

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented in this section should be read in conjunction with our consolidated financial statements and notes thereto.

## Executive Summary

We believe we have successfully developed an overall risk management structure that focuses on risk at all levels of our organization. Through our operational risk strategy, we continue to focus on delivering the highest quality customer experience and continuous improvement initiatives, which we believe will both mitigate future business volatility and further strengthen our reputation. Through our insurance risk strategy, we have maintained our emphasis on pricing our business for profitable growth, and we have improved our risk profile through the development of a more balanced business mix across our product lines and the markets we serve. Through our investment risk strategy, we have managed our claim reserve discount rates relative to investment portfolio yield rates, avoided certain asset class problems, and continued to operate within a conservative investment risk appetite. Through the implementation of our capital management risk strategy, we have strengthened our balance sheet and maintained financial flexibility which we believe will support our operations over various economic cycles. Collectively, these efforts will help us manage operational, insurance, investment, and capital risk across our enterprise.

Throughout 2009, we continued our focus on a number of key areas. Our objectives for 2009 were:

- *Consistent execution of our operating plans.* We continued our emphasis on disciplined, profitable growth.
- *Maintain a strong investment portfolio.* We maintained disciplined credit analysis in our selection of investment assets and continued to be conservative within our investment risk tolerances.
- *Build and effectively use capital.* We continued to build capital and manage it effectively within our capital management strategy objectives.
- *Professional development of our employees.* We continued our focus on employee training and development as well as talent management.

## 2009 Operating Performance

Our Unum US segment reported an increase in segment operating income of 13.3 percent in 2009 compared to last year, with the risk experience across our product lines remaining generally stable despite the difficult environment. The benefit ratio for Unum US was 79.1 percent for 2009 compared to 80.6 percent in the prior year, with group disability reporting a benefit ratio of 86.3 percent in 2009 compared to 89.9 percent in 2008. This was consistent with our goal of continual profit margin improvement for our Unum US group disability line of business. Unum US premium income decreased 1.8 percent in 2009 compared to 2008. Market dynamics, including the ongoing high levels of unemployment and the competitive environment, continued to pressure our sales and premium income growth. In particular, premium growth from existing customers was unfavorably impacted by lower salary growth and lower growth in the number of employees covered under an existing policy. Unum US sales increased 1.2 percent in 2009 compared to last year. Our group core market segment, which we define for Unum US as employee groups with fewer than 2,000 lives, reported a sales increase of 7.9 percent in 2009 relative to the prior year. The number of new accounts in our core market segment increased 6.5 percent relative to 2008. Sales in the group large case market segment increased 1.2 percent compared to 2008. Our supplemental and voluntary sales, which were negatively impacted by the current economic conditions, decreased 6.8 percent in 2009 relative to the prior year. New products and initiatives in 2009 included significant technology investments in our underwriting and claim management systems; expansion of our *Simply Unum* platform and the next generation of products; an increase in our enrollment teams to build enrollment capacity; and investments in training, development, and expansion of our sales force.

Our Unum UK segment reported a decrease in segment operating income of 7.3 percent for 2009, as measured in Unum UK's local currency, relative to last year. The decrease was driven primarily by an 8.3 percent decline in premium income due to a smaller in-force block of group disability business resulting from lower sales and persistency during 2008 and 2007, primarily as a result of the competitive U.K. market. Similar to Unum US, premium income for Unum UK was also negatively impacted during 2009 by lower premium growth from existing customers. The benefit ratio for Unum UK was 54.5 percent in 2009 compared to 57.5 percent in the prior year, with declining disability claim incidence and stable claim recoveries for group disability. Overall sales in Unum UK increased 42.9 percent in 2009 compared to the prior year, aided by the exit of another large insurance provider from the U.K. group risk market. Persistency generally improved over the levels of 2008. New initiatives in 2009 included the relaunch of our group life product and the development of new products intended to further expand the group market in the U.K.

Our Colonial Life segment reported an increase in segment operating income of 4.8 percent in 2009 compared to last year. Premium income increased 3.9 percent in 2009 despite the difficult environment. Risk results were generally in line with our expectations, with a benefit ratio of 47.3 percent in 2009 compared to 47.5 percent in 2008. Colonial Life's sales in 2009 increased 1.1 percent relative to last year, with a 7.2 percent growth in new account sales and a 2.3 percent decline in existing account sales. The largest sales growth by market segment was in the public sector, with growth of 11.8 percent. The number of new accounts and new contracts both increased relative to the prior year, while the average new case size declined. New initiatives for 2009 included continued implementation of a new enrollment system and platform and investments in growing and expanding the sales force with particular focus on recruiting, training, and sales incentives.

Our investment strategy continues to serve as an important component of our overall business performance. We are focused on both the quality of our investment portfolio and on investing new money in investments appropriate for our liabilities. The weighted average credit rating of our portfolio was A3 as of the end of 2009. The net unrealized gain on our fixed maturity securities was \$2.0 billion at the end of 2009, compared to a loss of \$2.3 billion at year end 2008. Our net investment income in 2009 was 1.8 percent below the level of the prior year, due primarily to the weaker pound to dollar exchange rate, fewer bond call premiums and consent fees, lower income on bonds in Unum UK for which interest income is linked to an inflation index, and lower interest rates on floating rate assets. The impact on operating results from the lower net investment income on floating rate assets and the inflation index-linked investments was partially offset by lower debt interest expense and benefits and reserves. Although our 2009 results include net realized investment losses on fixed maturity securities that we either sold or considered other-than-temporarily impaired, we believe our investment portfolio is well positioned. We have low levels of below-investment-grade securities, no exposure to subprime mortgages, "Alt-A" loans, or collateralized debt obligations in our asset-backed or mortgage-backed securities portfolios, and minimal exposure to collateralized debt obligations within our public bond portfolio.

We believe our capital and financial position are very strong. At the end of 2009, the risk-based capital ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 382 percent, compared to 332 percent at the end of 2008. Our leverage ratio, when calculated excluding the non-recourse debt and associated capital of Tailwind Holdings, LLC (Tailwind Holdings) and Northwind Holdings, LLC (Northwind Holdings), was 20.5 percent at December 31, 2009 compared to 21.5 percent at December 31, 2008. Our leverage ratio, when calculated using consolidated debt to total consolidated capital, was 24.8 percent at December 31, 2009 compared to 26.6 percent at December 31, 2008. The cash and marketable securities at our holding companies equaled approximately \$915 million at the end of 2009 compared to \$526 million at the end of 2008.

Further discussion is included in "Segment Results," "Investments," and "Liquidity and Capital Resources" contained herein.

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## Outlook for 2010

During 2010, we intend to continue our focus on a number of key areas.

- Consistently execute our operating plans with an emphasis on disciplined, profitable growth.
- Further enhance financial flexibility through solid operating and investment performance, as well as a disciplined approach to capital management.
- Continue to invest in our business, including our products and services, as well as in the professional development of our employees.
- Remain positioned to capitalize on long-term growth opportunities in the marketplace.

Looking ahead, we have confidence in our overall financial position as well as our position in the markets in which we operate. While this economic environment continues to present a number of challenges, not the least of which is an uncertain employment outlook, we believe substantial opportunities exist for our business, and we will continue to take steps to ensure that we are well-positioned to capitalize on them.

Specifically, we will continue our disciplined approach to growth and risk management during 2010. We intend to closely monitor emerging risks and adjust our strategies as appropriate. We expect our capital to continue to build as we take a conservative approach to capital deployment and seek to retain significant financial flexibility.

From a growth standpoint, we expect that 2010 may be characterized by earnings growth somewhat below our longer-term expectations for our business areas due to continuing pressures on new revenue. Although we expect sales and premium growth during 2010 in a number of our product lines as we implement our market strategies, consolidated sales and premium income may continue to be impacted by the recession. This may be reflected by slower growth in sales and premiums resulting from the high unemployment rates, lower salary growth, and lower growth in the number of employees covered under existing customer policies.

We have thus far seen little recessionary impact on our group disability incidence levels. We will continue to focus on disciplined underwriting, pricing, claims management, investment strategies, and expense management.

## Regulatory Issues

During 2007, we completed the claim reassessment process required by the 2004 and 2005 regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to Unum Group's board of directors and management on April 14, 2008. The report of the multistate market conduct examination for the Maine Bureau of Insurance, Massachusetts Division of Insurance, New York State Insurance Department, Tennessee Department of Commerce and Insurance, and other participating jurisdictions as well as the report of the California Department of Insurance market conduct examination both provided that we satisfactorily complied with each of the agreements' mandates and that no fines will be assessed.

Prior to completion of the claim reassessment process, in the second quarter of 2007 we increased our provision for the estimated cost of the claim reassessment process \$53.0 million before tax and \$34.5 million after tax based on changes in our emerging experience for the number of decisions being overturned and the average cost per reassessed claim. The revised second quarter of 2007 estimate was based on the cost of approximately 99 percent of the potential inventory of claim reassessment information forms returned to us, with our claim reassessment on approximately 88 percent of the forms completed at that time. At the time of our second quarter of 2007 revision, we had not yet finalized our claim reassessment on the remaining forms but had performed a financial review and included that information in our analysis of emerging experience. Additional information regarding the second quarter revision to our estimate is as follows:

1. We increased our previous estimate for benefit costs for claims reopened for our Unum US group long-term disability product line \$76.5 million. The revision related to the increase during the second quarter of 2007 in the overturn rate and the average cost, as well as a slightly higher number of claims.
2. We decreased our previous estimate for benefit costs for claims reopened for our Individual Disability—Closed Block segment \$10.7 million. Although the experience relative to our assumptions for the overturn rate was slightly higher, experience indicated that the total number of claims for this segment would be fewer than our previous assumptions.

3. We decreased our previous estimate for the additional incremental direct claim reassessment operating expenses \$12.8 million due to our projections for an earlier completion of the reassessment process. We released \$10.3 million for Unum US group long-term disability and \$2.5 million for our Individual Disability—Closed Block segment.
4. These second quarter of 2007 adjustments to our claim reassessment costs decreased 2007 before-tax operating earnings for our Unum US group disability line of business \$66.2 million and increased 2007 before-tax operating earnings for our Individual Disability—Closed Block segment \$13.2 million.

## Acquisitions and Dispositions

During the first quarter of 2008, we established a new company, Unum Ireland Limited, which is an indirect wholly-owned subsidiary of Unum Group. The purpose of Unum Ireland Limited is to expand our information technology resource options to ensure that our resource capacity keeps pace with the growing demand for information technology support. This subsidiary is located in Carlow, Ireland.

During the first quarter of 2007, we completed the sale of our wholly-owned subsidiary, GENEX Services, Inc. (GENEX), a leading workers' compensation and medical cost containment services provider. Our growth strategy is focused on the development of our primary markets, and GENEX's specialty role in case management and medical cost containment related to the workers' compensation market was no longer consistent with our overall strategic direction. We recognized an after-tax gain on the transaction of approximately \$6.2 million. See Note 2 of the "Notes to Consolidated Financial Statements" for additional information.

## Accounting Updates

For information on accounting updates and the impact, if any, on our financial position or results of operations, see Note 1 of the "Notes to Consolidated Financial Statements."

## Critical Accounting Estimates

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

For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements."

## Reserves for Policy and Contract Benefits

Our largest liabilities are reserves for claims that we estimate we will eventually pay to our policyholders. The two primary categories of reserves are policy reserves for claims not yet incurred and claim reserves for claims that have been incurred or are estimated to have been incurred but not yet reported to us. These reserves equaled \$37.8 billion and \$37.2 billion at December 31, 2009 and 2008, respectively, or approximately 82 percent of our total liabilities at year end 2009. Reserves ceded to reinsurers were \$6.7 billion at December 31, 2009 and 2008 and are reported as a reinsurance recoverable in our consolidated balance sheets.

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## Policy Reserves

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

- Persistency assumptions are based on our actual historical experience adjusted for future expectations.
- Claim incidence and claim resolution rate assumptions related to mortality and morbidity are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations.
- Discount rate assumptions are based on our current and expected net investment returns.

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

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

Because the key policy reserve assumptions for policy persistency, mortality and morbidity, and discount rates are all locked in at policy issuance based on assumptions appropriate at that time, policy reserve assumptions are not changed due to a change in claim status from active to disabled subsequent to policy issuance. Therefore, we maintain policy reserves for a policy for as long as the policy remains in-force, even after a separate claim reserve is established. Incidence rates in industry standard valuation tables for policy reserves have traditionally included all lives, active and disabled. In addition, the waiver of premium provision provides funding for the policy reserve while a policyholder is disabled. As a result, the funding mechanisms and the cost of claims are aligned and require a policy reserve to be held while on claim. In addition, most policies allow for multiple occurrences of claims, and a policy reserve is consequently still maintained at the time of claim to fund any potential future claims. The policy reserves build up and release over time based on assumptions made at the time of policy issuance such that the reserve is eliminated as policyholders reach the terminal age for coverage, die, or voluntarily lapse the policy.

Policy reserves for Unum US, Unum UK, and Colonial Life products, which at December 31, 2009 represented approximately 37.4 percent, 0.2 percent, and 9.3 percent, respectively, of our total gross policy reserves, are determined using the net level premium method as prescribed by GAAP. In applying this method, we use, as applicable by product type, morbidity and mortality incidence rate assumptions, claim resolution rate assumptions, and policy persistency assumptions, among others, to determine our expected future claim payments and expected future premium income. We then apply an interest, or discount, rate to determine the present value of the expected future claims, commissions, and expenses we will pay and the expected future premiums we will receive, with a provision for profit allowed.

Policy reserves for our Individual Disability—Closed Block segment, which at December 31, 2009, represented approximately 10.4 percent of our total gross policy reserves, are determined using the gross premium valuation method based on assumptions established as of January 1, 2004, the date of loss recognition. Key assumptions are policy persistency, claim incidence, claim resolution rates, commission rates, and maintenance expense rates. We then apply an interest, or discount, rate to determine the present value of the expected future claims, commissions, and expenses we will pay as well as the expected future premiums we will receive. There is no provision for profit. The

interest rate is based on our expected net investment returns on the investment portfolio supporting the reserves for this segment. Under the gross premium valuation method, we do not include an embedded provision for the risk of adverse deviation from these assumptions. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We perform loss recognition tests on the policy reserves for this block of business quarterly.

The Corporate and Other segment includes certain products no longer actively marketed, the majority of which have been reinsured. Policy reserves for this segment represent \$5.6 billion on a gross basis, or approximately 42.7 percent, of our total policy reserves. We have ceded \$4.3 billion of the related policy reserves to reinsurers. The ceded reserve balance is reported in our consolidated balance sheets as a reinsurance recoverable. We continue to service a block of group pension products, which we have not ceded, and the policy reserves for these products are based on expected mortality rates and retirement rates. Expected future payments are discounted at interest rates reflecting the anticipated investment returns for the assets supporting the liabilities.

### Claim Reserves

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

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

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

Claim reserves supporting our Unum US group and individual disability and group and individual long-term care lines of business and our Individual Disability—Closed Block segment represent approximately 39.4 percent and 43.2 percent, respectively, of our total claim reserves at December 31, 2009. We use a tabular reserve methodology for group and individual long-term disability and group and individual long-term care claims that have been reported. Under the tabular reserve methodology, reserves for reported claims are based on certain characteristics of the actual reported claimants, such as age, length of time disabled, and medical diagnosis. We believe the tabular reserve method is the most accurate to calculate long-term liabilities and allows us to use the most available known facts about each claim. IBNR claim reserves for our long-term products are calculated using the count and severity method using historical patterns of the claims to be reported and the associated claim costs. For group short-term disability products, an estimate of the value of future payments to be made on claims already submitted, as well as IBNR claims, is determined in aggregate rather than on the individual claimant basis that we use for our long-term products, using historical patterns of claim incidence as well as historical patterns of aggregate claim resolution rates. The average length of time between the event triggering a claim under a policy and the final resolution of those claims is much shorter for these products than for our long-term liabilities and results in less estimation variability.

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Claim reserves supporting the Unum US group life and accidental death and dismemberment products represent approximately 3.7 percent of our total claim reserves at December 31, 2009. Claim reserves for these products are related primarily to death claims reported but not yet paid, IBNR death claims, and a liability for waiver of premium benefits. The death claim reserve is based on the actual face amount to be paid, the IBNR reserve is calculated using the count and severity method, and the waiver of premium benefits reserve is calculated using the tabular reserve methodology.

Claim reserves supporting our Unum UK segment represent approximately 9.2 percent of our total claim reserves at December 31, 2009, and are calculated using generally the same methodology that we use for Unum US disability and group life reserves. The assumptions used in calculating claim reserves for this line of business are based on standard United Kingdom industry experience, adjusted for Unum UK's own experience.

The majority of the Colonial Life segment lines of business have short-term benefits, which have less estimation variability than our long-term products because of the shorter claim payout period. Our claim reserves for Colonial Life's lines of business, which approximate 1.3 percent of our total claim reserves at December 31, 2009, are predominantly determined using the incurred loss development method based on our own experience. The incurred loss development method uses the historical patterns of payments by loss date to predict future claim payments for each loss date. Where the incurred loss development method may not be appropriate, we estimate the incurred claims using an expected claim cost per policy or other measure of exposure. The key assumptions for claim reserves for the Colonial Life lines of business are: (1) the timing, rate, and amount of estimated future claim payments; and (2) the estimated expenses associated with the payment of claims.

The following table displays policy reserves, incurred claim reserves, and IBNR claim reserves by major product line, with the summation of the policy reserves and claim reserves shown both gross and net of the associated reinsurance recoverable. Incurred claim reserves represent reserves determined for each incurred claim and also include estimated amounts for litigation expenses and other expenses associated with the payment of the claims as well as provisions for claims which we estimate will be reopened for our long-term care products. IBNR claim reserves include provisions for incurred but not reported claims and a provision for reopened claims for our disability products. The IBNR and reopen claim reserves for our disability products are developed and maintained in aggregate based on historical monitoring that has only been on a combined basis.

(in millions of dollars)	December 31, 2009							
	Policy Reserves	%	Gross Claim Reserves			Total	Total Reinsurance Ceded	Total Net
			Incurred	IBNR	%			
Group Disability	\$ —	—%	\$ 7,685.3	\$ 586.1	33.6%	\$ 8,271.4	\$ 73.7	\$ 8,197.7
Group Life and Accidental Death & Dismemberment	70.2	0.5	748.4	163.3	3.7	981.9	1.8	980.1
Individual Disability— Recently Issued	516.5	3.9	949.5	91.2	4.2	1,557.2	87.5	1,469.7
Long-term Care	3,376.8	25.5	350.1	36.7	1.6	3,763.6	50.2	3,713.4
Voluntary Benefits	996.5	7.5	21.6	44.2	0.3	1,062.3	21.2	1,041.1
Unum US Segment	4,960.0	37.4	9,754.9	921.5	43.4	15,636.4	234.4	15,402.0
Unum UK Segment	26.8	0.2	2,096.8	161.5	9.2	2,285.1	113.1	2,172.0
Colonial Life Segment	1,234.2	9.3	232.9	87.7	1.3	1,554.8	24.7	1,530.1
Individual Disability— Closed Block Segment	1,376.8	10.4	10,290.9	330.5	43.2	11,998.2	1,438.2	10,560.0
Corporate and Other Segment	5,649.5	42.7	455.7	253.3	2.9	6,358.5	4,920.0	1,456.5
<b>Subtotal, Excl. Unrealized Adj.</b>	<b>\$13,247.3</b>	<b>100.0%</b>	<b>\$22,831.2</b>	<b>\$1,754.5</b>	<b>100.0%</b>	<b>37,833.0</b>	<b>6,712.4</b>	<b>31,120.6</b>
Unrealized Adjustment to Reserves for Unrealized Gain on Securities						1,644.7	127.2	1,517.5
Consolidated						<b>\$39,477.7</b>	<b>\$6,839.6</b>	<b>\$32,638.1</b>

(in millions of dollars)	December 31, 2008							
	Policy Reserves	%	Gross Claim Reserves			Total	Total Reinsurance Ceded	Total Net
			Incurred	IBNR	%			
Group Disability	\$ —	—%	\$ 7,799.1	\$ 583.1	34.3%	\$ 8,382.2	\$ 81.1	\$ 8,301.1
Group Life and Accidental Death & Dismemberment	72.9	0.6	750.1	170.3	3.8	993.3	0.9	992.4
Individual Disability— Recently Issued	493.6	3.9	882.5	90.3	4.0	1,466.4	84.1	1,382.3
Long-term Care	2,915.3	22.9	295.9	35.2	1.3	3,246.4	48.9	3,197.5
Voluntary Benefits	925.5	7.2	21.1	37.0	0.2	983.6	19.1	964.5
Unum US Segment	4,407.3	34.6	9,748.7	915.9	43.6	15,071.9	234.1	14,837.8
Unum UK Segment	22.6	0.2	1,887.6	181.5	8.5	2,091.7	102.7	1,989.0
Colonial Life Segment	1,172.2	9.2	237.0	97.3	1.4	1,506.5	31.1	1,475.4
Individual Disability— Closed Block Segment	1,527.6	12.0	10,239.9	350.3	43.4	12,117.8	1,456.6	10,661.2
Corporate and Other Segment	5,605.4	44.0	490.7	270.1	3.1	6,366.2	4,853.8	1,512.4
<b>Subtotal, Excl. Unrealized Adj.</b>	<b>\$12,735.1</b>	<b>100.0%</b>	<b>\$22,603.9</b>	<b>\$1,815.1</b>	<b>100.0%</b>	<b>37,154.1</b>	<b>6,678.3</b>	<b>30,475.8</b>
Unrealized Adjustment to Reserves for Unrealized Loss on Securities						(803.1)	(31.9)	(771.2)
Consolidated						<b>\$36,351.0</b>	<b>\$6,646.4</b>	<b>\$29,704.6</b>

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## Key Assumptions

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

1. The *discount rate*, which is used in calculating both policy reserves and incurred and IBNR claim reserves, is the interest rate that we use to discount future claim payments to determine the present value. A higher discount rate produces a lower reserve. If the discount rate is higher than our future investment returns, our invested assets will not earn enough investment income to support our future claim payments. In this case, the reserves may eventually be insufficient. We set our assumptions based on our current and expected future investment yield of the assets supporting the reserves, considering current and expected future market conditions. If the investment yield on new investments that are purchased is below or above the investment yield of the existing investment portfolio, it is likely that the discount rate assumption on claims will be established to reflect the effect of the new investment yield.
2. The *claim resolution rate*, used for both policy reserves and incurred and IBNR claim reserves, is the probability that a disability claim will close due to recovery or death of the insured. It is important because it is used to estimate how long benefits will be paid for a claim. Estimated resolution rates that are set too high will result in reserves that are lower than they need to be to pay the claim benefits over time. Claim resolution assumptions involve many factors, including the cause of disability, the policyholder's age, the type of contractual benefits provided, and the time since initially becoming disabled. We use our own claim experience to develop our claim resolution assumptions. These assumptions are established for the probability of death and the probability of recovery from disability. Our studies review actual claim resolution experience over a number of years, with more weight placed on our experience in the more recent years. We also consider any expected future changes in claim resolution experience.
3. The *incidence rate*, used for policy reserves and IBNR claim reserves, is the rate at which new claims are submitted to us. The incidence rate is affected by many factors, including the age of the insured, the insured's occupation or industry, the benefit plan design, and certain external factors such as consumer confidence and levels of unemployment. We establish our incidence assumption using a historical review of actual incidence results along with an outlook of future incidence expectations.

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

## Trends in Key Assumptions

Because our actual experience regarding persistency and claim incidence has varied very little from our policy reserve and IBNR claim reserve assumptions, we have had minimal adjustments to our persistency assumptions and claim incidence assumptions during the years 2007 through 2009. Generally, we do not expect our mortality and morbidity claim incidence trends or our persistency trends to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period

of time. However, we have historically experienced an increase in our group long-term disability morbidity claim incidence trends during and following a recessionary period, particularly in our Unum US operations. During the second half of 2009, claim incidence rates for Unum US group long-term disability were slightly elevated. Given the current economic conditions, it is possible that our claim incidence rates for this type of product may increase.

Throughout the period 2007 to 2009, actual new money interest rates varied with the changing market conditions, and the assumptions we used to discount our reserves generally trended downward slightly for all segments and product lines. Reserve discount rate assumptions for new policies and new claims have been adjusted to reflect our current and expected net investment returns. Changes in our discount rate assumptions tend to occur gradually over a longer period of time because of the long-duration investment portfolio needed to support the reserves for the majority of our lines of business.

Both the mortality rate experience and the retirement rate experience for our block of group pension products have remained stable and consistent with expectations.

Claim resolution rates have a greater chance of significant variability in a shorter period of time than our other reserve assumptions. These rates are reviewed on a quarterly basis for the death and recovery components separately. Claim resolution rates in our Unum US segment group and individual long-term disability product lines and our Individual Disability—Closed Block segment have over the last several years exhibited some variability. Relative to the resolution rate we expect to experience over the life of the block of business, actual quarterly rates during the period 2007 through 2009 have varied by +3 and -4 percent in our Unum US group long-term disability line of business, between +13 and -12 percent in our Unum US individual disability—recently issued line of business, and between +8 and -7 percent in our Individual Disability—Closed Block segment.

Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. During 2007 and continuing throughout 2008 and 2009, we gained more stability in our claims management performance relative to 2006, and our claim resolution rates were more consistent with our long-term assumptions. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

We monitor and test our reserves for adequacy relative to all of our assumptions in the aggregate. In our estimation, scenarios based on reasonably possible variations in each of our reserve assumptions, when modeled together in aggregate, could produce a potential result, either positive or negative, in our Unum US group disability line of business that would change our reserve balance by +/- 2.5 percent. Using our actual claim reserve balance at December 31, 2009, this variation would have resulted in an approximate change (either positive or negative) of \$200 million to our claim reserves. Using the same sensitivity analysis approach for our Individual Disability—Closed Block segment, the claim reserve balance could potentially vary by +/- 2.6 percent of our reported balance, which at December 31, 2009, would have resulted in an approximate change (either positive or negative) of \$260 million to our claim reserves. The major contributor to the variance for both the group long-term disability line of business and the Individual Disability—Closed Block segment is the claim resolution rate. We believe that these ranges provide a reasonable estimate of the possible changes in reserve balances for those product lines where we believe it is possible that variability in the assumptions, in the aggregate, could result in a material impact on our reserve levels, but we record our reserves based on our long-term best estimate. Because these product lines have long-term claim payout periods, there is a greater potential for significant variability in claim costs, either positive or negative.

## Deferred Acquisition Costs (DAC)

We defer certain costs incurred in acquiring new business and amortize (expense) these costs over the life of the related policies. Deferred costs include certain commissions, other agency compensation, selection and policy issue expenses, and field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral.

Approximately 90 percent of our DAC relates to traditional non interest-sensitive products, and we amortize DAC in proportion to the premium income we expect to receive over the life of the policies. Key assumptions used in developing the future amortization of DAC are future persistency and future premium income. We use our own historical experience and expectation of the future performance of our businesses in determining the expected persistency and premium income. The estimated premium income in the early years of the

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amortization period is generally higher than in the later years due to higher anticipated policy persistency in the early years, which results in a greater proportion of the costs being amortized in the early years of the life of the policy. During 2009, our key assumptions used to develop the future amortization did not change materially from those used in the prior year. Generally, we do not expect our persistency or interest rates to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time.

Presented below are our current assumptions regarding the length of our amortization periods, the approximate DAC balance that remains at the end of years 3, 10, and 15 as a percentage of the cost initially deferred, and our DAC balances as of December 31, 2009 and 2008.

(in millions of dollars)	Amortization Period	Balance Remaining as a % of Initial Deferral			DAC Balances at December 31	
		Year 3	Year 10	Year 15	2009	2008
<b>Unum US</b>						
Group Disability	6	25%	0%	0%	\$ 123.5	\$ 128.3
Group Life and Accidental Death & Dismemberment	6	25% to 30%	0%	0%	87.8	85.7
Supplemental and Voluntary Individual Disability—Recently Issued	20	75%	50%	25%	667.7	683.0
Long-term Care	20	80%	55%	30%	310.9	320.4
Voluntary Benefits	15	55% to 60%	15%	0%	472.5	444.4
<b>Unum UK</b>						
Group Disability	4	10%	0%	0%	18.4	20.3
Group Life	4	10%	0%	0%	5.8	4.2
Individual Disability	15	60%	15%	0%	34.7	30.2
<b>Colonial Life</b>	17	60%	25%	10%	761.2	755.9
<b>Totals</b>					<b>\$2,482.5</b>	<b>\$2,472.4</b>

Amortization of DAC on traditional products is adjusted to reflect the actual policy persistency as compared to the anticipated experience, and as a result, the unamortized balance of DAC reflects actual persistency. We may experience accelerated amortization if policies terminate earlier than projected. Because our actual experience regarding persistency and premium income has varied very little from our assumptions during the last three years, we have had minimal adjustments to our projected amortization of DAC during those years. We measure the recoverability of DAC annually by performing gross premium valuations. Our testing indicates that our DAC is recoverable.

In December 2009, the Financial Accounting Standards Board issued a proposed Accounting Standards Update which is intended to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. If the proposed guidance is adopted as currently written, this update will result in a decrease in the level of costs we defer, effective January 1, 2011. We have not yet quantified the impact on our financial position or results of operations.

## Valuation of Investments

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

### Definition of Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, therefore, represents an exit price, not an entry price. The exit price objective applies regardless of a reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

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

### Valuation Techniques

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. The *market approach* uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or matrix pricing. Market multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.
2. The *income approach* converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. Income approach techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models that incorporate present value techniques, and the multi-period excess earnings method.
3. 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. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

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 markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. 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 2009, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2008. Because of market conditions existing during 2009 and 2008, the mix and availability of observable inputs for valuation techniques have been volatile, and the risk inherent in the inputs is elevated relative to prior years.

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## Inputs to Valuation Techniques

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

*Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

*Unobservable inputs* are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

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. 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.

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 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. 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.

As of December 31, 2009, the key assumptions we generally used to estimate the fair value of these types of securities included those listed below. Where appropriate, we have noted the assumption used for the prior period as well as the reason for the change.

- Risk free interest rates of 2.68 percent for five-year maturities to 4.64 percent for 30-year maturities were derived from the current yield curve for U.S. Treasury Bonds with similar maturities. This compares to interest rates of 1.55 percent for five-year maturities to 2.68 percent for 30-year maturities used at December 31, 2008.
- Current Baa corporate bond spreads ranging from 1.60 percent to 2.00 percent plus an additional 20 basis points were added to the risk free rate to reflect the lack of liquidity. We used spreads ranging from 5.28 percent to 7.75 percent plus an additional 20 basis points at December 31, 2008. The changes were based on observable market spreads. Newly issued private placement securities have historically offered yield premiums of 20 basis points over comparable newly issued public securities.
- An additional five basis points were added to the risk free rates for foreign investments, consistent with December 31, 2008.
- Additional basis points were added as deemed appropriate for certain industries and for individual securities in certain industries that are considered to be of greater risk.

Increasing the 20 basis points added to the risk free rate for lack of liquidity by one basis point, increasing the five basis points added to the risk free rates for foreign investments by one basis point, and increasing the additional basis points added to each industry considered to be of greater risk by one basis point would have decreased the December 31, 2009 fair value of our fixed maturity securities portfolio by approximately \$0.6 million. We believe this range of variability is appropriate, and historically the inputs noted have generally not deviated outside the range provided.

We regularly test the validity of the fair values determined by our valuation techniques by comparing the prices of assets sold to the fair values reported for the assets in the immediately preceding reporting period. Historically, our realized gains or losses on dispositions of investments have not varied significantly from amounts estimated under the valuation methodologies described above, which, combined with the results of our testing, indicates to us that our pricing methodologies are appropriate.

At December 31, 2009, approximately 11.6 percent of our fixed maturity securities were valued using active trades from TRACE pricing, or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

The remaining 88.4 percent of our fixed maturity securities were valued based on non-binding quotes or other observable or unobservable inputs, as discussed below.

- Approximately 72.7 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 5.8 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 confirm 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.

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- Approximately 9.9 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.

As of December 31, 2009, approximately 11.6 percent of our fixed maturity securities were categorized as Level 1, 86.1 percent as Level 2, and 2.3 percent as Level 3. During 2009, we transferred \$352.4 million of fixed maturity securities into Level 3 and \$363.8 million of fixed maturity securities out of Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for greater transparency as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation as shown in Note 3 of the "Notes to Consolidated Financial Statements."

## Other-Than-Temporary Impairment Analysis for Investments

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate the following factors:

- Whether we expect to recover the entire amortized cost basis of the security.
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis.
- Whether the security is current as to principal and interest payments.
- The significance of the decline in value.
- The time period during which there has been a significant decline in value.
- Current and future business prospects and trends of earnings.
- The valuation of the security's underlying collateral.
- Relevant industry conditions and trends relative to their historical cycles.
- Market conditions.
- Rating agency and governmental actions.
- Bid and offering prices and the level of trading activity.
- Adverse changes in estimated cash flows for securitized investments.
- Changes in fair value subsequent to the balance sheet date.
- Any other key measures for the related security.

We evaluate available information, including the factors noted above, both positive and negative, in reaching our conclusions. In particular, we also consider the strength of the issuer's balance sheet, its debt obligations and near term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than

temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

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

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.

We use a comprehensive rating system to evaluate the investment and credit risk of our mortgage loans and to identify specific properties for inspection and reevaluation. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We establish an allowance for probable losses on mortgage loans based on a review of individual loans and the overall loan portfolio, considering the value of the underlying collateral. Mortgage loans are not reported at fair value in our consolidated balance sheets unless the decline in value is considered to be other than temporary, in which case the reduction is recognized as a realized investment loss in our consolidated statements of income.

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

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

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## Pension and Postretirement Benefit Plans

We sponsor several defined benefit pension and other postretirement benefit (OPEB) plans for our employees, including non-qualified pension plans. The U.S. pension plans comprise the majority of our total benefit obligation and pension expense. Our U.K. operation maintains a separate defined benefit plan for eligible employees. The U.K. defined benefit pension plan was closed to new entrants on December 31, 2002.

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

The assumptions chosen for our pension and OPEB plans are reviewed annually, and we use a December 31 measurement date for each of our plans. The discount rate assumptions and expected long-term rate of return assumptions have the most significant effect on our net periodic benefit costs associated with these plans. In addition to the effect of changes in our assumptions, the net periodic cost or benefit obligation under our pension and OPEB plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

### Discount Rate Assumptions

The *discount rate* is an interest assumption used to convert the benefit payment stream to a present value. We set the discount rate assumption at the measurement date for each of our retirement-related benefit plans to reflect the yield of a portfolio of high quality fixed income debt instruments matched against the timing and amounts of projected future benefits. A lower discount rate increases the present value of benefit obligations and increases our costs.

The discount rate we used to determine our 2010 and 2009 net periodic benefit costs for our U.S. pension plans was 6.40 percent for both years. The discount rate used for the net periodic benefit costs for 2010 and 2009 for our U.K. pension plan was 5.70 percent and 6.40 percent, respectively. The discount rate used in the net periodic benefit cost for our OPEB plan for 2010 and 2009 was 5.90 percent and 6.10 percent, respectively.

Reducing the discount rate assumption by 50 basis points would have resulted in an increase in our 2009 pension expense of approximately \$11.1 million, before tax, and an increase in our benefit obligation of approximately \$122.3 million as of December 31, 2009, resulting in an after-tax decrease in stockholders' equity of approximately \$81.1 million as of December 31, 2009. A 50 basis point reduction in the discount rate assumption would not change our annual OPEB costs.

Increasing the discount rate assumption by 50 basis points would have resulted in a decrease in our 2009 pension expense of approximately \$8.9 million, before tax, and a decrease in our benefit obligation of approximately \$107.9 million as of December 31, 2009, resulting in an after-tax increase in stockholders' equity of approximately \$71.5 million as of December 31, 2009. A 50 basis point increase in the discount rate assumption would not change our annual OPEB costs.

### Long-term Rate of Return Assumptions

The *long-term rate of return* assumption is the best estimate of the average annual assumed return that will be produced from the pension trust assets until current benefits are paid. We use a compound interest method in computing the rate of return on pension plan assets. The investment portfolio for our U.S. pension plans contains a diversified blend of domestic and international large cap, mid cap, and small cap equity securities, U.S. government and corporate fixed income securities, private equity funds of funds, and hedge funds of funds. Assets for our U.K. pension plan are invested in pooled funds, such as global equities, hedge funds, commodities, below-investment-grade fixed income securities, and currencies, as well as a fixed-interest U.K. corporate bond fund and an index-linked U.K. government bond fund. Assets for our OPEB plan are invested primarily in life insurance contracts. We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category.

Our expectations for the future investment returns of the asset categories are based on a combination of historical market performance and evaluations of investment forecasts obtained from external consultants and economists. The methodology underlying the return assumption included the various elements of the expected return for each asset class such as long-term rates of return, volatility of returns, and the correlation of returns between various asset classes. The expected return for the total portfolio is calculated based on the plan's strategic asset allocation. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition.

The long-term rate of return on assets used in the net periodic pension costs for our U.S. qualified defined benefit pension plan for 2010 and 2009 was 7.50 percent for both years. The long-term rate of return on asset assumption used for 2010 and 2009 for our U.K. pension plan was 6.90 percent and 7.20 percent, respectively, and for our OPEB plan, 5.75 percent for both years. The actual rate of return on plan assets is determined based on the fair value of the plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

Changing the expected long-term rate of return on the plan assets by +/-50 basis points would have changed our 2009 pension plan expense by approximately \$4.6 million before tax, but our OPEB plan expense would not change. A lower rate of return on plan assets increases our expense.

### Benefit Obligation and Fair Value of Plan Assets

The market-related value equals the fair value of assets, determined as of the measurement date. The expected return on assets fully recognizes all asset gains and losses, including changes in fair value, through the measurement date.

During 2009, the fair value of our plan assets in our U.S. qualified defined benefit pension plan increased \$230.4 million, or approximately 35.0 percent. The fair value of plan assets for our U.K. pension plan increased £17.4 million, or approximately 21.1 percent, during 2009. Although the effect of these increases had no impact on our 2009 net periodic pension costs, the favorable rate of return on plan assets in 2009 has a favorable impact on our net periodic pension costs for 2010. We expect that our 2010 pension costs will be lower than our pension costs in 2009. We believe our assumptions appropriately reflect the impact of the current economic environment.

Our pension and OPEB plans have an aggregate unrecognized net actuarial loss of \$514.9 million and an unrecognized prior service credit of \$10.7 million, which together represent the cumulative liability and asset gains and losses as well as the portion of prior service credits that have not been recognized in pension expense. As of December 31, 2009, the unrecognized net loss for these two items combined was approximately \$504.2 million. The decrease relative to 2008 is primarily due to the favorable rate of return on plan assets in 2009.

The unrecognized gains or losses are amortized as a component of the net benefit cost. Our 2009, 2008, and 2007 pension and OPEB expense includes \$40.2 million, \$10.6 million, and \$15.3 million, respectively, of amortization of the unrecognized net actuarial loss and prior service credit. The higher amortization in 2009 resulted primarily from the increase in the unrecognized net actuarial loss during 2008 due to the unfavorable rate of return on plan assets for our U.S. pension plans. The unrecognized net actuarial loss for our pension plans, which is \$509.3 million at December 31, 2009, will be amortized over the average future working life of pension plan participants, currently estimated at 11 years for U.S. participants and 15 years for U.K. participants. The unrecognized net actuarial loss of \$5.6 million for our OPEB plan will be amortized over the average future working life of OPEB plan participants, currently estimated at 8 years, to the extent the loss is outside of a corridor established in accordance with GAAP. The corridor for the pension and OPEB plans is established based on the greater of 10 percent of the plan assets or 10 percent of the benefit obligation. At December 31, 2009, none of the actuarial loss was outside of the corridor for the OPEB plan.

The fair value of plan assets in our U.S. qualified defined benefit pension plan was \$888.5 million at December 31, 2009, compared to \$658.1 million at year end 2008. This increase in fair value of plan assets and the effect of the plan contribution during 2009 lowered our year end deficit funding level in the plan to \$143.3 million as of December 31, 2009, compared to a deficit of \$266.9 million as of December 31, 2008. During February 2010, we made a voluntary contribution of \$67.0 million to our U.S. qualified defined benefit pension plan, thereby further reducing the deficit funding level.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The fair value of plan assets in our OPEB plan was \$11.9 million and \$12.0 million at December 31, 2009 and 2008, respectively. These assets represent life insurance contracts to fund the life insurance benefit portion of our OPEB plan. Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan. We expect to continue to receive subsidies under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, based on current law, to partially offset these payments. The expected subsidy included in our consolidated balance sheets is immaterial.

Our expected return on plan assets and discount rate discussed above will not affect the cash contributions we are required to make to our U.S. pension and OPEB plans because we have met all minimum funding requirements set forth by ERISA. We had no regulatory contribution requirements for 2009 and 2008; however, we elected to make voluntary contributions of \$70.0 million and \$130.0 million, respectively, to our U.S. qualified defined benefit pension plan. As noted above, we made a voluntary contribution of \$67.0 million to our U.S. qualified defined benefit pension plan in February 2010. We do not anticipate making any additional contributions during 2010.

During 2006, the federal government enacted the Pension Protection Act of 2006 which requires companies to fully fund defined benefit pension plans over a seven year period. We have evaluated this requirement and have made estimates of amounts to be funded in the future. Based on this assessment, we do not believe that the funding requirements of the Pension Protection Act will cause a material adverse effect on our liquidity.

The fair value of plan assets for our U.K. pension plan was £99.5 million at December 31, 2009, compared to £82.1 million at December 31, 2008. The U.K. pension plan has a deficit of £7.8 million at December 31, 2009, compared to £4.7 million at December 31, 2008. We contribute to the plan in accordance with a schedule of contributions which requires that we contribute to the plan at the rate of at least 15.0 percent of employee salaries, sufficient to meet the minimum funding requirement under U.K. legislation. During 2009 and 2008, we made required contributions of £3.5 million and £4.0 million, respectively. We anticipate that we will make contributions during 2010 of approximately £3.4 million.

See Note 9 of the "Notes to Consolidated Financial Statements" for further discussion.

## Income Taxes

We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Our valuation allowance relates primarily to assets for foreign net operating loss carryforwards and assets for our basis in certain of our foreign subsidiaries that are not likely to be realized in the future based on our expectations using currently available evidence. In evaluating the ability to recover deferred tax assets, we have considered all available positive and negative evidence including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine that we most likely would not be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

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

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

threshold but that now satisfy the recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. If a previously recognized tax position is settled for an amount that is different from the amount initially measured, the difference will be recognized as a tax benefit or expense in the period the settlement is effective. We believe that tax positions have been reflected in our financial statements at appropriate amounts in conformity with GAAP.

## Contingent Liabilities

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

## Consolidated Operating Results

(in millions of dollars)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Revenue</b>					
Premium Income	\$ 7,475.5	(4.0)%	\$7,783.3	(1.5)%	\$ 7,901.1
Net Investment Income	2,346.6	(1.8)	2,389.0	(0.9)	2,409.9
Net Realized Investment Gain (Loss)	11.7	(102.5)	(465.9)	N.M.	(65.2)
Other Income	257.2	(6.8)	275.9	0.7	274.1
<b>Total</b>	<b>10,091.0</b>	<b>1.1</b>	<b>9,982.3</b>	<b>(5.1)</b>	<b>10,519.9</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	6,291.6	(5.1)	6,626.4	(5.2)	6,988.2
Commissions	837.1	(1.9)	853.3	1.5	841.1
Interest and Debt Expense	125.4	(20.0)	156.7	(35.2)	241.9
Deferral of Acquisition Costs	(593.6)	0.5	(590.9)	6.2	(556.3)
Amortization of Deferred Acquisition Costs	526.2	1.4	519.1	8.1	480.4
Compensation Expense	793.3	2.7	772.6	6.9	722.4
Other Expenses	818.7	(0.3)	821.1	2.0	805.0
<b>Total</b>	<b>8,798.7</b>	<b>(3.9)</b>	<b>9,158.3</b>	<b>(3.8)</b>	<b>9,522.7</b>
<b>Income from Continuing Operations</b>					
Before Income Tax	1,292.3	56.8	824.0	(17.4)	997.2
Income Tax	439.7	62.4	270.8	(16.6)	324.8
<b>Income from Continuing Operations</b>	<b>852.6</b>	<b>54.1</b>	<b>553.2</b>	<b>(17.7)</b>	<b>672.4</b>
Income from Discontinued Operations	—	—	—	(100.0)	6.9
<b>Net Income</b>	<b>\$ 852.6</b>	<b>54.1</b>	<b>\$ 553.2</b>	<b>(18.6)</b>	<b>\$ 679.3</b>

N.M. = not a meaningful percentage

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The comparability of our financial results between years is affected by the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results in relation to the prior period. Our weighted average pound/dollar exchange rate was 1.554, 1.871, and 2.004 for the years ended 2009, 2008, and 2007, respectively. Our operating revenue and operating income by segment would have been higher in 2009 by approximately \$233.1 million and \$77.0 million, respectively, and higher in 2008 by approximately \$86.7 million and \$24.2 million, respectively, if the results for our U.K. operations had been translated at a constant exchange rate of 2.004, the rate for 2007. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting issue and not a reflection of operations or profitability in the U.K.

Consolidated premium income for both 2009 and 2008 includes premium growth, relative to the preceding years, for Unum US supplemental and voluntary lines of business and Colonial Life. Unum US group disability and group life and accidental death and dismemberment lines of business experienced year over year declines in premium income during 2009 and 2008 relative to the prior years. A portion of this decline was expected and is attributable to our continued pricing discipline for our Unum US group business and our strategy of developing a more balanced business mix. However, during 2009, premium growth for Unum US group business was also negatively impacted by lower premium growth from existing customers due to lower salary growth and lower growth in the number of employees covered under an existing policy. Unum UK premium income, in local currency, declined during 2009 relative to 2008 due to lower premium growth from existing customers, similar to Unum US, and also due to a decline in the in-force block of business resulting from lower persistency and sales in 2008 and 2007. The decline in the in-force block also unfavorably impacted Unum UK premium growth during 2008 relative to 2007. Premium income in the Individual Disability—Closed Block segment continues to decline, as expected, in this closed block of business.

Net investment income was lower in 2009 relative to the prior year due to several factors: (i) the weaker pound in 2009 relative to 2008 unfavorably affected translated results for net investment income, (ii) we received lower interest income during 2009 on bonds in Unum UK for which interest income is linked to a U.K. inflation index, the impact of which was largely offset by lower claim reserves due to lower claim payments which are also linked to inflation, (iii) during 2009 we earned lower interest rates on our floating rate invested assets, largely offset by lower interest expense on our floating rate debt, and (iv) we received fewer bond call premiums and consent fees during 2009 compared to 2008. Somewhat mitigating the impact of these items is continued growth in the level of invested assets, an increase in the level of prepayment income on mortgage-backed securities, and an increase in our portfolio yield due to the investment of new cash at higher rates than that of prior periods.

Net investment income was marginally lower in 2008 relative to 2007. During 2008, we received fewer bond call premiums, and the level of prepayment income on mortgage-backed securities declined relative to the preceding year. The weaker pound in 2008 relative to 2007 also unfavorably affected translated results for net investment income. The impact of these items was mostly offset by continued growth in the level of invested assets and a slight increase in our portfolio yield due to the investment of new cash at higher rates.

We recognized in earnings a net realized investment gain of \$11.7 million in 2009 compared to losses of \$465.9 million in 2008 and \$65.2 million in 2007. During 2009, we recognized other-than-temporary impairment losses of \$215.5 million related to fixed maturity securities, \$211.8 million of which was recognized in earnings and \$3.7 million in other comprehensive income. Other-than temporary impairment losses on fixed maturity securities were \$151.1 million and \$53.7 million in 2008 and 2007, respectively, all of which were recognized in earnings.

Also recognized in earnings through realized investment gains and losses was the change in the fair value of an embedded derivative in a modified coinsurance arrangement. During 2009, changes in the fair value of this embedded derivative resulted in a realized gain of \$243.1 million compared to realized losses of \$291.7 million in 2008 and \$57.3 million in 2007. The gains and losses on this embedded derivative resulted primarily from a change in credit spreads in the overall investment market.

Other income includes fees for administrative services only (ASO) products, which declined approximately 8.6 percent in 2009 relative to the prior year. Other income in 2008 also included a refund of interest attributable to certain tax years.

The benefit ratio was 84.2 percent in 2009 compared to 85.1 percent in 2008 and 88.4 percent in 2007, with continuing improvement in risk results in each of our business segments. See "Segment Results" as follows for discussions of line of business risk results and claims management performance in each of our segments.

Interest and debt expense for 2009 was lower than 2008 due primarily to lower average levels of outstanding debt and lower rates of interest on our floating rate debt. Interest and debt expense for 2008 was lower than 2007 due to lower rates of interest on our outstanding debt, primarily as a result of the replacement of older fixed rate debt with non-recourse floating rate debt, as well as lower cost related to early retirement of debt. The cost related to early retirement of debt was minimal in 2009 and 2008. The cost related to early retirement of debt in 2007 was \$58.8 million and was associated with our \$769.5 million debt repurchase. See "Debt" contained herein for additional information.

The deferral of acquisition costs in 2009 was generally consistent with the prior year, with continued growth in certain of our product lines and the associated increase in deferrable expenses offsetting the lower level of deferrable costs in product lines with lower growth. The amortization of acquisition costs was slightly higher in 2009 relative to the prior year due to the continued increase in the level of deferred acquisition costs as well as an acceleration of amortization resulting from lower persistency in the Unum US supplemental and voluntary lines. The deferral and amortization of deferred acquisition costs was higher in 2008 relative to the prior year due primarily to continued growth in certain of our product lines. Amortization increased in 2008 relative to 2007 due to an increase in the amortization related to Unum US internal replacement transactions as well as slightly elevated persistency in certain policy issue years.

Other expenses, as reported, decreased slightly in 2009 relative to 2008. Excluding the effect of the lower exchange rate for translating Unum UK's expenses, other expenses increased in 2009 due primarily to an increase in our pension costs. Other expenses, both as reported and excluding the effect of the lower exchange rate, increased in 2008 compared to 2007 due to expenditures related to our investment in brand and product promotion and an increase in product and service development costs in our core lines of business. We continue to aggressively manage our operating expenses as we seek to increase the effectiveness and efficiency of our operating processes.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Consolidated Sales Results

(in millions of dollars)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Unum US</b>					
Fully Insured Products	\$ 709.2	1.1%	\$ 701.5	11.2%	\$ 631.0
Administrative Services Only (ASO) Products	7.7	6.9	7.2	—	7.2
Total Unum US	716.9	1.2	708.7	11.0	638.2
<b>Unum UK</b>	123.2	23.8	99.5	(5.6)	105.4
<b>Colonial Life</b>	343.8	1.1	340.2	1.6	334.9
<b>Individual Disability—Closed Block</b>	1.5	(37.5)	2.4	(20.0)	3.0
<b>Consolidated</b>	<b>\$1,185.4</b>	<b>3.0</b>	<b>\$1,150.8</b>	<b>6.4</b>	<b>\$1,081.5</b>

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

Premiums for fully insured products are reported as premium income. Fees for ASO products (those where the risk and responsibility for funding claim payments remain with the customer and we only provide services) are included in other income. Sales, persistency of the existing block of business, and the effectiveness of the renewal program are indicators of growth in our premium and fee income. Trends in new sales, as well as existing market share, also indicate our potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

We intend to continue with our disciplined approach to pricing and also with our strategy of developing a more balanced business mix. This strategy could result in a lower premium persistency or market share, particularly in the large case Unum US group market, but historically the profitability of business that terminates has generally been lower than the profitability of retained business. We do not anticipate any meaningful decline in the number of cases, or case persistency, for our Unum US group market on an aggregate basis.

We have experienced lower sales growth during 2009, particularly in the expansion of sales to existing accounts and with buyers of our supplemental and voluntary type products, which we believe is mostly attributable to the current economic environment. We expect this unfavorable pattern may continue in the near term if current economic conditions persist.

See "Segment Results" as follows for additional discussion of sales by segment.

## Segment Results

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Individual Disability—Closed Block, and Corporate and Other. In the following segment financial data and discussions of segment results, “operating revenue” excludes net realized investment gains and losses. “Operating income” or “operating loss” excludes net realized investment gains and losses and income tax. These are considered non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company’s performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of “operating revenue” and “operating income” or “operating loss” differ from revenue and income (loss) from continuing operations before income tax as presented in our consolidated operating results and in income statements prepared in accordance with GAAP due to the exclusion of before-tax realized investment gains and losses. We measure segment performance excluding realized investment gains and losses because we believe that this performance measure is a better indicator of the ongoing businesses and the underlying trends in the businesses. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains and losses, and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains and losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. However, income or loss excluding realized investment gains and losses does not replace net income or net loss as a measure of overall profitability. We may experience realized investment losses, which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates in our liabilities.

A reconciliation of total operating revenue by segment to total consolidated revenue and total operating income by segment to consolidated net income is as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
<b>Operating Revenue by Segment</b>	<b>\$10,079.3</b>	\$10,448.2	\$10,585.1
Net Realized Investment Gain (Loss)	11.7	(465.9)	(65.2)
<b>Revenue</b>	<b>\$10,091.0</b>	\$ 9,982.3	\$10,519.9
<b>Operating Income by Segment</b>	<b>\$ 1,280.6</b>	\$ 1,289.9	\$ 1,062.4
Net Realized Investment Gain (Loss)	11.7	(465.9)	(65.2)
Income Tax	439.7	270.8	324.8
Income from Discontinued Operations	—	—	6.9
<b>Net Income</b>	<b>\$ 852.6</b>	\$ 553.2	\$ 679.3

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment (AD&D) products, and supplemental and voluntary lines of business. The supplemental and voluntary lines of business are comprised of recently issued disability insurance, group and individual long-term care insurance, and voluntary benefits products.

## Unum US Operating Results

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

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income	\$4,873.1	(1.8)%	\$4,963.0	(1.0)%	\$5,014.0
Net Investment Income	1,200.5	5.6	1,136.4	2.0	1,114.0
Other Income	118.7	(10.6)	132.7	(2.1)	135.6
<b>Total</b>	<b>6,192.3</b>	<b>(0.6)</b>	<b>6,232.1</b>	<b>(0.5)</b>	<b>6,263.6</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	3,855.9	(3.6)	3,998.4	(5.8)	4,246.4
Commissions	516.6	(0.4)	518.6	3.4	501.5
Interest and Debt Expense	2.0	(52.4)	4.2	(44.0)	7.5
Deferral of Acquisition Costs	(335.5)	1.8	(329.7)	8.4	(304.2)
Amortization of Deferred Acquisition Costs	317.2	(1.0)	320.3	15.6	277.1
Other Expenses	1,061.1	2.4	1,036.2	4.3	993.2
<b>Total</b>	<b>5,417.3</b>	<b>(2.4)</b>	<b>5,548.0</b>	<b>(3.0)</b>	<b>5,721.5</b>
<b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b>					
	<b>\$ 775.0</b>	<b>13.3</b>	<b>\$ 684.1</b>	<b>26.2</b>	<b>\$ 542.1</b>
Operating Ratios (% of Premium Income):					
Benefit Ratio <sup>(1)</sup>	79.1%		80.6%		84.7%
Other Expense Ratio <sup>(2)</sup>	21.8%		20.9%		19.8%
Before-tax Operating Income Ratio <sup>(3)</sup>	15.9%		13.8%		10.8%

(1) Included in this ratio for 2007 is a charge of \$76.5 million related to the claim reassessment process. Excluding this charge, the benefit ratio for 2007 would have been 83.2%.

(2) Included in this ratio for 2007 is an expense reduction of \$10.3 million related to the claim reassessment process. Excluding this item, the other expense ratio for 2007 would have been 20.0%.

(3) Included in this ratio for 2007 is a charge of \$66.2 million related to the claim reassessment process. Excluding this charge, the before-tax operating income ratio for 2007 would have been 12.1%.

## Unum US Sales

(in millions of dollars)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Sales by Product</b>					
<b>Fully Insured Products</b>					
Group Disability, Group Life, and AD&D					
Group Long-term Disability	\$182.1	(4.3)%	\$190.3	7.1%	\$177.7
Group Short-term Disability	83.9	17.3	71.5	10.5	64.7
Group Life	184.9	11.8	165.4	23.4	134.0
AD&D	18.7	8.7	17.2	24.6	13.8
Subtotal	469.6	5.7	444.4	13.9	390.2
Supplemental and Voluntary					
Individual Disability—Recently Issued	51.6	(10.9)	57.9	(3.0)	59.7
Group Long-term Care	22.4	(30.4)	32.2	(1.8)	32.8
Individual Long-term Care	3.7	(56.0)	8.4	(15.2)	9.9
Voluntary Benefits	161.9	2.1	158.6	14.6	138.4
Subtotal	239.6	(6.8)	257.1	6.8	240.8
<b>Total Fully Insured Products</b>	<b>709.2</b>	<b>1.1</b>	<b>701.5</b>	<b>11.2</b>	<b>631.0</b>
<b>ASO Products</b>	<b>7.7</b>	<b>6.9</b>	<b>7.2</b>	<b>—</b>	<b>7.2</b>
<b>Total Sales</b>	<b>\$716.9</b>	<b>1.2</b>	<b>\$708.7</b>	<b>11.0</b>	<b>\$638.2</b>
<b>Sales by Market Sector</b>					
Group Disability, Group Life, and AD&D					
Core Market (< 2,000 lives)	\$320.6	7.9%	\$297.2	23.7%	\$240.3
Large Case Market	149.0	1.2	147.2	(1.8)	149.9
Subtotal	469.6	5.7	444.4	13.9	390.2
Supplemental and Voluntary	239.6	(6.8)	257.1	6.8	240.8
<b>Total Fully Insured Products</b>	<b>709.2</b>	<b>1.1</b>	<b>701.5</b>	<b>11.2</b>	<b>631.0</b>
<b>ASO Products</b>	<b>7.7</b>	<b>6.9</b>	<b>7.2</b>	<b>—</b>	<b>7.2</b>
<b>Total Sales</b>	<b>\$716.9</b>	<b>1.2</b>	<b>\$708.7</b>	<b>11.0</b>	<b>\$638.2</b>

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Total sales for Unum US increased 1.2 percent in 2009 compared to 2008. Sales in our group core market segment, which we define for Unum US as employee groups with fewer than 2,000 lives, increased 7.9 percent over the prior year, with higher group short-term disability and group life core market sales partially offset by a decline in group long-term disability core market sales. The number of new accounts in our core market segment increased 6.5 percent in 2009 relative to 2008. Sales in the group large case market segment increased 1.2 percent compared to the prior year. Our sales mix is approximately 68 percent core market and 32 percent large case market, in line with our targeted 60 percent core/40 percent large case market distribution mix.

Our supplemental and voluntary sales have been negatively impacted by the current economic conditions, including lower new account sales as well as lower sales to existing accounts. Sales of voluntary benefits increased by 2.1 percent, and the number of new accounts increased by 19.5 percent compared to 2008. Sales for our individual disability line of business, of which approximately 90 percent are in the multi-life market, decreased 10.9 percent compared to 2008, and sales of group long-term care decreased 30.4 percent. We discontinued selling individual long-term care during 2009.

During 2010 we will continue our focus on the group core market segment and the voluntary products market. We will also seek disciplined growth in our group large case, individual disability, and group long-term care markets.

## Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Unum US sales increased 11.0 percent in 2008 compared to 2007. Our group core market segment had a sales increase of 23.7 percent over 2007, and the number of new accounts increased 16.4 percent. We had a sales mix of approximately 67 percent core market and 33 percent large case market in 2008, and a sales mix of approximately 62 percent core market and 38 percent large case market in 2007. Our supplemental and voluntary sales increased 6.8 percent in 2008 compared to 2007, with a 14.6 percent increase in voluntary sales offsetting the expected decrease in sales of individual long-term care.

Sales in the group large case market segment declined 1.8 percent in 2008 compared to 2007. Sales for our individual disability line of business, of which approximately 91 percent are in the multi-life market, decreased slightly during 2008 compared to 2007.

## Unum US Group Disability Operating Results

Shown below are financial results and key performance indicators for Unum US group disability.

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Group Long-term Disability	\$1,726.9	(6.1)%	\$1,838.5	(3.0)%	\$1,895.7
Group Short-term Disability	432.8	(0.5)	435.1	(10.4)	485.6
Total Premium Income	2,159.7	(5.0)	2,273.6	(4.5)	2,381.3
Net Investment Income	629.4	(0.3)	631.3	(2.7)	648.7
Other Income	88.9	(11.3)	100.2	0.1	100.1
<b>Total</b>	<b>2,878.0</b>	<b>(4.2)</b>	<b>3,005.1</b>	<b>(4.0)</b>	<b>3,130.1</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	1,862.8	(8.9)	2,043.9	(10.3)	2,277.4
Commissions	162.2	(2.2)	165.9	(1.1)	167.7
Interest and Debt Expense	2.0	(52.4)	4.2	(44.0)	7.5
Deferral of Acquisition Costs	(62.5)	5.2	(59.4)	(1.7)	(60.4)
Amortization of Deferred Acquisition Costs	67.3	(12.3)	76.7	15.9	66.2
Other Expenses	572.6	—	572.4	1.9	561.6
<b>Total</b>	<b>2,604.4</b>	<b>(7.1)</b>	<b>2,803.7</b>	<b>(7.2)</b>	<b>3,020.0</b>
<b>Operating Income Before Income Tax and Net</b>					
<b>Realized Investment Gains and Losses</b>	<b>\$ 273.6</b>	<b>35.8</b>	<b>\$ 201.4</b>	<b>82.9</b>	<b>\$ 110.1</b>
Operating Ratios (% of Premium Income):					
Benefit Ratio <sup>(1)</sup>	86.3%		89.9%		95.6%
Other Expense Ratio <sup>(2)</sup>	26.5%		25.2%		23.6%
Before-tax Operating Income Ratio <sup>(3)</sup>	12.7%		8.9%		4.6%
Premium Persistency:					
Group Long-term Disability	86.9%		87.8%		85.1%
Group Short-term Disability	86.8%		82.1%		74.0%
Case Persistency:					
Group Long-term Disability	87.4%		89.2%		88.4%
Group Short-term Disability	86.5%		88.2%		87.4%

(1) Included in this ratio for 2007 is a charge of \$76.5 million related to the claim reassessment process. Excluding this charge, the benefit ratio for 2007 would have been 92.4%.

(2) Included in this ratio for 2007 is an expense reduction of \$10.3 million related to the claim reassessment process. Excluding this item, the other expense ratio for 2007 would have been 24.0%.

(3) Included in this ratio for 2007 is a charge of \$66.2 million related to the claim reassessment process. Excluding this charge, the before-tax operating income ratio for 2007 would have been 7.4%.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Premium income for group disability declined in 2009 relative to the prior year, a portion of which was expected and is attributable to our pricing, renewal, and risk selection strategy. Premium income for our Unum US group business, both disability and life, was also negatively impacted by lower premium growth from existing customers due to lower salary growth and lower growth in the number of employees covered under an existing policy. Premium persistency increased for group short-term disability in both the core and large case segments. Premium persistency for group long-term disability increased in the core market segment but decreased in the large case segment, resulting in an overall persistency decline for group long-term disability. Case persistency declined due to a higher number of terminated cases in the smaller size case market within the core segment. These terminations did not affect premium persistency negatively to the degree they affected case persistency due to a lower average premium per terminated case. Net investment income was consistent in 2009 relative to 2008, with an increase in the level of assets offset by lower interest rates on floating rate assets. Other income includes ASO fees of \$59.2 million and \$64.8 million for 2009 and 2008, respectively.

The benefit ratio for 2009 was lower than the benefit ratio for the prior year due primarily to a higher rate of claim recoveries for group long-term disability and a decrease in the paid claim incidence rates for group short-term disability. Paid claim incidence rates for group long-term disability were higher in 2009 relative to 2008, but the average size of new claims was lower.

Interest and debt expense related to the debt issued by Tailwind Holdings decreased in 2009 relative to the prior year due to a decrease in the variable rate of interest during 2009 and a decrease in the amount of outstanding debt resulting from principal repayments.

The deferral of acquisition costs increased in comparison to 2008 due to a higher level of deferrable expenses partially resulting from increased group short-term disability sales. Amortization was lower in 2009 relative to the prior year due to a decrease in amortization related to internal replacement transactions. These transactions are accounted for as an extinguishment of the original policy and the issuance of a new policy.

The other expense ratio increased in 2009 compared to the prior year due primarily to the decline in premium income and an increase in policy maintenance expenses associated with the change in the mix of in-force policies from the large case market to the core market segment. Included in 2008 other expenses was \$4.4 million related to a 2008 broker compensation settlement agreement.

During 2009, Unum America entered into a quota share reinsurance agreement with RGA Americas Reinsurance Company, Ltd. under which Unum America will cede a closed block of group long-term disability claims. The reinsurance transaction does not meet the conditions for reinsurance accounting and is therefore accounted for as a deposit. As such, there is no effect on reported premium income or benefits. The only impact on the income statement is the risk charge paid to the reinsurer.

## Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Premium income for group disability decreased in 2008 relative to 2007 due primarily to our pricing, renewal, and risk selection strategy as well as the termination of one large case group in September 2007. However, premium persistency and case persistency both improved in 2008 over 2007 in both the core and large case markets. Net investment income declined in 2008 in comparison to 2007 primarily due to a lower yield on assets supporting this line of business resulting from the investment of new cash at a lower yield than that of the existing portfolio and also due to a decrease in bond call premiums. The decline in yield and bond call premiums was partially offset by an increase in the level of assets in the portfolio. ASO fees were \$64.8 million and \$65.2 million in 2008 and 2007, respectively.

The benefit ratio for 2008 was lower than the benefit ratio for 2007, excluding the 2007 revision to our estimate for the claim reassessment costs, due primarily to a higher rate of claim recoveries in group long-term disability and lower paid claims in short-term disability. Claim incidence rates for both group long-term and short-term disability were slightly lower in 2008 than 2007.

Interest and debt expense was lower in 2008 compared to the prior year due to a lower variable rate of interest and a decrease in the amount of outstanding debt resulting from principal repayments.

Amortization of deferred acquisition costs was higher in 2008 relative to 2007 due to an increase in amortization related to internal replacement transactions.

The other expense ratio increased in 2008 compared to 2007 due primarily to the decline in premium income and an increase in policy maintenance expenses and product service and development costs. Also contributing to the increase in the other expense ratio was \$4.4 million of expense related to the broker compensation settlement.

## Unum US Group Life and Accidental Death and Dismemberment Operating Results

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

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Group Life	\$1,057.7	(0.5)%	\$1,062.8	(4.0)%	\$1,107.4
Accidental Death & Dismemberment	104.9	(17.8)	127.6	(2.6)	131.0
Total Premium Income	1,162.6	(2.3)	1,190.4	(3.9)	1,238.4
Net Investment Income	126.5	0.4	126.0	(6.6)	134.9
Other Income	1.9	(17.4)	2.3	(4.2)	2.4
<b>Total</b>	<b>1,291.0</b>	<b>(2.1)</b>	<b>1,318.7</b>	<b>(4.1)</b>	<b>1,375.7</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	815.5	(1.5)	827.6	(8.2)	901.6
Commissions	85.4	—	85.4	(3.7)	88.7
Deferral of Acquisition Costs	(48.1)	19.4	(40.3)	11.6	(36.1)
Amortization of Deferred Acquisition Costs	45.9	(16.5)	55.0	39.6	39.4
Other Expenses	197.6	9.7	180.1	9.2	164.9
<b>Total</b>	<b>1,096.3</b>	<b>(1.0)</b>	<b>1,107.8</b>	<b>(4.4)</b>	<b>1,158.5</b>
<b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b>					
	\$ 194.7	(7.7)	\$ 210.9	(2.9)	\$ 217.2
Operating Ratios (% of Premium Income):					
Benefit Ratio	70.1%		69.5%		72.8%
Other Expense Ratio	17.0%		15.1%		13.3%
Before-tax Operating Income Ratio	16.7%		17.7%		17.5%
Premium Persistency:					
Group Life	86.9%		83.8%		78.8%
Accidental Death & Dismemberment	88.1%		86.4%		80.8%
Case Persistency:					
Group Life	87.2%		89.1%		87.7%
Accidental Death & Dismemberment	87.2%		89.2%		88.0%

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## Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Premium income for group life and accidental death and dismemberment decreased in 2009 relative to 2008, a portion of which was expected and is due to our pricing, renewal, and risk selection strategy. Consistent with the decline in premium income for group disability, premium growth for group life and accidental death and dismemberment has also been negatively impacted by lower premium growth from existing customers. Premium income for accidental death and dismemberment declined in part due to a reinsurance agreement entered into, effective January 1, 2009, to cede an \$8.0 million annualized premium in-force block of business. In both product lines, premium persistency improved, but case persistency declined in comparison to the prior year due to a higher number of terminated cases in the fewer than 100 lives market segment. Net investment income was consistent in 2009 relative to 2008, with an increase in the level of assets offset by lower interest rates on floating rate assets.

The benefit ratio in 2009 was higher than the prior year as a result of a higher average paid claim size in group life which was only partially offset by a lower rate of paid claim incidence.

The deferral of acquisition costs increased in 2009 compared to 2008 due primarily to an increase in the level of deferrable expenses resulting from the increase in sales. Amortization of deferred acquisition costs was lower in 2009 relative to the prior year due to a decrease in amortization related to internal replacement transactions.

The other expense ratio increased in 2009 in comparison to the prior year due to the decline in premium income as well as an increase in policy acquisition-related costs associated with increased sales and an increase in policy maintenance expenses associated with the change in the mix of in-force policies from the large case market to the core market segment.

## Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Premium income for group life decreased in 2008 relative to 2007 due primarily to our pricing, renewal, and risk selection strategy. Premium persistency and case persistency both improved in 2008 in comparison to 2007. The decrease in net investment income in 2008 relative to 2007 resulted from a decline in the level of assets supporting these lines of business and from a lower yield on the portfolio due to the investment of new cash at a lower yield than that of the existing portfolio.

The benefit ratio decreased in 2008 due primarily to lower paid claim incidence rates for both group life and the accidental death and dismemberment lines of business.

The deferral of acquisition costs increased in 2008 due primarily to increased sales in the group core market segment. Amortization of deferred acquisition costs was higher in 2008 relative to 2007 due to an increase in amortization related to internal replacement transactions.

The other expense ratio increased in 2008 in comparison to 2007 due primarily to the decline in premium income as well as an increase in policy maintenance expenses and product and service development costs.

## Unum US Supplemental and Voluntary Operating Results

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

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Individual Disability—Recently Issued	\$ 463.7	(1.7)%	\$ 471.5	3.2%	\$ 456.7
Long-term Care	594.7	2.4	580.7	9.0	532.9
Voluntary Benefits	492.4	10.2	446.8	10.4	404.7
Total Premium Income	1,550.8	3.5	1,499.0	7.5	1,394.3
Net Investment Income	444.6	17.3	379.1	14.7	330.4
Other Income	27.9	(7.6)	30.2	(8.8)	33.1
<b>Total</b>	<b>2,023.3</b>	<b>6.0</b>	<b>1,908.3</b>	<b>8.6</b>	<b>1,757.8</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	1,177.6	4.5	1,126.9	5.6	1,067.4
Commissions	269.0	0.6	267.3	9.1	245.1
Deferral of Acquisition Costs	(224.9)	(2.2)	(230.0)	10.7	(207.7)
Amortization of Deferred Acquisition Costs	204.0	8.2	188.6	10.0	171.5
Other Expenses	290.9	2.5	283.7	6.4	266.7
<b>Total</b>	<b>1,716.6</b>	<b>4.9</b>	<b>1,636.5</b>	<b>6.1</b>	<b>1,543.0</b>
<b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b>					
	\$ 306.7	12.8	\$ 271.8	26.5	\$ 214.8
Operating Ratios (% of Premium Income):					
Benefit Ratios					
Individual Disability—Recently Issued	51.4%		53.3%		56.7%
Long-term Care	111.6%		106.1%		106.0%
Voluntary Benefits	56.0%		58.0%		60.1%
Other Expense Ratio	18.8%		18.9%		19.1%
Before-tax Operating Income Ratio	19.8%		18.1%		15.4%
Interest Adjusted Loss Ratios:					
Individual Disability—Recently Issued	32.5%		35.9%		40.0%
Long-term Care	76.5%		75.5%		77.7%
Premium Persistency:					
Individual Disability—Recently Issued	89.6%		90.7%		90.6%
Long-term Care	95.1%		95.5%		95.4%
Voluntary Benefits	79.9%		80.4%		79.4%

### Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Premium income increased in 2009 relative to the prior year due primarily to sales growth, particularly in the voluntary benefits product line, partially offset by a slight decline in premium persistency. Net investment income increased relative to the prior year due to higher investment income related to growth in the level of assets supporting these lines of business, an increased level of prepayment income on mortgage-backed securities, and a higher yield on the portfolio due to the investment of new cash at higher yields than that of the existing portfolio.

The interest adjusted loss ratio for the individual disability—recently issued line of business declined in 2009 relative to the prior year due primarily to a more favorable claim recovery rate and a lower number of reopened claims, partially offset by an increase in the paid incidence

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rate. The interest adjusted loss ratio for long-term care increased in 2009 relative to the prior year due primarily to an increase in paid claim incidence rates. The benefit ratio for voluntary benefits decreased in 2009 as compared to 2008 due primarily to an increase in premium income, partially offset by an increase in the paid claim incidence rate for the voluntary disability product line.

The deferral of acquisition costs decreased in 2009 as compared to 2008 due to the decrease in acquisition-related expenses resulting from lower sales. The amortization of acquisition costs was higher in 2009 due to an acceleration of amortization resulting from lower persistency in certain of the product lines. The other expense ratio in 2009 was consistent with the prior year.

## Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Premium income increased in 2008 relative to 2007 due to sales growth in our supplemental and voluntary product lines, the impact of premium rate increases implemented for individual long-term care, and overall stable persistency. Net investment income increased in 2008 relative to 2007 primarily from growth in the level of assets supporting these lines of business.

The decrease in the interest adjusted loss ratio for the individual disability—recently issued line of business for 2008 relative to 2007 is due primarily to a decrease in paid claim incidence rates, partially offset by a lower claim recovery rate. The interest adjusted loss ratio for long-term care was lower in 2008 than in 2007 due primarily to higher premium income, partially offset by an increase in claim incidence rates. The benefit ratio for voluntary benefits decreased in 2008 as compared to 2007, due primarily to a lower rate of paid claim incidence for the disability line of business and a lower mortality rate for the life line of business.

The increase in commissions and the deferral and amortization of acquisition costs in 2008 relative to 2007 is due primarily to growth in these lines of business. The other expense ratio decreased slightly in 2008 in comparison to 2007 due to a higher rate of premium growth relative to expense growth.

## Segment Outlook

During 2009, we experienced an unfavorable impact on premium growth which we believe was caused by the uncertain economic environment. Our 2009 sales were also negatively impacted by the economy, particularly sales to existing accounts. Opportunities for premium and sales growth are expected to re-emerge as the economy improves and employment growth resumes. We expect continued volatility in net investment income during 2010 as a result of fluctuations in bond calls and other types of miscellaneous net investment income. We intend to manage our expense levels relative to premium levels through operating effectiveness and performance management. Unum US has goodwill of approximately \$190.0 million at year end 2009, none of which is currently believed to be at risk for future impairment.

Periods of economic downturns have historically affected disability claim incidence rates and, to a lesser extent, disability claim recovery rates in certain sectors of the market. Certain risks and uncertainties are inherent in disability business. Components of claims experience, such as incidence and recovery rates, may be worse than we expect. Disability claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates, but these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. The current economic downturn may lead to a higher rate of claim incidence or lower levels of claim recoveries. We have previously taken steps to improve our risk profile, including reducing our exposure to volatile business segments through diversification by market size, product segment, and industry segment. We believe our claims management organization is positioned for stable and sustainable performance levels. Although we did not experience significantly higher levels of disability claims incidence during 2009, we did experience slightly elevated levels in the second half of 2009. We are uncertain as to whether the higher claim incidence is due to the normal volatility that occurs in our group disability business or is related to the economy. We continuously monitor key indicators to assess our risk to the economic slowdown and attempt to adjust our business plans accordingly.

We believe our Unum US growth strategy is sound. We continue to see future growth opportunity based on employee choice, defined employer funding, simple administration, and effective communication. Our strategies for growth focus on (i) delivering product choice through an integrated, easy-to-manage, and flexible platform, (ii) providing communications to employees with a focus on education and enrollment efficiencies, (iii) continued expansion and improvement in distribution, and (iv) developing strong capabilities to cross-sell, re-enroll, and retain customers.

During 2010, we will continue to embed our culture of risk management while maintaining our operating effectiveness, with a focus on talent development across our businesses. We believe we are well-positioned strategically in our markets and that opportunities for growth exist in our group core market segment and in the voluntary markets. We will continue to manage our value businesses, which we define as the group large case market, individual disability, and long-term care product lines, in a disciplined manner for profitability. While the recession impacted our ability to grow premium income during 2009, we expect to achieve a slight increase in premium income during 2010. We anticipate that the benefit ratio in our group disability product line will begin to level out during 2010. We think future margin improvement is achievable, although at a slower rate of growth than was achieved for 2008 and 2009, driven primarily by our ongoing product mix shift and the growth of our voluntary benefits product line.

## Unum UK Segment

Unum UK includes insurance for group long-term disability, group life, and individual disability products sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

## Operating Results

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

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Group Long-term Disability	\$503.1	(25.6)%	\$ 675.9	(10.2)%	\$ 752.6
Group Life	147.8	(15.3)	174.6	(1.6)	177.4
Individual Disability	35.2	(9.3)	38.8	1.3	38.3
<b>Total Premium Income</b>	<b>686.1</b>	<b>(22.8)</b>	<b>889.3</b>	<b>(8.2)</b>	<b>968.3</b>
Net Investment Income	124.5	(31.6)	181.9	(2.9)	187.4
Other Income	2.4	20.0	2.0	(35.5)	3.1
<b>Total</b>	<b>813.0</b>	<b>(24.2)</b>	<b>1,073.2</b>	<b>(7.4)</b>	<b>1,158.8</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	373.6	(26.9)	511.4	(11.0)	574.3
Commissions	46.7	(20.8)	59.0	(11.9)	67.0
Deferral of Acquisition Costs	(29.1)	(22.2)	(37.4)	(9.2)	(41.2)
Amortization of Deferred Acquisition Costs	30.5	(5.9)	32.4	(34.4)	49.4
Other Expenses	141.7	(22.9)	183.8	0.2	183.5
<b>Total</b>	<b>563.4</b>	<b>(24.8)</b>	<b>749.2</b>	<b>(10.1)</b>	<b>833.0</b>
<b>Operating Income Before Income Tax and Net</b>					
<b>Realized Investment Gains and Losses</b>	<b>\$249.6</b>	<b>(23.0)</b>	<b>\$ 324.0</b>	<b>(0.6)</b>	<b>\$ 325.8</b>
Operating Ratios (% of Premium Income):					
Benefit Ratio	54.5%		57.5%		59.3%
Other Expense Ratio	20.7%		20.7%		19.0%
Before-tax Operating Income Ratio	36.4%		36.4%		33.6%
Premium Persistency:					
Group Long-term Disability	88.6%		87.4%		88.0%
Group Life	80.1%		74.9%		70.5%
Individual Disability	87.6%		87.6%		89.4%

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## Foreign Currency Translation

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

Fluctuations in the pound to dollar exchange rate have an effect on Unum UK's reported financial results and our consolidated financial results. In periods when the pound weakens relative to the preceding period, as occurred in 2009 and in 2008, translating pounds into dollars decreases current periods' results relative to the prior period. In periods when the pound strengthens, translating into dollars increases current periods' results in relation to the prior periods.

(in millions of pounds, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Group Long-term Disability	£322.2	(11.6)%	£364.4	(3.1)%	£375.9
Group Life	94.1	0.9	93.3	5.4	88.5
Individual Disability	22.4	7.2	20.9	9.4	19.1
<b>Total Premium Income</b>	<b>438.7</b>	<b>(8.3)</b>	<b>478.6</b>	<b>(1.0)</b>	<b>483.5</b>
Net Investment Income	79.6	(19.2)	98.5	5.3	93.5
Other Income	1.6	33.3	1.2	(25.0)	1.6
<b>Total</b>	<b>519.9</b>	<b>(10.1)</b>	<b>578.3</b>	<b>(0.1)</b>	<b>578.6</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	238.3	(13.6)	275.8	(3.8)	286.8
Commissions	29.8	(6.6)	31.9	(4.8)	33.5
Deferral of Acquisition Costs	(18.5)	(8.0)	(20.1)	(2.4)	(20.6)
Amortization of Deferred Acquisition Costs	19.5	8.9	17.9	(27.5)	24.7
Other Expenses	90.2	(9.4)	99.6	8.7	91.6
<b>Total</b>	<b>359.3</b>	<b>(11.3)</b>	<b>405.1</b>	<b>(2.6)</b>	<b>416.0</b>
<b>Operating Income Before Income Tax and Net</b>					
<b>Realized Investment Gains and Losses</b>	<b>£160.6</b>	<b>(7.3)</b>	<b>£173.2</b>	<b>6.5</b>	<b>£162.6</b>
Weighted Average Pound/Dollar Exchange Rate	1.554		1.871		2.004

## Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Premium income declined in 2009 relative to the prior year due to lower premium growth from existing customers and also due to a decline in the in-force block of group long-term disability business resulting from lower persistency and lower sales during 2008 and 2007. Also contributing to the comparative decline was an increase in group long-term disability premium income of £2.8 million in 2008 relating to a non-recurring reinsurance premium on a previously acquired claims block. The decline in group long-term disability premium income was partially offset by increases in premium income for group life due to higher sales and improved persistency.

Net investment income decreased in 2009 relative to the prior year due primarily to a reduction in inflation which reduced the return on bonds for which interest income is linked to a U.K. inflation index. These index-linked bonds match the claim reserves associated with certain of our group long-term disability policies that provide for inflation-linked increases in disability benefits. The decrease in 2009 net investment income attributable to these index-linked bonds was generally offset by a decrease in the reserves for future claims payments

related to the inflation index-linked group long-term disability policies. Although over the intermediate-term the investment return from index-linked bonds generally matches the index-linked claim payments and reserves, the effect on investment income from the inflation index-linked bonds may not be completely offset by lower claim payments and reserves. The benefits reset to a higher payment when the rate of inflation increases but are not reset to a lower payment due to a decrease in the rate of inflation, whereas investment income on the inflation index-linked bonds can fluctuate either positively or negatively depending on the movement in the inflation rate.

The lower benefit ratio in 2009 in comparison to the prior year was primarily due to a decline in the level of claim incidence for group long-term disability as well as the impact of lower inflation on claim reserves associated with group long-term disability policies containing an inflation-linked benefit increase feature. Partially offsetting these items is an increase in claim incidence for the group life line of business. Claim recoveries for group long-term disability were generally consistent with the prior year.

The deferral of acquisition costs in 2009 decreased in comparison to the prior year due primarily to a lower level of deferrable expenses resulting from the reduction in the overall expense level as well as a change in the mix of sales. The increase in amortization of acquisition costs in 2009 relative to the prior year is due primarily to an increase in amortization related to internal replacement transactions that are accounted for as an extinguishment of the original policy and the issuance of a new policy.

### Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Premium income decreased in 2008 relative to 2007 due primarily to a decline in group long-term disability resulting from lower persistency levels and lower sales. This decline was partially offset by increases in premium income for group life due to higher sales and improved persistency and to individual disability due to the continued growth in the in-force block from higher levels of sales during 2008 and 2007. A decrease in group life ceded premiums as a result of a modification, in the fourth quarter of 2007, of a quota share reinsurance arrangement relating to new group life sales also contributed to the increase in group life premiums in 2008 compared to 2007. Net investment income increased in 2008 relative to 2007 due primarily to the growth in the level of assets supporting these lines of business and a higher yield on the portfolio due to the investment of new cash at a higher yield than that of the existing portfolio.

The lower benefit ratio in 2008 in comparison to 2007 was primarily due to an increased rate of claim recoveries for group long-term disability.

The decrease in amortization of acquisition costs in 2008 relative to 2007 is due primarily to a decrease in amortization related to internal replacement transactions. The other expense ratio increased during 2008 in comparison with 2007 due primarily to expenses of £4.4 million related to the implementation of the disciplined cost management process during the fourth quarter of 2008.

During 2008, Unum UK became responsible for the ongoing administration and management of a closed block of group long-term disability claims through a reinsurance arrangement with Royal London Mutual Insurance Society Limited. At the time of the transaction, Unum UK received cash of £24.5 million, recorded £0.4 million in accrued premiums receivable, assumed reserves of £22.2 million, and recorded a deferred gain of £2.7 million. The transaction did not materially impact operating results.

## Sales

Shown below are sales results in dollars and in pounds for the Unum UK segment.

(in millions)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
Group Long-term Disability	\$ 63.8	(12.2)%	\$72.7	(13.9)%	\$ 84.4
Group Life	53.8	174.5	19.6	48.5	13.2
Individual Disability	5.6	(22.2)	7.2	(7.7)	7.8
<b>Total Sales</b>	<b>\$123.2</b>	<b>23.8</b>	<b>\$99.5</b>	<b>(5.6)</b>	<b>\$105.4</b>
Group Long-term Disability	£ 40.9	3.0%	£39.7	(5.7)%	£ 42.1
Group Life	33.4	206.4	10.9	65.2	6.6
Individual Disability	3.6	(7.7)	3.9	—	3.9
<b>Total Sales</b>	<b>£ 77.9</b>	<b>42.9</b>	<b>£54.5</b>	<b>3.6</b>	<b>£ 52.6</b>

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales in Unum UK increased in 2009 compared to 2008, aided by the exit of another large insurance provider from the U.K. group risk market. Excluding the sales related to this exit of this provider, Unum UK sales increased 8.6 percent in 2009 compared to the prior year. The sales growth in group life was attributable to sales growth in both the core market, which we define for Unum UK as employee groups with fewer than 500 lives, and in the large case market. Group disability also had sales increases in both market segments. Sales of group long-term disability and group life were both unfavorably impacted during 2009 by lower sales to existing accounts.

Sales in Unum UK increased in 2008 compared to 2007 primarily due to growth in group life sales offset partially by a decrease in sales for group long-term disability. In the U.K., legislative changes that removed discrimination by employers on the basis of age, therefore encouraging the extension of insurance coverage, became effective in October 2006. During 2007, Unum UK took advantage of the opportunities offered by age equality legislation, with £7.4 million of additional sales during 2007 compared to only £2.0 million in 2008. Excluding sales related to the change in age equality legislation, Unum UK achieved underlying sales growth of approximately 16 percent in 2008 as compared to 2007.

## Segment Outlook

During 2009, we experienced an unfavorable impact on sales to existing customers and premium growth, and we expect this may continue in the near term if current economic conditions persist. Our sales and premium growth could also be further impacted by a prolonged competitive pricing environment in the U.K. We have thus far not experienced any significant deterioration in disability claims incidence or claim recoveries, but similar to Unum US, disability claim incidence and claim recovery rates may be influenced by the current economic environment. Unum UK has an immaterial amount of goodwill recorded on its balance sheet at year end 2009, none of which is currently believed to be at risk for future impairment. We continuously monitor key indicators to assess our risk to the economic slowdown and attempt to adjust our business plans accordingly. Continued fluctuations in the U.S. dollar relative to the British pound sterling impact our reported operating results.

Our current growth strategy focuses on generating organic growth and expanding our role as the leading provider of group disability insurance in the U.K. Our strategy for future growth combines optimizing the performance of our existing business while developing new market opportunities. We intend to optimize performance of the existing business by (i) improving customer service, (ii) expanding our broker market capabilities and sales effectiveness, and (iii) building on and adapting our existing products to meet emerging customer needs. We intend to develop new market opportunities for employee paid workplace solutions by offering a broader integrated product with simpler, defined choices and flexible funding options through a streamlined and efficient platform with online capabilities matched to broker and employer needs.

During 2010, we will continue our commitment to our risk management culture as we focus on the achievement of sustainable and profitable growth through disciplined pricing, premium persistency, risk selection, and claims management. We expect to maintain our strong leadership position in the U.K. during 2010. In the current competitive market and economic environment, we continue to have a cautious outlook for premium growth, but we believe we will be able to achieve overall premium growth during 2010 through improved persistency and increased sales to existing and new customers. Due to the disciplined cost management process we have implemented, we intend to continue to align our operating expenses with premium growth through the implementation of expense efficiencies. During 2010, we expect our margins to continue at the favorable level maintained during 2009 and 2008.

## Colonial Life Segment

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

### Operating Results

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

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income					
Accident, Sickness, and Disability	\$ 625.8	3.1%	\$ 606.9	7.1%	\$ 566.6
Life	165.6	5.2	157.4	9.7	143.5
Cancer and Critical Illness	223.7	5.0	213.0	8.1	197.1
Total Premium Income	1,015.1	3.9	977.3	7.7	907.2
Net Investment Income	114.3	8.1	105.7	5.8	99.9
Other Income	0.5	25.0	0.4	(55.6)	0.9
<b>Total</b>	<b>1,129.9</b>	<b>4.3</b>	<b>1,083.4</b>	<b>7.5</b>	<b>1,008.0</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	480.6	3.6	464.0	6.0	437.8
Commissions	215.3	1.7	211.8	5.1	201.6
Deferral of Acquisition Costs	(229.0)	2.3	(223.8)	6.1	(210.9)
Amortization of Deferred Acquisition Costs	178.5	7.3	166.4	8.1	153.9
Other Expenses	203.6	3.4	196.9	9.5	179.8
<b>Total</b>	<b>849.0</b>	<b>4.1</b>	<b>815.3</b>	<b>7.0</b>	<b>762.2</b>
<b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b>					
	\$ 280.9	4.8	\$ 268.1	9.1	\$ 245.8
Operating Ratios (% of Premium Income):					
Benefit Ratio	47.3%		47.5%		48.3%
Other Expense Ratio	20.1%		20.1%		19.8%
Before-tax Operating Income Ratio	27.7%		27.4%		27.1%
Premium Persistency:					
Accident, Sickness, and Disability	74.4%		75.8%		75.9%
Life	84.7%		84.7%		83.8%
Cancer and Critical Illness	83.8%		84.0%		84.1%

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

The lower level of premium growth in 2009 compared to the 2008 growth rate was attributable primarily to lower sales during the first half of 2009 and lower persistency in the accident, sickness, and disability product line. The lower persistency primarily relates to the loss of a few large policyholder accounts. We believe our lower premium growth was partially due to the current economic conditions which affected the buying patterns of employees and caused employers to defer introduction of new plans. Net investment income increased in 2009 in comparison to the prior year due to growth in the level of assets, an increased level of prepayment income on mortgage-backed securities, and a higher yield on the portfolio due to the investment of new cash at a higher yield than that of the existing portfolio.

The overall benefit ratio for this segment remained stable in 2009 relative to the prior year, with a lower benefit ratio in the life and cancer and critical illness lines of business partially offset by a slightly higher benefit ratio in the accident, sickness, and disability line of business. The life product line reported a lower benefit ratio in 2009 relative to the prior year due to a change in the mix of life business and the resulting lower change in the active life reserve. The cancer and critical illness product line reported a lower benefit ratio in 2009 relative to the prior year due primarily to a release of active life reserves, partially offset by an increase in disabled life reserves associated with the older cancer products. The increase in the benefit ratio in the accident, sickness and disability line of business resulted primarily from a slight increase in the claim incidence rates relative to the favorable experience of last year.

The amortization of deferred acquisition costs was higher in 2009 due to the continued increase in the level of deferred acquisition costs as well as the fluctuation in amortization related to certain of our interest-sensitive policies.

## Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Growth in premium income for 2008 compared to 2007 was attributable primarily to stable persistency and an increase in sales during 2008 and 2007. Net investment income increased in 2008 in comparison to 2007 due to growth in the level of assets and a higher yield on the portfolio.

The benefit ratio decreased in 2008 in comparison to 2007 due primarily to favorable risk experience in the accident, sickness, and disability line of business, offset somewhat by higher benefit ratios in the life and cancer and critical illness lines of business. The improvement in the accident, sickness, and disability line of business resulted from favorable experience related to several new products introduced between 2002 and 2004. The life line of business benefit ratio was higher in 2008 relative to 2007 due to a higher level of death claims and a higher average claim cost. The cancer and critical illness product line reported a higher benefit ratio in 2008 relative to 2007 due primarily to unfavorable claim experience associated with the older cancer products.

The other expense ratio for 2008 increased in comparison to 2007 due primarily to field expansion and development.

## Sales

(in millions of dollars)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
Accident, Sickness, and Disability	\$221.1	(0.5)%	\$222.1	5.1%	\$211.3
Life	68.3	6.7	64.0	(4.0)	66.7
Cancer and Critical Illness	54.4	0.6	54.1	(4.9)	56.9
<b>Total Sales</b>	<b>\$343.8</b>	<b>1.1</b>	<b>\$340.2</b>	<b>1.6</b>	<b>\$334.9</b>

Colonial Life's sales in 2009 increased 1.1 percent relative to last year, with 7.2 percent growth in new account sales and a decline of 2.3 percent in existing account sales. We experienced sales growth of 11.8 percent in the public sector market and a slight increase in sales in the commercial market segment with more than 500 lives. These sales increases were partially offset by a sales decline of 2.6 percent in the commercial core market segment, which we define for Colonial Life as employee groups with fewer than 500 lives. The number of new accounts in 2009 increased relative to 2008, while the new account annualized sales premium per case sold declined.

Colonial Life's 2008 sales increased in the commercial core market segment as compared to 2007 sales levels. Partially offsetting this increase was a decrease in sales in the commercial market segment for employee groups with more than 500 lives and a decrease in the public sector markets for state and federal governments. The number of new accounts and the new account annualized sales premium per case sold both increased in 2008 over 2007.

## Segment Outlook

During 2009, economic conditions had an unfavorable impact on existing account sales and on premium growth, and we expect this trend may continue in the near term if current economic conditions persist and continue to affect employment growth, the buying patterns of employees, and the deferral by employers of the introduction of new employee benefit plans. Periods of economic downturns have historically had minimal impact on the risk results of Colonial Life, due primarily to a diversified product portfolio that is designed with short duration, indemnity benefits. During 2009, we did not experience a significant increase in claim incidence levels in the aggregate or in any particular market sector. We continuously monitor key indicators to assess our risk to an economic slowdown or recession and attempt to adjust our business plans accordingly.

Given the general stability and consistency of our risk results, we intend to continue to concentrate on developing our agency distribution system and implementing marketing strategies to accelerate sales growth. We believe our value proposition, through which we serve as benefits counselors for employers and employees and as a single source for benefits communication, voluntary insurance products, and enrollment services, is well positioned for changes in the voluntary market. Our 2010 growth strategy will focus on (i) distribution expansion and effectiveness, (ii) benefits communication, primarily through one-to-one enrollment, (iii) targeted marketing programs to accelerate new account growth and better penetrate existing accounts, and (iv) balanced growth in our market segments.

During 2010, we will continue with our commitment to fostering our risk management culture while we seek to further expand our market opportunities. While we expect sales and premium growth to be modest in the near term, strong profit margins are expected to continue. We believe sales and premium growth will reaccelerate as the economy improves and employment growth resumes.

## Individual Disability—Closed Block Segment

The Individual Disability—Closed Block segment generally consists of those individual disability policies in-force before the substantial changes in product offerings, pricing, distribution, and underwriting, which generally occurred during the period 1994 through 1998. A small amount of new business continued to be sold after these changes, but we stopped selling new policies in this segment at the beginning of 2004 other than update features contractually allowable on existing policies.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Operating Results

Shown below are financial results and key performance indicators for the Individual Disability—Closed Block segment.

(in millions of dollars, except ratios)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income	\$ 898.5	(5.6)%	\$ 952.3	(5.7)%	\$1,009.9
Net Investment Income	740.6	(3.5)	767.5	(7.3)	827.6
Other Income	100.8	2.2	98.6	(4.9)	103.7
<b>Total</b>	<b>1,739.9</b>	<b>(4.3)</b>	<b>1,818.4</b>	<b>(6.3)</b>	<b>1,941.2</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	1,489.6	(3.6)	1,544.8	(4.3)	1,614.5
Commissions	58.1	(7.3)	62.7	(9.3)	69.1
Interest and Debt Expense	16.6	(52.7)	35.1	N.M.	8.3
Other Expenses	141.3	(4.6)	148.1	5.9	139.8
<b>Total</b>	<b>1,705.6</b>	<b>(4.8)</b>	<b>1,790.7</b>	<b>(2.2)</b>	<b>1,831.7</b>
<b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b>					
	\$ 34.3	23.8	\$ 27.7	(74.7)	\$ 109.5
Interest Adjusted Loss Ratio <sup>(1)</sup>	81.6%		82.2%		84.1%
Operating Ratios (% of Premium Income):					
Other Expense Ratio <sup>(2)</sup>	15.7%		15.6%		13.8%
Before-tax Operating Income Ratio <sup>(3)</sup>	3.8%		2.9%		10.8%
Premium Persistency	93.2%		93.8%		94.3%

N.M. = not a meaningful percentage

(1) Included in this ratio for 2007 is a credit of \$10.7 million related to the claim reassessment process. Excluding this credit, the interest adjusted loss ratio for 2007 would have been 85.2%.

(2) Included in this ratio for 2007 is an expense reduction of \$2.5 million related to the claim reassessment process. Excluding this item, the other expense ratio for 2007 would have been 14.1%.

(3) Included in this ratio for 2007 is a credit of \$13.2 million related to the claim reassessment process. Excluding this credit, the before-tax operating income ratio for 2007 would have been 9.5%.

### Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

The decrease in premium income for 2009 relative to the prior year is due to the expected run-off of this block of closed business due to lower persistency and policy maturities. Net investment income decreased in 2009 relative to the prior year due to lower interest rates on floating rate assets as well as a lower level of assets supporting this closed block of business, partially offset by an increased level of prepayment income on mortgage-backed securities. We also received fewer bond call premiums and consent fees during 2009 compared to 2008.

Other income, which includes the underlying results of certain blocks of reinsured business and the net investment income of portfolios held by those ceding companies to support the block we have reinsured, increased slightly compared to the prior year due to favorable experience in the reinsured blocks.

The interest adjusted loss ratio for 2009 declined slightly relative to the prior year due to higher claim recoveries. Interest and debt expense decreased from the prior year due to lower rates of interest on our floating rate debt issued by Northwind Holdings and a decrease in the amount of outstanding debt resulting from principal repayments.

The other expense ratio increased slightly in 2009 when compared to 2008 due primarily to the decline in premium income. Included in 2008 other expenses is a \$4.7 million litigation settlement.

### Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

The decrease in premium income for 2008 relative to 2007 is due to the expected run-off of this block of closed business due to persistency and policy maturities. Net investment income decreased in 2008 compared to 2007 due to a decrease in bond call premiums, a lower level of assets, and a decline in the portfolio yield for this segment. During the fourth quarter of 2007, we entered into an intercompany reinsurance transaction which allowed us to release excess statutory capital previously supporting this reinsured closed block of business. As a result, the capital allocated to our Individual Disability—Closed Block segment declined, with a resulting decrease in net investment income due to the lower asset levels needed to support allocated capital. Because this is an intercompany reinsurance arrangement, reported results remain unchanged for this segment other than the lower net investment income.

Other income declined in 2008 relative to 2007, primarily due to a lower level of assets and the resulting lower level of net investment income on certain blocks of business we have reinsured.

The interest adjusted loss ratio was lower in 2008 compared to 2007, excluding the decrease in our claim reassessment reserve estimate, due primarily to lower average size of new claims and fewer reopened claims.

Interest and debt expense on the debt issued in the fourth quarter of 2007 is higher in 2008 because it represents a full year of expense compared to a partial year of expense in 2007.

The other expense ratio is higher for 2008 relative to 2007 due to a \$4.7 million litigation settlement as well as higher legal fees related to two pending cases.

### Segment Outlook

We expect that this segment may experience volatility in net investment income due to the variability in interest rates on floating rate assets and also due to a reduced level of bond call premiums relative to historical levels. A portion of the volatility in interest income will be offset by commensurate changes in the interest expense on our floating rate debt.

We expect that operating revenue and income will continue to decline over time as this closed block of business winds down. We believe that the interest adjusted loss ratio for this block of business will be relatively flat over the long term, but the segment may experience quarterly volatility. Claim resolution rates, which measure the resolution of claims from recovery, deaths, settlements, and benefit expirations, are very sensitive to operational and environmental changes and can be volatile. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible that variability in our reserve assumptions could result in a material impact on our reserve levels.

### Corporate and Other Segment

The Corporate and Other segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business. Corporate and Other also includes results from certain Unum US insurance products not actively marketed, including individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities. We expect operating revenue and income resulting from these insurance products to decline over time as these business lines wind down.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Operating Results

(in millions of dollars)	Year Ended December 31				
	2009	% Change	2008	% Change	2007
<b>Operating Revenue</b>					
Premium Income	\$ 2.7	92.9%	\$ 1.4	(17.6)%	\$ 1.7
Net Investment Income	166.7	(15.6)	197.5	9.1	181.0
Other Income	34.8	(17.5)	42.2	37.0	30.8
<b>Total</b>	<b>204.2</b>	<b>(15.3)</b>	<b>241.1</b>	<b>12.9</b>	<b>213.5</b>
<b>Benefits and Expenses</b>					
Benefits and Change in Reserves for Future Benefits	91.9	(14.7)	107.8	(6.4)	115.2
Commissions	0.4	(66.7)	1.2	(36.8)	1.9
Interest and Debt Expense	106.8	(9.0)	117.4	(48.1)	226.1
Other Expenses	64.3	124.0	28.7	(7.7)	31.1
<b>Total</b>	<b>263.4</b>	<b>3.3</b>	<b>255.1</b>	<b>(31.8)</b>	<b>374.3</b>
<b>Operating Loss Before Income Tax and Net Realized Investment Gains and Losses</b>					
	<b>\$(59.2)</b>	<b>N.M.</b>	<b>\$(14.0)</b>	<b>91.3</b>	<b>\$(160.8)</b>

N.M. = not a meaningful percentage

## Non-Insurance Product Results

Operating revenue was \$71.1 million in 2009 compared to \$106.0 million and \$74.9 million in 2008 and 2007, respectively. Operating losses were \$91.9 million in 2009 compared to \$30.6 million and \$178.3 million in 2008 and 2007, respectively.

The decrease in operating revenue in 2009 compared to 2008 is due primarily to a decrease in net investment income resulting from lower interest rates on short-term investments. Operating revenue in 2008 included \$7.6 million of other income received during 2008 related to a refund of interest primarily attributable to tax years 1986 through 1996. Operating revenue in 2008 was also favorable to the level of 2007 due to an increase in net investment income resulting from higher asset levels.

Interest and debt expense declined in 2009 relative to 2008 due primarily to lower average levels of outstanding debt. Interest expense declined in 2008 relative to 2007 due to the replacement, in the fourth quarter of 2007, of older fixed rate debt held in Corporate and Other with non-recourse debt issued in conjunction with the securitization of our closed block of individual disability reserves and held in the Individual Disability—Closed Block segment. Costs related to early retirement of debt were \$58.8 million in 2007 and minimal in the other periods presented. See "Debt" contained herein for further discussion.

Other expenses were \$56.2 million in 2009 compared to \$19.2 million and \$27.1 million in 2008 and 2007, respectively. The increase in other expenses for 2009 is due primarily to increased pension costs of approximately \$42.0 million. Included in the 2007 other expenses is a securities litigation settlement accrual of \$11.6 million.

## Insurance Product Results

Operating revenue for our insurance products was \$133.1 million in 2009, compared to \$135.1 million and \$138.6 million in 2008 and 2007, respectively. These closed lines of business had operating income of \$32.7 million in 2009, compared to \$16.6 million and \$17.5 million in 2008 and 2007, respectively.

## Segment Outlook

The general economic outlook for corporate bond defaults continues to be high relative to historical levels. We have tested whether our capital plans have sufficient cushion to absorb possible losses. We believe the current level of cash and marketable securities at our holding companies as well as the level of our statutory risk-based capital position us well for the current economic environment. It is possible, however, that defaults in our investment portfolio will result in realized investment losses, reduced net investment income, and lower statutory capital. Depending on the magnitude of defaults, it is possible that we would need to seek external financing.

During 2010, we will continue our disciplined approach to growth and risk management. We expect our capital to continue to build as we take a conservative approach to capital deployment and seek to retain significant financial flexibility. Interest and debt expense will be higher in 2010 as compared to 2009 due to the issuance of debt on September 30, 2009, as previously discussed. We expect that 2010 pension costs will be approximately \$15.0 million lower than the level of 2009.

## Discontinued Operations

During the first quarter of 2007, we completed the sale of GENEX and recognized an after-tax gain on the transaction of approximately \$6.2 million. This gain is included with income from discontinued operations in our consolidated statements of income. Also included in discontinued operations is after-tax income for GENEX of \$0.7 million in 2007. See Note 2 of the "Notes to Consolidated Financial Statements" for additional information.

## Investments

### Overview

Our investment portfolio is well diversified by type of investment and industry sector. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We believe our portfolio is positioned to moderate the potential impact on our financial position and operating results from a continuing economic slowdown.

We have no exposure to subprime mortgages, "Alt-A" loans, or collateralized debt obligations in our asset-backed or mortgage-backed securities portfolios. At December 31, 2009, we held \$17.1 million fair value (\$17.0 million amortized cost) of collateralized debt obligations within our public bond portfolio. We had \$175.4 million fair value (\$185.7 million amortized cost) of exposure to investments for which the payment of interest and principal is guaranteed under a financial guaranty insurance policy. The weighted average rating of the underlying securities, absent the guaranty insurance policy, is A2. We held \$363.4 million fair value (\$410.7 million amortized cost) of perpetual debentures, or "hybrid" securities, that generally have no fixed maturity date. Interest on these securities due on any payment date may be deferred by the issuer. The interest payments are generally deferrable only to the extent that the issuer has suspended dividends or other distributions or payments to any of its shareholders or any other perpetual debt instrument.

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

- The majority of investments are in high quality publicly traded securities to ensure the desired liquidity and preserve the capital value of our portfolios.
- The long-term nature of our insurance liabilities also allows us to invest in less liquid investments to obtain superior returns. A maximum of 10 percent of the total investment portfolio may be invested in below-investment-grade securities, 2 percent in equity type instruments, up to 35 percent in private placements, and 10 percent in commercial mortgage loans. The remaining assets can be held in publicly traded investment-grade corporate securities, mortgage-backed securities, bank loans, asset-backed securities, government and government agencies, and municipal securities.
- We intend to manage the risk of losses due to changes in interest rates by matching asset duration with liabilities, in the aggregate, to within a range of +/- ten percent of the liability duration.
- The weighted average credit quality rating of the portfolio should be Baa1 or higher.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Rating	Internal Limit (\$ in millions)
AAA/A	\$200
BBB+	175
BBB	100
BBB-	80
BB+	80
BB	60
BB-	50
B	20

- The portfolio is to be diversified across industry classification and geographic lines.
- Derivative instruments may be used to replicate permitted asset classes, hedge interest rate risk and foreign currency risk, and match liability duration and cash flows consistent with the plan reviewed by the finance committee of Unum Group's board of directors and approved by the boards of directors of our insurance subsidiaries.
- Asset mix guidelines and limits are established by us, reviewed by the finance committee of Unum Group's board of directors, and approved by the boards of directors of our insurance subsidiaries.
- The allocation of assets and the selection and timing of the acquisition and disposition of investments are subject to ratification, on a weekly basis, by an investment subcommittee appointed by the boards of directors of our insurance subsidiaries. These actions are also reviewed by the finance committee of Unum Group's board of directors on a quarterly basis.
- We review these investment policies and guidelines annually, or more frequently if deemed necessary, and recommend adjustments, as appropriate. Any revisions are reviewed by the finance committee of Unum Group's board of directors and must be approved by the boards of directors of our insurance subsidiaries.

See "Critical Accounting Estimates" contained herein for further discussion of our valuation of investments.

## Investment Results

Net investment income was \$2,346.6 million in 2009, a decrease of 1.8 percent relative to 2008. The weaker pound in 2009 relative to 2008 unfavorably affected translated results for net investment income. During 2009, we also received lower investment income on bonds in Unum UK for which interest income is linked to a U.K. inflation index, as compared to the prior year. This decrease in net investment income was largely offset by lower claim reserves due to lower claim payments which are also linked to inflation. In addition, we earned lower interest rates on our floating rate invested assets during 2009, largely offset by lower interest expense on our floating rate debt. We also received fewer bond call premiums and consent fees during 2009 compared to the prior year. Somewhat mitigating the impact of these items is continued growth in the level of invested assets, an increase in the level of prepayment income on mortgage-backed securities, and an increase in our portfolio yield due to the investment of new cash at higher rates than that of the prior year.

Net investment income was \$2,389.0 million in 2008, a decrease of 0.9 percent relative to 2007. The level of invested assets was higher in 2008 compared to 2007, but we received fewer bond call premiums during 2008. The weaker British pound in 2008 relative to 2007 also unfavorably affected translated results for net investment income. Our portfolio yield increased slightly in 2008 over 2007 due to the investment of new cash at higher rates than that of prior periods.

The duration weighted book yield on the fixed income securities in our investment portfolio was 6.74 percent as of December 31, 2009, and the weighted average credit rating was A3. This compares to a yield of 6.72 percent as of December 31, 2008 and a weighted average credit rating of A2. At December 31, 2009, the weighted average duration of our policyholder liability portfolio was approximately 8.23 years, and the weighted average duration of our investment portfolio supporting those policyholder liabilities was approximately 7.08 years. The difference between the asset and liability durations is outside our investment policy guidelines. We are currently reviewing our investment strategy as well as our tolerance levels.

Realized investment gains and losses, before tax, are as follows:

(in millions of dollars)	Year Ended December 31		
	2009	2008	2007
Fixed Maturity Securities			
Gross Gains on Sales	\$ 48.6	\$ 64.9	\$ 56.0
Gross Losses on Sales	(83.5)	(80.8)	(29.1)
Other-Than-Temporary Impairment Loss	(211.8)	(151.1)	(53.7)
Mortgage Loans and Other Invested Assets			
Gross Gains on Sales	11.5	13.5	49.8
Gross Losses on Sales	(0.4)	(3.8)	(8.3)
Impairment Loss	(8.1)	(15.0)	(22.5)
Embedded Derivative in Modified Coinsurance Arrangement	243.1	(291.7)	(57.3)
Other Derivatives	12.3	(1.9)	(0.1)
Net Realized Investment Gain (Loss)	\$ 11.7	\$(465.9)	\$(65.2)

### Realized Investment Losses \$10.0 Million or Greater from Other-Than-Temporary Impairments

- During 2009, we recognized an other-than-temporary impairment loss of \$33.3 million on securities issued by a U.S. media conglomerate. The company reported mixed fourth quarter 2008 operating results as its outdoor advertising weakened significantly. During the first quarter of 2009, the company borrowed \$1.6 billion against its lines of credit and completed a tender/exchange offer to improve its near term debt maturity profile. Continued signs that the company's operations weakened materially in the first quarter 2009, as well as the continued weakness in the economy at that time, led us to believe that covenant violations could occur in the near future. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.
- During 2009, we recognized an other-than-temporary impairment loss of \$32.9 million on securities issued by a U.K. financial institution. The decline in value of the securities is primarily the result of the global credit crisis and the slowdown in the economy. In addition, this financial institution made a major acquisition during the peak of the past credit cycle. The financial institution then had to recognize impairments on loans and other assets held by the acquired company, resulting in the need for additional capital. This capital was initially provided by shareholders and others, but as the economic environment further deteriorated, the financial institution participated in the government guarantee of senior debt, capital injections, and an asset protection scheme. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.
- During 2009, we recognized an other-than-temporary impairment loss of \$23.9 million on securities issued by a U.S. automotive parts company. Due to the weak economy, automobile production had decreased dramatically, with the expectation of further production reductions at the time of the impairment loss. Declining earnings caused the company to be out of compliance with covenants in certain of its debt issues. The company eventually obtained waivers on these covenants, the terms of which precluded the company from making interest payments on certain of its other debt issues. The company was unable to cure this default within the grace period and ultimately was forced to file for bankruptcy. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

- During 2009, we recognized an other-than-temporary impairment loss of \$23.7 million on principal protected equity linked trust certificates representing our investment in a trust which held forward contracts to purchase shares of a Vanguard S&P 500 index mutual fund. We recognized the other-than-temporary impairment loss because we intended to sell the security. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than one year but less than two years.
- During 2009, we recognized an other-than-temporary impairment loss of \$20.1 million on securities issued by a large specialty chemical company. The company reported fourth quarter 2008 earnings that were weaker than expected, which limited its prospects of refinancing its 2009 debt maturities. The company had been pursuing asset sales to raise cash but was unable to do so in time to avoid a financial restructuring. During the first quarter of 2009, the company filed for bankruptcy protection. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than two years but less than three years.
- During 2009, we recognized an other-than-temporary impairment loss of \$19.5 million on securities issued by a U.S. automotive parts company. The majority of the company's revenues are generated by sales to a single domestic automobile manufacturer. Due to the weak economy, automobile production had decreased dramatically, with the expectation of further production cuts. The U.S. government made available a \$5 billion credit facility to several automotive parts companies to help maintain automotive supplier liquidity. However, with their largest customer likely to undergo a major financial restructuring and/or bankruptcy filing, the company faced increased challenges. In March 2009 its external auditors stated there was "substantial doubt" about the company's ability to continue as a going concern if the automotive industry's financial problems were not resolved soon. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.
- During 2009, we recognized an other-than-temporary impairment loss of \$17.5 million on securities issued by a U.K. financial institution. During 2008, a significant decrease in funding liquidity ultimately required the U.K. government to nationalize this institution. In this process, the government provided guarantees on deposits, senior debt, and loans. Since 2008, the company initiated several programs to improve its liquidity and to repay the loans to the government. In the first quarter of 2009, the company announced it had developed a plan for a legal and capital restructuring of the company, which it expected to complete in the second half of 2009. During the second quarter of 2009, the company submitted its plan to the European Commission (EC) and requested permission to begin the program under EC competition rules. The EC released various aspects of the company's restructuring plan, which included splitting the company into multiple entities. It appeared we would be unable to recover the entire cost basis of our securities, which are subordinate to the government's debt as well as other creditors. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than two years but less than three years.
- During 2008, we recognized an other-than-temporary impairment loss of \$39.3 million on a principal protected equity linked note which contained an embedded forward contract to purchase shares of a Vanguard S&P 500 index mutual fund. The note also provided principal protection through the substitution of highly rated bonds in place of the underlying S&P 500 index mutual fund, should a specified trigger event occur. At the time of the impairment loss, the decline in the S&P 500 index had not been significant enough to trigger the substitution of the highly rated bonds, but due to the then recent steep decline in the S&P 500 index, we could no longer conclude that the value of the underlying S&P 500 index mutual fund would equate to or exceed the par value of the security at maturity. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.
- During 2008, we recognized an other-than-temporary impairment loss of \$32.0 million on securities issued by a U.S. based automobile manufacturer and its captive finance subsidiary. The company experienced a decline in profitability and cash flow due to the weak economic environment. Although at the time of the impairment loss the company had not yet received government bailout money, the probability of receiving some form of government financial aid had significantly increased. Other U.S. automakers that had received bailout money were expected to request their bondholders to accept a significant reduction in principal. In order for this company to stay competitive with other U.S. automakers, it was likely that it, too, would seek debt relief from its bondholders and that we would not recover our entire principal for these securities. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than three years.

- During 2008, we recognized an other-than-temporary impairment loss of \$27.8 million on securities issued by a large investment banking firm. The company experienced a rapid deterioration in its credit and derivatives portfolio, which made it impossible for the firm to raise additional capital or to sell assets to increase liquidity. The inability to raise capital forced the company to file for bankruptcy protection in the third quarter of 2008. The firm was rated A2 by Moody's and A by S&P at the time of the bankruptcy filing. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than two years but less than three years.
- During 2008, we recognized an other-than-temporary impairment loss of \$21.6 million on securities issued by a large publisher of yellow page advertising. The outlook for this industry had continued to worsen due to the secular change impacting the industry and due to weak economic conditions. The company's third quarter 2008 earnings were down significantly as compared to prior periods, and bad debt expense and financial leverage increased significantly. These financial results increased the likelihood that the company might violate bank covenants and seek waivers from its bondholders. Additionally, the company had hired external consultants to advise it on potential capital restructuring alternatives. These events increased the likelihood that the company would seek to tender its bonds at a discounted value and that our bonds would not fully recover in value. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than one year but less than two years.
- During 2008, we recognized an other-than-temporary impairment loss of \$12.9 million on securities issued by a large international chemical company. The company's third quarter 2008 operating results were weak due to recessionary industry conditions and the negative impact of hurricane activity on its oil refinery operations. Due to these factors, the company experienced a significant decline in its liquidity. In late December 2008, lenders denied the company's request to obtain additional funding from its existing line of credit. As a result, the company's liquidity was insufficient to fund required cash outflows, and the company hired external consultants to advise it on potential capital restructuring alternatives. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than one year but less than two years.
- During 2008, we recognized an other-than-temporary impairment loss of \$12.1 million on securities issued by a large newspaper publishing company. The outlook for this industry had continued to deteriorate due to the secular change away from newspaper advertising and weak economic conditions. The company reported poor third quarter 2008 operating results. The increase in leverage and lower cash flows increased the likelihood that the company might violate its bank covenants. The company had attempted to sell non-core assets to reduce its debt, but it had been unable to execute a sale. As a result, it was likely that our bonds would not fully recover in value. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than two years but less than three years.
- During 2007, we recognized an other-than-temporary impairment loss of \$15.0 million on bonds issued by a large media company. The company was the subject of a leveraged buyout that placed a large amount of debt on the balance sheet during 2007. Because of our outlook for the future business prospects of this issuer, the length of time these securities had been in an unrealized loss position, and a change in our intent to retain the security for a sufficient period of time for it to recover, we determined that an other-than-temporary impairment had occurred. These securities were investment-grade at the time of purchase but were downgraded to below-investment-grade in the second quarter of 2006. At the time of the impairment, these securities had been in an unrealized loss position for a period of greater than two years.
- During 2007, we recognized losses of \$18.4 million related to the decline in fair value below amortized cost for certain securities for which it was determined during the third quarter of 2007 that we no longer had the intent to hold to recovery or maturity due to anticipated changes in our capital requirements resulting from the reinsurance transactions involving our Individual Disability—Closed Block segment business and the related issuance of \$800.0 million of notes, as well as our capital redeployment plans.
- During 2007, we recorded an adjustment to the book values and related unrealized loss of two securitized asset trusts acquired in 2001 to reflect the values that would have been present had we recorded the investment income as dividends rather than interest accretion. The book value adjustment of \$20.2 million was recognized as a realized investment loss. Because the investments no longer satisfied our investment objectives, we subsequently sold the trusts in 2007 and recognized a realized investment gain of \$24.9 million on the sale.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Realized Investment Losses \$10.0 Million or Greater from Sale of Fixed Maturity Securities

- During 2009, we recognized a loss of \$14.2 on the sale of securities issues by a large publisher of yellow page advertising. The company had suffered from deterioration in print directories' advertising as well as a significant rise in bad debt expenses due to the impact of the recession on small business customers. The company maintained significant amounts of available cash and was still generating free cash flows despite the weakening economy. However, during the first quarter of 2009, the company announced that it had hired a financial adviser to review its capital structure alternatives regarding debt payments due in 2010. At the time of disposition, these securities had been in an unrealized loss position for a period of greater than three years.
- During 2008, we recognized a loss of \$16.2 million on the sale of securities, issued by a large investment banking firm, for which we had recorded an impairment loss in 2008, as previously discussed.
- During 2008, we recognized a loss of \$10.1 million on the disposition of the principal protected equity linked note as previously discussed. The note's substitution clause was triggered in the fourth quarter of 2008 due to the continued decline in the S&P 500 index. At the time of the triggering event, we made the decision to take ownership in the underlying Vanguard S&P 500 index mutual fund shares rather than accept the zero coupon bonds issued by the financial services company. At the time of disposition, this note had been continuously in an unrealized loss position for a period of less than ninety days.

We had no individual realized investments losses \$10.0 million or greater from the sale of fixed maturity securities during 2007.

## Embedded Derivative in a Modified Coinsurance Arrangement

We report changes in the fair value of an embedded derivative in a modified coinsurance arrangement as realized investment gains and losses, as required under the provisions of GAAP. GAAP requires us to include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down. We therefore view the effect of realized gains and losses recognized for this embedded derivative as a reporting requirement that will not result in a permanent change in assets or stockholders' equity.

The changes in fair value of this embedded derivative recognized as realized gains and losses during 2009, 2008 and 2007 resulted primarily from a change in credit spreads in the overall investment market. The fair value of this embedded derivative was \$(117.4) million at December 31, 2009 compared to \$(360.5) million at December 31, 2008 and is reported in other liabilities in our consolidated balance sheets.

## Fixed Maturity Securities

The fair value composition by internal industry classification of our fixed maturity security portfolio and the associated unrealized gains and losses are as follows:

### Fixed Maturity Securities—By Industry Classification

As of December 31, 2009

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain (Loss)	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	\$ 2,077.1	\$ 46.2	\$ 558.3	\$ 62.5	\$ 1,518.8	\$ 108.7
Capital Goods	3,365.4	209.1	684.2	32.3	2,681.2	241.4
Communications	2,376.1	208.4	360.5	30.4	2,015.6	238.8
Consumer Cyclical	1,299.9	5.9	537.2	59.4	762.7	65.3
Consumer Non-cyclical	4,873.7	307.2	861.7	35.5	4,012.0	342.7
Energy (Oil & Gas)	3,033.3	301.4	281.4	13.2	2,751.9	314.6
Financial Institutions	3,045.3	(60.6)	1,611.1	132.0	1,434.2	71.4
Mortgage/Asset-backed	3,723.1	309.5	283.9	3.6	3,439.2	313.1
Sovereigns	1,491.5	133.7	75.9	1.3	1,415.6	135.0
Technology	809.9	56.6	171.0	5.0	638.9	61.6
Transportation	900.4	89.0	95.6	5.2	804.8	94.2
U.S. Government Agencies and Municipalities	2,096.1	(17.5)	918.4	101.4	1,177.7	83.9
Utilities	8,781.7	422.0	1,899.2	109.1	6,882.5	531.1
Redeemable Preferred Stocks	40.9	(1.9)	20.6	2.2	20.3	0.3
<b>Total</b>	<b>\$37,914.4</b>	<b>\$2,009.0</b>	<b>\$8,359.0</b>	<b>\$593.1</b>	<b>\$29,555.4</b>	<b>\$2,602.1</b>

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of December 31, 2009 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after December 31, 2009. The elevated level of unrealized losses at the end of 2008 and continuing into the early part of 2009 resulted primarily from the significant widening of credit spreads that occurred in the overall market.

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

(in millions of dollars)	2009				2008
	December 31	September 30	June 30	March 31	December 31
<b>Fair Value &lt; 100% &gt;= 70% of Amortized Cost</b>					
<= 90 Days	\$ 62.7	\$ 5.5	\$ 19.8	\$ 95.2	\$ 171.3
> 90 <= 180 Days	4.5	1.7	30.2	107.7	342.3
> 180 <= 270 Days	2.3	0.2	47.2	321.8	271.8
> 270 Days <= 1 Year	3.7	2.1	133.4	270.2	292.9
> 1 Year <= 2 Years	84.2	132.6	367.4	598.8	461.4
> 2 Years <= 3 Years	105.4	155.9	303.2	247.7	198.1
> 3 Years	160.6	170.3	435.0	455.9	404.2
Sub-total	423.4	468.3	1,336.2	2,097.3	2,142.0
<b>Fair Value &lt; 70% &gt;= 40% of Amortized Cost</b>					
<= 90 Days	—	—	—	4.1	—
> 90 <= 180 Days	—	—	—	2.1	8.6
> 180 <= 270 Days	—	—	3.0	29.3	76.6
> 270 Days <= 1 Year	—	2.7	—	71.0	76.4
> 1 Year <= 2 Years	16.5	—	87.1	197.6	261.2
> 2 Years <= 3 Years	0.2	2.2	94.8	172.9	69.9
> 3 Years	2.4	0.4	39.2	275.3	187.9
Sub-total	19.1	5.3	224.1	752.3	680.6
<b>Fair Value &lt; 40%</b>					
> 270 Days <= 1 Year	—	—	—	—	6.3
> 1 Year <= 2 Years	—	—	—	43.8	31.3
> 2 Years <= 3 Years	—	—	—	61.7	22.9
> 3 Years	0.5	0.6	0.6	13.2	0.6
Sub-total	0.5	0.6	0.6	118.7	61.1
<b>Total</b>	<b>\$443.0</b>	<b>\$474.2</b>	<b>\$1,560.9</b>	<b>\$2,968.3</b>	<b>\$2,883.7</b>

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

(in millions of dollars)	2009				2008
	December 31	September 30	June 30	March 31	December 31
<b>Fair Value &lt; 100% &gt;= 70% of Amortized Cost</b>					
<= 90 Days	\$ 0.1	\$ —	\$ 1.4	\$ 0.7	\$ 25.6
> 90 <= 180 Days	—	0.4	0.7	18.5	48.7
> 180 <= 270 Days	0.1	0.1	25.9	37.9	42.2
> 270 Days <= 1 Year	—	14.9	23.1	36.9	16.3
> 1 Year <= 2 Years	48.0	80.8	121.9	62.5	39.8
> 2 Years <= 3 Years	45.7	64.2	59.5	7.0	0.4
> 3 Years	24.3	21.3	34.2	20.7	26.6
Sub-total	118.2	181.7	266.7	184.2	199.6
<b>Fair Value &lt; 70% &gt;= 40% of Amortized Cost</b>					
> 90 <= 180 Days	—	—	—	23.1	17.5
> 180 <= 270 Days	—	—	8.8	16.8	32.3
> 270 Days <= 1 Year	—	7.1	9.7	37.9	18.4
> 1 Year <= 2 Years	10.9	48.4	121.0	197.7	160.8
> 2 Years <= 3 Years	1.3	25.2	38.7	36.1	28.1
> 3 Years	19.7	48.9	74.1	29.3	67.5
Sub-total	31.9	129.6	252.3	340.9	324.6
<b>Fair Value &lt; = 40%</b>					
> 180 <= 270 Days	—	—	—	—	6.2
> 270 Days <= 1 Year	—	—	—	2.7	15.3
> 1 Year <= 2 Years	—	—	—	73.2	39.7
> 2 Years <= 3 Years	—	—	12.1	28.8	37.1
> 3 Years	—	—	—	91.4	45.5
Sub-total	—	—	12.1	196.1	143.8
<b>Total</b>	<b>\$150.1</b>	<b>\$311.3</b>	<b>\$531.1</b>	<b>\$721.2</b>	<b>\$668.0</b>

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table shows our fixed maturity securities with a gross unrealized loss of \$10.0 million or greater, by industry type.

## Gross Unrealized Losses \$10.0 Million or Greater on Fixed Maturity Securities

As of December 31, 2009

(in millions of dollars)

Classification	Fair Value	Gross Unrealized Loss	Number of Issuers
<b>Investment-Grade</b>			
U.S. Government Agencies and Municipalities	\$541.8	\$59.7	2
Financial Institutions	168.4	27.5	3
Consumer Cyclical	22.6	10.6	1
<b>Total</b>	<b>\$732.8</b>	<b>\$97.8</b>	<b>6</b>
<b>Below-Investment-Grade</b>			
Basic Industry	\$ 24.9	\$15.6	1
Financial Institutions	23.5	10.1	1
<b>Total</b>	<b>\$ 48.4</b>	<b>\$25.7</b>	<b>2</b>

We held one security at December 31, 2009 with a gross unrealized loss of \$20.0 million or greater. The security, which was issued by the Federal Home Loan Mortgage Corporation, had a fair value of \$511.0 million and a gross unrealized loss of \$49.7 million. The security has been in a loss position for a period of greater than three years. The security was rated AAA by S&P as of December 31, 2009, with no negative outlook by any major rating agencies. The decline in the fair value of this security relates to changes in interest rates subsequent to purchase of the security as well as concerns related to the overall mortgage market. We believe the decline in fair value of this security is temporary. We do not intend to sell this security or believe it is more likely than not we will be required to sell this security before recovery of the amortized cost. See "Critical Accounting Estimates" contained herein and Note 4 of the "Notes to Consolidated Financial Statements" for a discussion of the process we use to monitor and evaluate our fixed maturity securities for determining other-than-temporary impairments.

At December 31, 2009, our mortgage/asset-backed securities had an average life of 5.66 years, effective duration of 4.61 years, and a weighted average credit rating of AAA. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. The primary risk involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income.

We have not invested in mortgage-backed derivatives, such as interest-only, principal-only, or residuals, where market values can be highly volatile relative to changes in interest rates. All of our mortgage-backed securities have fixed rate coupons. The credit quality of our mortgage-backed securities portfolio has not been negatively impacted by the recent issues in the market concerning subprime mortgage loans. The change in value of our mortgage-backed securities portfolio has moved in line with that of prime agency-backed mortgage-backed securities.

As of December 31, 2009, the amortized cost and fair value of our below-investment-grade fixed maturity securities was \$2,671.8 million and \$2,589.8 million, respectively. Below-investment-grade securities are inherently more risky than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

## Mortgage Loans

Our mortgage loan portfolio was \$1,404.0 million and \$1,274.8 million on an amortized cost basis at December 31, 2009 and 2008, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We expect that we will continue to add investments in this category either through the secondary market or through loan originations. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity continues to be low. Due to conservative underwriting, we expect the level of problem loans to remain low relative to the industry. At December 31, 2009, we held one mortgage loan which was delinquent more than 30 days as to interest or principal payments and which we consider impaired. This loan is carried at the estimated net realizable value of \$2.0 million, net of a valuation allowance of \$3.2 million. At December 31, 2008, impaired mortgage loans totaled \$5.2 million. We had no valuation allowance for mortgage loans at December 31, 2008.

See Note 4 of the "Notes to Consolidated Financial Statements" for further discussion of our investments.

## Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment risk, duration, and currency risk. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps, current and forward currency swaps, interest rate forward contracts, forward treasury locks, currency forward contracts, and forward contracts on specific fixed income securities. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$7.0 million at December 31, 2009. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$123.1 million at December 31, 2009. We believe that our credit risk is mitigated by our use of multiple counterparties, all of whom are rated A or better by both Moody's and S&P. See Note 5 of the "Notes to Consolidated Financial Statements" for further discussion of our derivative financial instruments.

## Other

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled \$35.5 million and \$11.8 million on a fair value basis at December 31, 2009 and 2008, respectively.

## Liquidity and Capital Resources

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

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

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

We have met all minimum pension funding requirements set forth by ERISA. We made a voluntary contribution of \$67.0 million to our U.S. qualified defined benefit pension plan in February 2010. We do not anticipate making any additional contributions during 2010. We have estimated our future funding requirements under the Pension Protection Act of 2006 and do not believe that the funding requirements will cause a material adverse effect on our liquidity.

We also contribute to our U.K. pension plan sufficient to meet the minimum funding requirement under U.K. legislation. We anticipate that we will make a contribution of approximately £3.4 million during 2010.

We issued \$350.0 million of senior notes against our open shelf registration on September 30, 2009. In the near term, we expect that our need for external financing is small, but changes in our business as noted above could increase our need. We previously had a \$250.0 million unsecured revolving credit facility that expired in December 2009. We believe our cash resources are sufficient to meet our liquidity requirements for the next 12 months and that our current level of holding company liquidity can be utilized to mitigate potential losses from defaults.

During 2010, we intend to retain a level of capital in our traditional U.S. insurance subsidiaries such that we maintain a weighted average RBC well above capital adequacy requirements. We also expect Unum Limited to operate above FSA capital adequacy requirements and minimum solvency margins.

## Consolidated Cash Flows

Our cash flows from discontinued operations are combined with cash flows from continuing operations within each cash flow statement category in our 2007 consolidated statement of cash flows. The absence of cash flows from discontinued operations did not materially affect liquidity and capital resources.

### Operating Cash Flows

Net cash provided by operating activities was \$1,237.0 million for the year ended December 31, 2009, compared to \$1,326.1 million and \$1,750.3 million for the comparable periods of 2008 and 2007, respectively. Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on renewals of existing business, renewal price increases, and stable persistency. Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and on the level of portfolio yield rates. The level of commissions and operating expenses is attributable to the level of sales and the first year acquisition expenses associated with new business as well as the maintenance of existing business. The level of paid claims is due partially to the growth and aging of the block of business and also to the general economy, as previously discussed in the operating results by segment. Operating cash flows for 2009, 2008, and 2007 include pension contributions of approximately \$79.7 million, \$140.9 million, and \$124.8 million, respectively. We also had increased cash inflows of approximately \$211.4 million in 2007 due to the reinsurance recapture of a small block of individual disability business.

The fluctuation in the income tax adjustment to reconcile 2009 and 2008 net income to net cash provided by operating activities was due primarily to changes in the deferred tax asset related to the change in the fair value of an embedded derivative in a modified coinsurance arrangement. The decrease in the "Other, Net" adjustment to reconcile net income to net cash provided by operating activities in 2008 compared to 2007 is due primarily to the 2007 reclassification of costs related to early retirement of debt to cash flows from financing activities.

### Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Net cash used by investing activities was \$1,213.9 million for the year ended December 31, 2009 compared to \$424.7 million and \$1,855.0 million for the comparable periods of 2008 and 2007, respectively.

Proceeds from sales and maturities of available-for-sale securities in 2009 were lower than 2008 primarily due to lower sales of fixed maturity securities, a decrease in bond maturities and bonds that were called at par, and the translation of investment proceeds from our U.K. operations at lower exchange rates. Proceeds from sales and maturities of available-for-sale securities in 2008 were consistent with the level of 2007 primarily due to an increase in bond maturities and bonds that were called at par, offset by a decrease in sales of fixed maturity securities, a lower level of proceeds from mortgage-backed securities prepayments, and the translation of investment proceeds from our U.K. operations at lower exchange rates.

Proceeds from sales and maturities of other investments increased in 2009 primarily due to an increase in sales of other long-term investments and an increase in proceeds from terminations of derivatives within our cash flow hedging programs. This increase was partially offset by a decline in proceeds from commercial mortgage loan maturities and prepayments. Proceeds from sales and maturities of other investments decreased in 2008 relative to 2007 primarily due to lower proceeds from the sale of common stock investments and a reduction in commercial mortgage loan maturities and prepayments. The reduction in cash flows received from sales and maturities of other investments was partially offset by higher proceeds in 2008 from terminations of derivatives within our cash flow hedging programs.

Purchases of available-for-sale securities decreased during 2009 relative to 2008. This decrease resulted from fewer funds available for reinvestment as compared to the prior year due to the lower level of proceeds from sales of available-for-sale securities and from the lower exchange rate for translation of purchases within our U.K. operations. Purchases of available-for-sale securities decreased during 2008 relative to 2007 due to the lower exchange rate for translation of purchases within our U.K. operations and to investing more heavily in short-term investments rather than fixed maturity securities during the last half of 2008. During the first half of 2008, we invested more heavily in fixed maturity securities as we continued to transition out of short-term investments into floating rate fixed maturity securities to support the floating rate debt issued during the fourth quarter of 2007. Purchases of available for sale securities in 2007 included the investing of the net cash inflows of \$98.8 million from the sale of GENEX and the \$211.4 million in cash inflows from the reinsurance recapture.

Purchases of other investments primarily relate to mortgage loans.

Net sales of short-term investments decreased during 2009 relative to 2008 due to the sale of investments during 2008 to help fund the \$700.0 million accelerated share repurchase agreements executed one half in each of January and August 2008, as well as the 2008 transition to floating rate fixed maturity securities in lieu of short-term investments. This decrease in proceeds was partially offset by the transition of our portfolio out of short-term investments into fixed maturity securities during 2009.

Net sales of short-term investments increased during 2008 due to the sale of investments to fund the \$700.0 million accelerated share repurchase agreements executed during 2008 and due to the transition to floating rate fixed maturity securities in lieu of short-term investments during the first half of 2008. Short-term investment activity in 2007 included the investment of a portion of the proceeds from the issuance of 17.7 million shares of common stock. During 2007, we issued \$800.0 million of debt and invested the proceeds in floating rate bonds and short-term investments. Short-term investments were used as an interim investment as we sought suitable floating rate investments to support the floating rate debt.

Proceeds from the acquisition of business in 2008 relate to the Unum UK acquisition of a group long-term disability claims portfolio. Proceeds from the disposition of business in 2007 relate to the sale of GENEX.

## Financing Cash Flows

Financing cash flows consist primarily of borrowings and repayments of debt, issuance or repurchase of common stock, and dividends paid to stockholders. Net cash used by financing activities was \$1.5 million for the year ended December 31, 2009 compared to net cash used of \$1,049.5 million and net cash provided of \$181.2 million for the comparable periods of 2008 and 2007, respectively.

Net short-term debt repayments in 2009 consist of the purchase and retirement of the remaining \$132.2 million of our 5.859% notes and the repayment of \$58.3 million of reverse repurchase agreements outstanding at December 31, 2008. Net short-term debt repayments in 2008 are comprised of the purchase and retirement of the remaining \$175.0 million of our 5.997% senior notes and \$17.8 million of our 5.859% notes, less the issuance of \$58.3 million of reverse repurchase agreements.

During 2009, we received proceeds of \$350.0 million, less debt issuance costs of \$3.2 million, from the issuance of \$350.0 million of 7.125% senior notes. During 2007, we received proceeds of \$800.0 million, less debt issuance costs of \$15.1 million, from the issuance of \$800.0 million aggregate principal amount of debt by Northwind Holdings.

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Long-term debt repayments include the 2009, 2008, and 2007 principal payments of \$10.0 million, \$10.0 million, and \$17.5 million, respectively, on Tailwind Holdings' floating rate, senior secured non-recourse notes. Debt repayments in 2009 and 2008 include principal payments of \$48.0 million and \$59.3 million, respectively, on Northwind Holdings' floating rate, senior secured non-recourse notes. Long-term debt repayments also include the purchase and retirement of \$1.2 million aggregate principal of our 7.19% medium-term notes and \$0.6 million aggregate principal of our 6.75% notes in 2009 as well as \$36.6 million of our 6.85% notes in 2008. During 2007, we also repurchased and/or made principal payments of an additional \$752.0 million aggregate principal amount of outstanding debt and paid debt repurchase costs of \$34.2 million.

During 2007, we received proceeds of approximately \$300.0 million and issued 17.7 million shares of common stock upon the settlement of the common stock purchase contract element of the adjustable conversion-rate equity security units issued in 2004.

During 2008, we completed a \$700.0 million authorized share repurchase program by purchasing 29.9 million shares.

See "Debt" contained herein for further information.

## Cash Available from Subsidiaries

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

During 2008, Unum Group received \$100.0 million from an insurance subsidiary for the repayment of a surplus debenture issued to Unum Group in 1997 with a maturity date of October 2027.

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

The payment of ordinary dividends to a parent company from its insurance subsidiaries is generally further limited to the amount of statutory surplus as it relates to policyholders. Although it is unlikely we will utilize the entire amount of available dividends, based on the restrictions under current law, \$719.7 million is available during 2010 for the payment of ordinary dividends to Unum Group from its traditional U.S. insurance subsidiaries, excluding Northwind Reinsurance Company (Northwind Re) and Tailwind Reinsurance Company (Tailwind Re). Northwind Holdings' and Tailwind Holdings' ability to meet their debt payment obligations will be dependent upon the receipt of dividends from Northwind Re and Tailwind Re, respectively. The ability of Northwind Re and Tailwind Re to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the reinsured business.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from its United Kingdom-based affiliate, Unum Limited, subject to applicable insurance company regulations and capital guidance in the United Kingdom. Approximately £198.5 million is available for the payment of dividends from Unum Limited during 2010, subject to regulatory approval. However, in order to preserve Unum Limited's capital at a reasonable level, it is unlikely that we will utilize the entire amount available during 2010.

The amount available during 2009 for the payment of ordinary dividends from Unum Group's traditional U.S. insurance subsidiaries was \$653.3 million, of which \$90.0 million was declared and paid. The traditional U.S. insurance subsidiaries also paid extraordinary dividends of \$110.0 million in 2009. The amount available during 2009 from Unum Limited was £145.5 million, of which £28.5 million was declared and paid. During 2009, Northwind Re received regulatory approval from the insurance department of its state of domicile to pay dividends of \$32.7 million to Northwind Holdings, and Tailwind Re received regulatory approval from the insurance department of its state of domicile to pay dividends of \$14.2 million to Tailwind Holdings. The payment of dividends to the parent company from our subsidiaries also requires the approval of the individual subsidiary's board of directors.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries without regulatory approval generally depends on the level of earnings of those insurance subsidiaries as calculated under law. In addition to regulatory restrictions, the amount of dividends that may be paid by insurance subsidiaries will depend on additional factors,

such as RBC ratios, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group. Unum Group's RBC ratio for its traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 382 percent at the end of 2009, with the individual RBC ratios for Unum Group's principal traditional U.S. insurance subsidiaries all in excess of 300 percent. The individual RBC ratios for Northwind Re and Tailwind Re, our special purpose financial captive insurance companies, are calculated using the NAIC Company Action Level formula and have target levels of 200 percent. The RBC ratios for Northwind Re and Tailwind Re each exceeded the 200 percent target level at the end of 2009. The individual RBC ratio for each of our insurance subsidiaries is above the range that would require state regulatory action.

## Debt

At December 31, 2009, we had long-term debt, including senior secured notes and junior subordinated debt securities, totaling \$2,549.6 million. We had no short-term debt at December 31, 2009. Our leverage ratio, when calculated excluding the non-recourse debt and associated capital of Tailwind Holdings and Northwind Holdings, was 20.5 percent at December 31, 2009 compared to 21.5 percent at December 31, 2008. Our leverage ratio, when calculated using consolidated debt to total consolidated capital, was 24.8 percent at December 31, 2009 compared to 26.6 percent at December 31, 2008.

We monitor our compliance with our debt covenants. There are no significant financial covenants associated with any of our outstanding debt obligations. During 2009, Moody's issued a ratings downgrade from A2 to Baa1 on the debt rating of the non-recourse debt issued by Northwind Holdings, which will cause an increase in the fee paid to the third party guarantor on Northwind Holdings' debt. The increase in this fee is not material to our earnings on a consolidated basis or to earnings for the Individual Disability - Closed Block segment. Also during 2009, Moody's confirmed the Baa1 debt rating of the non-recourse debt issued by Tailwind Holdings. Any further ratings downgrade from either S&P or Moody's with respect to non-recourse debt issued by Tailwind Holdings or Northwind Holdings could cause additional increases in the fees paid to the third party guarantor on those debt issuances but would not cause a breach. We remain in compliance with all debt covenants and have not observed any current trends that would cause a breach of any debt covenants.

### Purchases and Retirement of Debt

In 2009, we purchased and retired the remaining \$132.2 million of our 5.859% senior notes due May 2009, \$1.2 million aggregate principal of our 7.19% medium-term notes due 2028, and \$0.6 million aggregate principal of our 6.75% notes due 2028. We also repaid \$58.3 million of reverse repurchase agreements outstanding at December 31, 2008.

In 2008, we retired the remaining \$175.0 million of our 5.997% senior notes due May 2008. We also purchased and retired \$36.6 million of our 6.85% senior debentures due 2015 and \$17.8 million of our 5.859% senior notes due May 2009.

In 2007, we purchased and retired \$17.5 million of our outstanding 6.75% notes scheduled to mature in 2028. Pursuant to a cash tender offer, we purchased and retired \$23.5 million aggregate liquidation amount of the 7.405% junior subordinated debt securities due 2038; \$99.9 million aggregate principal amount of the 7.625% notes due 2011; \$210.5 million aggregate principal amount of the 7.375% notes due 2032; and \$66.1 million aggregate principal amount of the 6.75% notes due 2028. We also called and retired all \$150.0 million principal amount of our outstanding 7.25% notes scheduled to mature in 2032. Also in 2007, in open market transactions, we purchased \$34.5 million of our outstanding 6.85% notes due 2015.

In 2009 and 2008, we made principal payments of \$48.0 million and \$59.3 million on Northwind Holdings' floating rate, senior secured non-recourse notes due 2037. During 2009, 2008, and 2007, we made principal payments of \$10.0 million, \$10.0 million, and \$17.5 million, respectively, on Tailwind Holdings' floating rate, senior secured non-recourse notes due 2036.

In February 2007, the scheduled remarketing of the senior note element of the 2004 units occurred, as stipulated by the terms of the original offering, and we reset the interest rate of \$300.0 million of senior notes due in 2009 to 5.859%. We purchased \$150.0 million of the senior notes in the remarketing which were subsequently retired. In May 2007, we settled the purchase contract element of the units by issuing 17.7 million shares of common stock. We received proceeds of approximately \$300.0 million from the transaction.

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## Issuance of Debt

In 2009, Unum Group issued \$350.0 million of unsecured senior notes in a public offering. These notes, due in 2016, pay semi-annual interest at a fixed rate of 7.125%. The notes are callable at or above par and rank equally in right of payment with all of our other unsecured and unsubordinated debt.

In 2007, Northwind Holdings issued \$800.0 million floating rate, insured, senior, secured notes, due 2037, in a private offering. Recourse for the payment of principal, interest, and other amounts due on the notes will be limited to the assets of Northwind Holdings, consisting primarily of the stock of its sole subsidiary Northwind Re, a Vermont special purpose financial captive insurance company. Northwind Holdings' ability to meet its payment obligations under the notes will be dependent principally upon its receipt of dividends from Northwind Re. The ability of Northwind Re to pay dividends to Northwind Holdings will depend on its satisfaction of applicable regulatory requirements and on the performance of the reinsured claims of Provident, Paul Revere and Unum America (the ceding insurers) reinsured by Northwind Re. None of Unum Group, the ceding insurers, Northwind Re or any other affiliate of Northwind Holdings is an obligor or guarantor on the notes. The balance outstanding on these notes was \$692.7 million at December 31, 2009.

In 2006, Tailwind Holdings issued \$130.0 million floating rate, insured, senior, secured notes, due 2036, in a private offering. Recourse for the payment of principal, interest, and other amounts due on the notes will be limited to the assets of Tailwind Holdings, consisting primarily of the stock of its sole subsidiary Tailwind Re, a South Carolina special purpose financial captive insurance company. Tailwind Holdings' ability to meet its payment obligations under the notes will be dependent principally upon its receipt of dividends from Tailwind Re. The ability of Tailwind Re to pay dividends to Tailwind Holdings will depend on its satisfaction of applicable regulatory requirements and on the performance of the reinsured claims of Unum America reinsured by Tailwind Re. None of Unum Group, Unum America, Tailwind Re or any other affiliate of Tailwind Holdings is an obligor or guarantor on the notes. The balance outstanding on these notes was \$92.5 million at December 31, 2009.

In 2005, Unum Group repatriated \$454.8 million in unremitted foreign earnings from its U.K. subsidiaries, and as part of its repatriation plan, UnumProvident Finance Company plc, a wholly-owned subsidiary of Unum Group, issued \$400.0 million of 6.85% senior debentures, due 2015, in a private offering. The debentures are fully and unconditionally guaranteed by Unum Group. The aggregate principal amount outstanding was \$296.7 million at December 31, 2009.

In 2002, Unum Group completed two long-term offerings, issuing \$250.0 million of 7.375% senior debentures due 2032 and \$150.0 million of 7.25% public income notes due 2032. The public income notes were called and retired in 2007 as previously discussed. The 7.375% notes have an aggregate principal amount outstanding of \$39.5 million at December 31, 2009.

In 2001, Unum Group issued \$575.0 million of 7.625% senior notes due 2011. The aggregate principal amount outstanding was \$225.1 million at December 31, 2009.

In 1998, Unum Group completed public offerings of \$200.0 million of 7.25% senior notes due 2028, \$200.0 million of 7.0% senior notes due 2018, and \$250.0 million of 6.75% senior notes due 2028. None of these amounts have been reduced other than the 6.75% notes, which have an aggregate principal amount outstanding of \$165.8 million at December 31, 2009.

In 1998, Provident Financing Trust I (the trust) issued \$300.0 million of 7.405% capital securities in a public offering. These capital securities, which mature in 2038, are fully and unconditionally guaranteed by Unum Group, have a liquidation value of \$1,000 per capital security, and have a mandatory redemption feature under certain circumstances. Unum Group issued 7.405% junior subordinated deferrable interest debentures, which mature in 2038, to the trust in connection with the capital securities offering. The securities issued by the trust have an aggregate principal amount outstanding of \$226.5 million at December 31, 2009.

Unum Group has debt securities with an aggregate principal amount outstanding of \$60.8 million which were initially issued in three separate series in 1990, 1993, and 1996, pursuant to an indenture dated September 15, 1990. The notes are fixed maturity rate notes with fixed maturity dates ranging between nine months to thirty years from the issuance date.

## Interest and Debt Expense

Interest paid on long-term and short-term debt and related securities during 2009, 2008, and 2007 was \$122.0 million, \$157.3 million, and \$184.1 million, respectively. The cost related to early retirement of debt during 2008 and 2007 was \$0.4 million and \$58.8 million, respectively.

## Shelf Registration

We have a shelf registration, which became effective in December 2008, with the Securities and Exchange Commission to issue various types of securities, including common stock, preferred stock, debt securities, depository shares, stock purchase contracts, units and warrants, or preferred securities of wholly-owned finance trusts. As stated previously, we issued \$350.0 million of senior notes against our open shelf registration on September 30, 2009. The shelf registration enables us to raise funds from the offering of any individual security covered by the shelf registration as well as any combination thereof, subject to market conditions and our capital needs.

See Note 8 of the "Notes to Consolidated Financial Statements" for additional information.

## Commitments

The following table summarizes contractual obligations and our reinsurance recoverable by period as of December 31, 2009 (in millions of dollars).

	Total	In 1 Year or Less	After 1 Year up to 3 Years	After 3 Years up to 5 Years	After 5 Years
<b>Payments Due</b>					
Long-term Debt	\$ 4,373.2	\$ 137.5	\$ 468.7	\$ 240.6	\$ 3,526.4
Policyholder Liabilities	39,947.3	4,386.9	6,520.0	4,939.6	24,100.8
Pensions and Other Postretirement Benefits Payable for Collateral Under Derivative	2,058.1	91.3	151.4	126.8	1,688.6
Financial Instruments	24.9	24.9	—	—	—
Miscellaneous Liabilities	642.4	586.9	13.5	10.6	31.4
Operating Leases	102.2	25.7	36.5	20.4	19.6
Purchase Obligations	92.8	91.7	1.1	—	—
<b>Total</b>	<b>\$47,240.9</b>	<b>\$5,344.9</b>	<b>\$7,191.2</b>	<b>\$5,338.0</b>	<b>\$29,366.8</b>
<b>Receipts Due</b>					
Reinsurance Recoverable	\$ 7,602.7	\$ 282.7	\$ 550.6	\$ 465.1	\$ 6,304.3

Excluded from the preceding table are tax liabilities of approximately \$166.7 million for which we are unable to make reasonably reliable estimates of the period of potential cash settlements, if any, with taxing authorities. It is possible that during 2010 we will reach a final settlement with the Internal Revenue Service concerning audit adjustments for certain tax years, but we are unable to estimate a reasonably reliable amount for the potential cash settlement. See Note 7 of the "Notes to Consolidated Financial Statements" for additional information.

Long-term debt includes contractual principal and interest payments and therefore exceeds the amount shown in the consolidated balance sheets. See Note 8 of the "Notes to Consolidated Financial Statements" for additional information.

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

Pensions and other postretirement benefit obligations include our defined benefit pension and postretirement plans for our employees, including non-qualified pension plans. Pension plan obligations, other than the non-qualified plans, represent our contributions to the pension plans. Amounts in the one year or less category equal our planned contributions within the next 12 months. The remaining years' contributions are projected based on the expected future contributions as required under ERISA. Non-qualified pension plan and other

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postretirement benefit obligations represent the expected benefit payments related to these plans, discounted with respect to interest and reflecting expected future service, as appropriate. See Note 9 of the "Notes to Consolidated Financial Statements" and "Critical Accounting Estimates" contained herein for additional information.

Payable for collateral represents the obligation to return unrestricted cash collateral received from our counterparties in derivative transactions. The timing of the return of the collateral is uncertain and is therefore included in the one year or less category. See Note 5 of the "Notes to Consolidated Financial Statements" for additional information.

Miscellaneous liabilities include commissions due and accrued, deferred compensation liabilities, state premium taxes payable, amounts due to reinsurance companies, accounts payable, fair value of derivative obligations, and various other liabilities that represent contractual obligations. Obligations where the timing of the payment was uncertain are included in the one year or less category.

Operating leases include noncancelable obligations on certain office space and equipment.

Purchase obligations include commitments of \$53.1 million to fund certain of our investments in private placement securities and partnerships. These are shown in the preceding table based on the expiration date of the commitments. The funds will be due upon satisfaction of contractual notice from the partnership trustee or issuer of the private placement securities. The amounts may or may not be funded. Also included are noncancelable obligations with outside parties for computer data processing services and related functions and software maintenance agreements. The aggregate obligation remaining under these agreements was \$25.2 million at December 31, 2009.

## Off-Balance Sheet Arrangements

As noted in the preceding discussion, we have operating lease commitments and purchase obligations totaling \$102.2 million and \$92.8 million, respectively, at December 31, 2009.

As part of our regular investing strategy, we receive collateral from unaffiliated third parties through transactions which include both securities lending and also short-term agreements to purchase securities with the agreement to resell them at a later specified date. For both types of transactions, we require that a minimum of 102 percent of the fair value of the securities loaned or securities purchased under repurchase agreements be maintained as collateral. Generally, cash is received as collateral under these agreements. In the event that securities are received as collateral, we are not permitted to sell or re-post them. We also post our fixed maturity securities as collateral to unaffiliated third parties through transactions including both securities lending and also short-term agreements to sell securities with the agreement to repurchase them at a later specified date. At December 31, 2009, we had no fixed maturity securities posted as collateral to third parties under these programs.

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 \$7.0 million at December 31, 2009. We post fixed maturity securities as collateral to our counterparties rather than cash. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$123.1 million at December 31, 2009.

Our derivatives counterparties have posted non-cash collateral in various segregated custody accounts to which we have a security interest in the event of counterparty default. This collateral, which is not reflected in the preceding table, had a market value of \$22.4 million at December 31, 2009.

## Ratings

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

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

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

	AM Best	Fitch	Moody's	S&P
<b>Issuer Credit Ratings</b>	bbb- (Good)	BBB (Good)	Ba1 (Speculative)	BBB- (Good)
<b>Financial Strength Ratings</b>				
Provident Life & Accident	A- (Excellent)	A (Strong)	Baa1 (Adequate)	A- (Strong)
Provident Life & Casualty	A- (Excellent)	A (Strong)	Not Rated	Not Rated
Unum Life of America	A- (Excellent)	A (Strong)	Baa1 (Adequate)	A- (Strong)
First Unum Life	A- (Excellent)	A (Strong)	Baa1 (Adequate)	A- (Strong)
Colonial Life & Accident	A- (Excellent)	A (Strong)	Baa1 (Adequate)	A- (Strong)
Paul Revere Life	A- (Excellent)	A (Strong)	Baa1 (Adequate)	A- (Strong)
Paul Revere Variable	A- (Excellent)	A (Strong)	Baa1 (Adequate)	Not Rated
Unum Limited	Not Rated	Not Rated	Not Rated	A- (Strong)

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

On March 13, 2009, AM Best affirmed its ratings of Unum Group and its operating subsidiaries, maintaining the outlook for the Company as "stable." On June 9, 2009, Moody's affirmed its ratings of Unum Group and its operating subsidiaries, also maintaining the outlook for the Company as "stable." On September 25, 2009, S&P affirmed its ratings of Unum Group and its operating subsidiaries, maintaining the outlook for the Company as "stable." On December 23, 2009, at our request, AM Best withdrew its rating for Unum Limited and will no longer provide a rating for that subsidiary. On February 12, 2010, Fitch upgraded its ratings of Unum Group and its operating subsidiaries to BBB and A, respectively, and changed the outlook for the Company to "stable."

There have been no other changes in any of the rating agencies' outlook statements or ratings during 2009 or prior to the date of this filing.

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

See "Ratings" contained in Item 1 and "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 for further discussion.