2012, the amount of which may or may not be funded.

We are the sole beneficiary of a special purpose entity which is consolidated under the provisions of GAAP. This entity is a securitized asset trust containing a highly rated bond for principal protection, nonredeemable preferred stock, and several partnership equity investments. We contributed the bond and partnership investments into the trust at the time it was established. The trust supports our investment objectives and allows us to maintain our investment in the partnerships while at the same time protecting the principal of the investment. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. Because the assets in the trust are not liquid investments, we periodically provide funding to the underlying partnerships in the trust upon satisfaction of contractual notice from the partnerships. The fair values of the bond, nonredeemable preferred stock, and partnerships

were \$140.2 million, \$0.1 million, and \$8.2 million, respectively, as of September 30, 2012. The bonds are reported as fixed maturity securities, and the nonredeemable preferred stock and partnerships are reported as other long-term investments in our consolidated balance sheets. At September 30, 2012, we had no commitments to fund the underlying partnerships, nor did we fund any amounts to the partnerships during the three and nine months ended September 30, 2012 and 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

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 as follows:

Property Type	September 30, 2012		December 31, 2011		
	Carrying Amount (in millions of dollars)	Percent of Total	Carrying Amount	Percent of Total	
Apartment	\$34.3	2.1	% \$28.0	1.8	%
Industrial	528.4	31.7	502.0	31.1	
Mixed	78.9	4.7	93.5	5.8	
Office	677.1	40.7	659.3	40.9	
Retail	346.5	20.8	322.4	20.0	
Other	—	—	7.1	0.4	
Total	\$1,665.2	100.0	% \$1,612.3	100.0	%
Region					
New England	\$132.4	8.0	% \$147.0	9.1	%
Mid-Atlantic	161.2	9.7	174.1	10.8	
East North Central	212.1	12.7	212.7	13.2	
West North Central	147.3	8.8	151.2	9.4	
South Atlantic	418.6	25.2	383.8	23.8	
East South Central	80.1	4.8	52.4	3.3	
West South Central	173.1	10.4	160.4	9.9	
Mountain	81.9	4.9	69.5	4.3	
Pacific	258.5	15.5	261.2	16.2	
Total	\$1,665.2	100.0	% \$1,612.3	100.0	%

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

• Loan-to-value ratio

• Debt service coverage ratio based on current operating income

• Property location, including regional economics, trends and demographics

• Age, condition, and construction quality of property

• Current and historical occupancy of property

- Lease terms relative to market
- Tenant size and financial strength
- Borrower's financial strength
- Borrower's equity in transaction
- Additional collateral, if any

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

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:

	September 30 2012	December 31 2011
	(in millions of dollars)	
Internal Rating		
Aa	\$11.7	\$10.9
A	655.8	712.6
Baa	951.0	855.0
Ba	29.4	20.7
B	17.3	13.1
Total	\$1,665.2	\$1,612.3
Loan-to-Value Ratio		
<= 65%	\$648.6	\$578.4
> 65% <= 75%	781.9	802.3
> 75% <= 85%	186.8	165.1
> 85% <= 100%	47.9	66.5
Total	\$1,665.2	\$1,612.3

Based on an analysis of the above risk factors, as well as other current information, if we determine that it is probable we will be unable to collect all amounts due under the contractual terms of the mortgage loan, we establish an allowance for credit loss. If we expect to foreclose on the property, the amount of the allowance typically equals the excess carrying value of the mortgage loan over the fair value of the underlying collateral. If we expect to retain the mortgage loan until payoff, the allowance equals the excess carrying value of the mortgage loan over the expected future cash flows of the loan. The projection of future cash flows or a determination that the borrower can make the contractual payments is inherently subjective, and methodologies may vary depending on the circumstances specific to the loan. Additions and reductions to our allowance for credit losses on mortgage loans are reported as a component of net realized investment gains and losses. 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 September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
	(in millions of dollars)			
Balance at Beginning of Period	\$1.5	\$1.5	\$1.5	\$1.5
Provision	1.3	—	1.8	—
Charge-offs, Net of Recoveries	—	—	(0.5) —
Balance at End of Period	\$2.8	\$1.5	\$2.8	\$1.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

Impaired mortgage loans are as follows:

	September 30, 2012 (in millions of dollars)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With No Related Allowance Recorded	\$4.3	\$4.3	\$—
With an Allowance Recorded	17.3	20.1	2.8
Total	\$21.6	\$24.4	\$2.8

	December 31, 2011 (in millions of dollars)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With No Related Allowance Recorded	\$9.4	\$9.4	\$—
With an Allowance Recorded	13.1	14.6	1.5
Total	\$22.5	\$24.0	\$1.5

Our average investment in impaired mortgage loans was \$15.9 million and \$18.8 million, respectively, for the three and nine months ended September 30, 2012 and \$26.4 million and \$20.9 million, respectively, for the three and nine months ended September 30, 2011. Interest income recognized on mortgage loans subsequent to impairment was \$0.2 million and \$0.6 million, respectively, for each of the three and nine month periods ended September 30, 2012 and 2011.

We had no troubled debt restructurings during the three months ended September 30, 2012 and 2011. Our troubled debt restructurings during the nine months ended September 30, 2012 and 2011 were comprised entirely of loan foreclosures. A summary of our troubled debt restructurings is as follows:

	Nine Months Ended September 30	
	2012	2011
	(in millions of dollars)	
Carrying Amount	\$13.1	\$9.8
Number of Loans	2	1

We had no realized losses on loan foreclosures during the nine months ended September 30, 2012 and 2011 other than the initial impairment losses realized prior to foreclosure.

For mortgage loans that are past due regarding principal and/or interest payments and for which collection of investment income is uncertain, we discontinue the accrual of investment income. At September 30, 2012, we held one mortgage loan for which we had discontinued the accrual of investment income that was greater than 60 days past due and had a carrying value of \$4.2 million. At December 31, 2011, we held one such mortgage loan that was greater than 90 days past due and had a carrying value of \$9.4 million.

At September 30, 2012, we had non-binding commitments of \$117.1 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

Transfers of Financial Assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 4 - Investments - Continued

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

We account for all of our securities lending agreements and repurchase agreements as collateralized financings. As of September 30, 2012, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$457.3 million, for which we received collateral in the form of cash and securities of \$458.3 million and \$15.7 million, respectively. As of December 31, 2011, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$319.1 million, for which we received collateral in the form of cash and securities of \$312.3 million and \$16.7 million, respectively. We had no outstanding repurchase agreements at September 30, 2012 or December 31, 2011.

Realized Investment Gain and Loss

Realized investment gains and losses reported in our consolidated statements of income are as follows:

	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
	(in millions of dollars)			
Fixed Maturity Securities				
Gross Gains on Sales	\$4.6	\$14.8	\$14.0	\$33.0
Gross Losses on Sales	(2.3)	(5.4)	(9.0)	(22.1)
Other-Than-Temporary Impairment Loss	—	(1.2)	—	(4.2)
Mortgage Loans and Other Invested Assets				
Gross Gains on Sales	2.3	1.6	2.3	7.1
Gross Losses on Sales	—	—	—	(0.2)
Impairment Loss	(1.3)	(0.4)	(1.8)	(0.4)
Embedded Derivative in Modified Coinsurance Arrangement	19.7	(33.7)	28.7	(24.4)
Foreign Currency Transactions	(1.7)	0.4	(2.6)	(1.1)
Net Realized Investment Gain (Loss)	\$21.3	\$(23.9)	\$31.6	\$(12.3)

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, and foreign currency risk. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps, current and forward currency swaps, forward treasury locks, currency forward contracts, and forward contracts on specific fixed income securities. Hedging transactions 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.

Our cash flow hedging programs 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. The purpose of these swaps is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 5 - Derivative Financial Instruments - Continued

Foreign currency interest rate swaps have historically been used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification and to hedge the currency risk associated with certain of the interest payments and debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. For hedges of fixed maturity securities, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. For hedges of debt issued, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments to the counterparty in exchange for fixed rate U.S. dollar-denominated interest payments.

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

Foreign currency forward contracts are used to minimize foreign currency risks. A foreign currency forward is a derivative without an initial investment where we and the counterparty agree to exchange a specific amount of currencies, at a specific exchange rate, on a specific date. We have used these forward contracts to hedge the foreign currency risk associated with certain of the debt repayments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries and to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for diversification purposes.

Our fair value hedging programs 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.

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 current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$9.8 million at September 30, 2012. We held cash collateral of \$15.3 million and \$45.6 million from our counterparties as of September 30, 2012 and December 31, 2011, respectively. This unrestricted cash collateral is included in short-term investments, and the associated obligation to return the collateral to our counterparties is included in other liabilities in our consolidated balance sheets. We post either fixed maturity securities or cash as collateral to our

counterparties. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$129.4 million and \$114.9 million at September 30, 2012 and December 31, 2011, respectively. We had no cash posted as collateral to our counterparties at September 30, 2012 and December 31, 2011.

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 \$182.5 million and \$173.7 million at September 30, 2012 and December 31, 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2012

Note 5 - Derivative Financial Instruments - Continued

Hedging Activity

The table below summarizes, by notional amounts, the activity for each category of derivatives.

	Swaps				
	Receive Variable/Pay Fixed	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable	Forwards	Total
	(in millions of dollars)				
Balance at June 30, 2011	\$ 174.0	\$ 579.7	\$ 785.0	\$—	\$ 1,538.7
Additions	—	—	—	15.0	15.0
Terminations	—	5.0	50.0	—	55.0
Balance at September 30, 2011	\$ 174.0	\$ 574.7	\$ 735.0	\$ 15.0	\$ 1,498.7
Balance at December 31, 2010	\$ 174.0	\$ 617.9	\$ 890.0	\$—	\$ 1,681.9
Additions	—	—	—	46.9	46.9
Terminations	—	43.2	155.0	31.9	230.1
Balance at September 30, 2011	\$ 174.0	\$ 574.7	\$ 735.0	\$ 15.0	\$ 1,498.7
Balance at June 30, 2012	\$ 174.0	\$ 540.5	\$ 595.0	\$—	\$ 1,309.5
Additions	—	—	250.0	25.0	275.0
Terminations	—	26.3	45.0	—	71.3
Balance at September 30, 2012	\$ 174.0	\$ 514.2	\$ 800.0	\$ 25.0	\$ 1,513.2
Balance at December 31, 2011	\$ 174.0	\$ 554.0	\$ 685.0	\$—	\$ 1,413.0
Additions	—	—	250.0	81.0	331.0
Terminations	—	39.8	135.0	56.0	230.8
Balance at September 30, 2012	\$ 174.0	\$ 514.2	\$ 800.0	\$ 25.0	\$ 1,513.2

The following table summarizes the timing of anticipated settlements of interest rate swaps outstanding under our cash flow hedging programs at September 30, 2012, whereby we receive a fixed rate and pay a variable rate. The weighted average variable interest rates assume current market conditions.

	2012	2013	Total	
	(in millions of dollars)			
Notional Value	\$ 50.0	\$ 150.0	\$ 200.0	
Weighted Average Receive Rate	6.50	% 6.34	% 6.38	%
Weighted Average Pay Rate				