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**UNUM LIMITED**

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2010**



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**UNUM LIMITED IS A MEMBER OF UNUM GROUP**

# **UNUM Limited**

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# UNUM Limited

## CHIEF EXECUTIVE OFFICER'S STATEMENT

### Overview

Like many companies across the UK, Unum Limited ("the Company") faced significant challenges during 2010. A difficult economic environment combined with intense price competition pressured both our top and bottom line. Pre-tax profits for the year fell 15.6 percent to £158.9 million while premiums declined by 4.1 percent to £420.4 million. However, despite these conditions we continued to deliver strong returns to our shareholders and maintained our market leading positions.

The financial strength of our Company continued to improve during 2010. The hallmark of our financial strength is the high quality of our investment portfolio. The quality focus of our investment strategy served us well during the global financial crisis and continues to protect the long term interests of our policyholders and shareholders. Our strong investment portfolio combined with strong returns supported a £50 million dividend payment whilst we continued to strengthen our solvency position. We also had our S&P rating of A- reconfirmed during 2010.

The UK group risk market underwent an unprecedented period of rate softening during 2009 and 2010. This market softening had the effect of eroding profitability and limiting the industry's ability to invest adequately to expand coverage in the UK.

Whilst 2010 was a challenging year overall, we did see some positive results. Sales to new customers on a like for like basis of £62.5 million increased by £11.3 million or 22 percent compared to 2009 (the 2009 comparative excludes sales related to the exit of a competitor from the UK group risk market). In addition, persistency of in-force customers was also strong throughout 2010. Through excellent service and a strong value proposition, we retained over 91 percent of our in force book. This compares to 86 percent persistency in 2009. As the UK group risk market leader we are looking to build on these positives and on the work we carried out during the second half of 2010 to restore our margins and improve our value proposition.

We are also investing heavily to improve our value proposition. Whilst rehabilitation and return to work services will continue to be the cornerstone of our claims management process, we are investing to build a more comprehensive approach to claims management. These investments include increases in claims management resources, management staff, and clinical and medical resources all of which will further improve our interactions with claimants and employers and increase our ability to ensure accurate, consistent and predictable claim results.

In November 2010 we launched our Unum Select offering. Unum Select is a platform that allows employers to offer group risk products on a flexibly funded basis. The platform provides easy administration for contributory and employee paid plans and is supported by a wide menu of enrolment services. This is a new approach to the group risk market and is designed to expand access to protection products.

During the year we have continued to strengthen our risk management framework and the quality and depth of our management information. Preparation for the implementation of the Solvency II framework is on schedule for the expected January 2013 implementation date and continues to be a key regulatory focus. We also continue to focus on other key regulatory requirements and to ensure that Treating Customers Fairly is at the heart of everything we do for our customers.

# **UNUM Limited**

## **CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)**

### **Overview (continued)**

2010 has been a year of change as well as challenge, particularly among the leadership team at the Company with a number of appointments from Unum Group, the ultimate parent company. I was appointed to the role of Chief Executive Officer in July of 2010 after many years of working in leadership roles in group risk within Unum Group. Marco Forato also joined the Company as Chief Marketing Officer in May 2010. In addition, Gary Conner was appointed as Director of Underwriting in November 2010. Peter O'Donnell joined the Company as Chief Financial Officer in June 2010. These changes have strengthened the leadership team and have facilitated the sharing of ideas and best practice.

### **Corporate Governance**

The Board consists of two executive directors, the Chief Executive Officer and the Chief Financial Officer and five non-executive directors. During 2010 there were two executive resignations and one non-executive resignation. As a result of these resignations, there were two executive appointments and one non-executive appointment.

During 2010 the Board conducted its annual review of the Board committee structure to ensure that appropriate time and consideration could be applied to the oversight of the Company. The Board resolved in November 2010 that the Company's current Board Committee structure should be restructured, agreeing that the Finance and Investment Committee should retire with effect from 31 December 2010, with its responsibilities being absorbed within the Audit Committee and Risk Committee (as appropriate) from this date. Up until the 31 December 2010, the Board committees consisted of the Audit Committee, Risk Committee, Finance and Investment Committee and Regulatory and Compliance Committee.

In October 2010 the Board were pleased to welcome again the Unum Group board to the UK. The visit gave the Unum Group board a valuable opportunity to meet with the Company's Board, as well as with employees, key partners and stakeholders in the business.

See page 14 for further details on corporate governance.

### **Strategy**

Our overarching goals as a Company are twofold. First, we are committed to being the best managed Company in the UK group risk market. Second, we aspire to be the company that brings income protection to all UK workers.

We made significant progress on our first goal in the second half of 2010. In addition to continuing the work on strengthening underwriting and claims which started in 2010, we will focus on improving our use of data and analysis, strengthening our talent base, and continuing to develop our leadership team. These actions will allow us to become a more nimble, innovative and forward thinking organisation.

# UNUM Limited

## CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

### Strategy (continued)

Our aspiration to be the company that brings income protection to all the workers of the UK presents a tremendous opportunity for Unum. Today, only 1 in 10 workers in the UK are protected if they are unable to work due to sickness or injury. Even among the 12 million UK employees that work for companies with an income protection scheme, less than 2 million are actually covered. The group income protection market traditionally tends to limit protection to executives and senior managers. As a result, there is a significant protection gap among middle and lower income earners. Every year tens of thousands of UK employees and their families face devastating financial hardships that could have been easily and affordably avoided by having our insurance in place.

We plan to capitalise on this opportunity by working with the government, brokers, employers and consumers to

- increase awareness of the gap in protection and the associated risks,
- develop affordable solutions to protect employees and their families, and
- work with our distribution partners to deliver these solutions through employers in an efficient and effective manner.

To this end, in 2011 Unum is launching a multifaceted promotional campaign to build awareness of the need for income protection among UK workers. The campaign will utilise a combination of public relations, social media and mass advertising to raise awareness of the need for protection and to instigate conversations amongst employees and employers about how to fill the gap. We believe the timing of this campaign is exceptional since it coincides with the public policy debate over welfare reform. In fact, we believe private coverage offered through the employer can provide a better level of benefits to employees whilst creating significant savings for the state. We plan to continue this campaign over the next several years with the goal of changing the way employees, employers, and intermediaries think about the role of income protection as a valued employee benefit for all.

The key to delivering on all of these strategies is our people. Our 2010 UEHCL and subsidiary companies' ("Unum UK Group") employee Work Environment Survey produced scores which exceeded the industry accepted UK norm for high performing companies. Unum also received the Investors in People gold award accreditation in 2010 in recognition of our commitment to developing our people. We are steadfastly committed to increasing our level of employee engagement, developing our people to the fullest of their potential, and fostering an environment of innovation and commitment.

# UNUM Limited

## CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

### Outlook

The opportunities for Unum are clear and compelling. We have the market positions, the expertise, and the financial resources to expand the UK income protection market and achieve sustainable, profitable growth. However, the economic outlook for the UK remains uncertain. As such, we will continue to strengthen our internal capabilities which have been critical to our success in this difficult environment. Our growth plans are fuelled by the opportunity to expand the income protection market so that we are not reliant on an economic recovery but, with that said, we would expect growth in the market to accelerate as the economy recovers.

As we look beyond 2011, we are confident in our ability to sustain strong growth and deliver attractive returns for our shareholders.



**John McGarry**

**Chief Executive Officer**

28 March 2011

# **UNUM Limited**

## **DIRECTORS AND ADVISERS**

### **Directors**

John McGarry (Chief Executive Officer)  
Peter O'Donnell (Chief Financial Officer)

### **Non-Executive Directors**

Thomas Watjen (Chairman)  
Peter Hales  
Edward Langston  
Malcolm McCaig  
Ian Owen

### **Bankers**

Lloyds TSB Bank plc, City Office  
PO Box 72  
Bailey Drive  
Gillingham Business Park  
GILLINGHAM  
Kent  
ME8 0LS

### **Secretary and Registered Office**

Charlotte Birks  
Unum Limited  
Milton Court  
Dorking  
Surrey  
RH4 3LZ

### **Registered Auditor**

Ernst & Young LLP  
1 More London Place  
LONDON  
SE1 2AF

### **Custodian**

JP Morgan Chase Bank, N A  
125 London Wall  
London  
EC2Y 5AJ

REGISTERED NUMBER 983768

# UNUM Limited

## DIRECTORS' REPORT

For the year ended 31 December 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010

### Principal Activity

The principal activity of the Company continues to be providing group and individual income protection insurance, life insurance and critical illness insurance to the UK market. The Company is the leading provider of group income protection products and offers individuals and businesses of all sizes benefit plans to help protect the incomes and lifestyles of employees, individuals and their families when they become incapacitated.

### Review of the business

#### *Financial position at 31 December 2010*

The results of the Company for the year, as set out on pages 27 to 29 show a profit on ordinary activities of £158.9 million (2009 £188.3 million). The shareholders' funds of the Company total £554.4 million (2009 £486.1 million).

The Company saw a small decline in earned premiums to £420.4 million (2009 £438.6 million). Sales to new customers of £62.5 million increased by £11.3 million compared to £51.2 million in 2009 (the 2009 comparative excludes sales of £17.4 million related to the one-off effect of the exit of a competitor from the market). Incremental sales on existing policies declined by £12.9 million to £21.4 million in 2010 from £34.3 million in 2009, reflective of the difficult economic conditions.

Investment performance remained positive in 2010. Net investment gains on the Company's financial investments totalled £83.3 million in the year (2009 £103.4 million). Supported by operating cash flows and active management of the investment portfolio, the asset base increased compared to 2009. Total assets increased by 4.6% during 2010 primarily driven by the increase in the market value of the Company's financial investments.

Other technical income for the Company in the year totalled £9.9 million (2009 £3.8 million) driven primarily by the reversal of the £7.8 million provision held in respect of the guarantee the Company provides to the Unum Pension Scheme. The effect of the change in the government inflationary measure for occupational pension schemes to the use of Consumer Prices Index from the Retail Prices Index, combined with an improvement in the longer term inflationary outlook and strong asset performance, saw the scheme move from a deficit position in 2009 to a surplus position in 2010.

Charges for claims incurred and changes in other technical provisions improved on 2009 and totalled £347.9 million for the year (2009 £356.2 million). This charge in 2010 included an increase of £46.8 million (2009 £50.5 million) as valuation interest rates reduced reflective of falling yields and increasing bond prices.



# UNUM Limited

## **DIRECTORS' REPORT (continued)**

For the year ended 31 December 2010

### **Review of the business (continued)**

The Company implemented an Activity Based Costing model for the allocation of management expenses in 2010 which better reflects the operational activities of the organisation. This change in the allocation basis for management expenses together with the increase in charges received for the provision of management services to the Company by a parent company, Unum European Holding Company Limited, saw operating expenses increase to £104.0 million (2009 £92.9 million). The Activity Based Costing model change also resulted in a reduction in claims handling expenses of £7.8 million in the period.

Capital and solvency measures for the Company use regulations prescribed by the FSA, which require it to determine capital adequacy under two bases, known as 'Pillar 1' (a regulatory formula basis) and 'Pillar 2' (a risk based Individual Capital Assessment). During 2010, the Company's 'Pillar 1' margin strengthened by £41.5 million (2009 £74.8 million). This increase in margin is after payment of a dividend of £50.0 million (2009 £28.5 million) in the year. Expressed as a percentage of capital requirements, the Company's 'Pillar 1' solvency margin was broadly unchanged in 2010 at a multiple of 228% (2009 227%). The Company continues to hold surplus capital significantly in excess of the FSA requirements under both Pillar 1 and Pillar 2.

During the course of the year, a dividend totalling £50.0 million was paid (2009 £28.5 million).

### *Key Performance Indicators*

Business performance of the Company is managed through Monthly Performance Reports (herein, "MPR") which are aligned to the Company's operational and financial performance. The MPR uses a combination of measures to ensure appropriate focus on all stakeholder perspectives: Customer, Financial and Shareholder Value, Operating Excellence and People. The Company's MPR contains Key Performance Indicators (herein, "KPIs"), which are reviewed and revised as appropriate during our annual planning process and are monitored monthly by executives and senior management.

The Company's operational and financial performance during 2010 can be assessed using (i) a subset of the KPIs which are set out within the MPR, and (ii) information supporting the Company's regulatory filings as follows:

From a **Customer** perspective, the total number of lives the Company protected in 2010 grew to 1.8 million (2009 1.6 million). The number of claimants which were able to return to work grew in the year to 1,058 (2009 1,036).

# UNUM Limited

## DIRECTORS' REPORT (continued)

For the year ended 31 December 2010

### Review of the business (continued)

From a **Shareholder Value** perspective, the Company maintained solid returns for its ultimate shareholder Unum Group, which are indicated by the following financial KPIs

	KPI	2010	2009
<b>Capital</b>	Financial strength rating (Standard & Poor's)	A- (Strong)	A- (Strong)
<b>Capital</b>	Regulatory solvency multiple (Pillar 1)	228%	227%
<b>Growth</b>	Sales to new customers	£62.5m	£51.2m *
<b>Growth</b>	Total assets under management	£2.0bn	£1.9bn

\* Sales to new customers for 2009 exclude the one-off effect of the exit of a competitor from the market

### Principal risks and uncertainties

The Company specialises in group risk insurance, and is well positioned to promote awareness of the need for financial protection products including absence management and disability management in the workplace, with the strategic aim of growing the income protection market in the UK. Owing to its expertise on protection products, the Company is a competitive force in its main group income protection market, but is still alert to numerous risks, challenges and uncertainties beyond its control that may cause actual results to differ materially from expected results. Such risks and uncertainties would include factors such as

- General economic or business conditions that may adversely impact levels of employment, consumer confidence and investment results, including credit deterioration,
- Changes in the interest rate environment that may adversely affect the Company's reserve and policy assumptions and ultimately its profit margins and levels of reserves,
- Competitive pressures in the insurance industry which may increase significantly through industry consolidation, competitor pricing actions, changes in technology or otherwise, and
- Legislative, tax or regulatory changes that may adversely affect the markets in which the Company is engaged

The Company operates a comprehensive Risk Management Framework which is embedded within the business to ensure that key risks are identified, assessed, monitored and managed by the Board on a continual and consistent basis. Risk categories include strategic, insurance, market, credit, liquidity, operational and group risks. Risk assessments in these areas include the consideration of related financial, customer, legal, regulatory and reputational risk factors. The management of financial instruments, risk management and insurance risk is covered in detail in note 3 to the financial statements.

The management of certain risks and assumptions will have a direct impact on the financial performance of the Company. Premiums for group and individual business are generally based on the expected claims of a pool of similar risks, plus provisions for administrative expenses and profit.

# UNUM Limited

## **DIRECTORS' REPORT (continued)**

For the year ended 31 December 2010

### **Review of the business (continued)**

#### *Principal risks and uncertainties (continued)*

Profitability of both group and individual business is affected by the Company's claims experience, investment returns, the level of retention of business and administrative expenses. Morbidity and rehabilitation success are important factors in the Company's income protection claims experience.

The directors consider that the business will continue broadly in its present form and continue to target sustainable premium and earnings growth.

#### *Business Development*

During 2011, the directors intend to continue to focus on maximising sustainable and profitable sales growth and maintaining its prominent position within the group income protection, group life and group critical illness markets.

The Board plans to explore additional market opportunities to expand growth in both the group and individual markets. The Company intends to expand the group income protection market beyond the traditional coverage of executives and senior managers into the areas of middle and lower income earners. The Company is looking to change the way that employees, employers and intermediaries think about the role of income protection as an employee benefit. This is particularly relevant against the background of the Government's proposed welfare reform agenda.

The business also intends to continue to invest in process solutions to improve the way it meets its customers' needs and to increase operating efficiency, which will include wider e-business transactional capabilities and services.

#### *Legislative developments*

The European Court of Justice ("ECJ") ruling on the 1 March 2011 removed the derogation for financial services companies from the EU Gender Directive, with effect from 21 December 2012. This will make it illegal to use gender as a factor in calculating premiums from that date. The industry, Financial Services Authority ("FSA") and Government are discussing how to interpret the ruling into UK law. The business impact of the ruling is therefore, at this time, not yet clear.

### **Going concern assessment**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of the business on pages 8 to 11. In addition, note 3 to the financial statements, Management of Financial Risk, includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk, currency risk and liquidity risk.

The Company has considerable market share in its principal business (income protection) together with strong persistency results and solid financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

# **UNUM Limited**

## **DIRECTORS' REPORT (continued)**

For the year ended 31 December 2010

### **Going concern assessment (continued)**

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Directors and their interests**

The directors who were members of the Board at the time of approving the directors' report are listed on page 7 and their service was continuous throughout the year unless otherwise stated.

Martin Moule resigned as a director on 31 May 2010, Susan Ring resigned as a director on 16 July 2010 and Paul Bradshaw resigned as a non-executive director of the Company on 20 August 2010. Peter O'Donnell was appointed as a director on 1 June 2010, John McGarry was appointed as a director on 19 July 2010 and Ian Owen was appointed as a non-executive director of the Company on 29 October 2010. Approval has been obtained from the Financial Services Authority ("FSA") in respect of all of these appointments.

None of the directors had any beneficial interest in the shares of the Company. Further details regarding the role of the Board and its committees can be found in the Corporate Governance section on page 14.

### **Statement as to disclosure of information to auditors**

Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

### **Charitable donations**

Charitable donations of £212,000 were made by the UK Group in 2010 (2009 Company £168,000). This included 768 volunteering days (2009 Company 509 days) undertaken by UK Group staff during the year.

### **Political contributions**

No contributions were made to political organisations during 2010 (2009 Nil).

### **Supplier payment policy**

The Company aims to agree the terms of payment with its suppliers when agreeing the terms and conditions of contract. Normally these are within the supplier's own standard payment period. The Company aims to pay all of its suppliers within the agreed contractual terms.

# **UNUM Limited**

## **DIRECTORS' REPORT (continued)**

For the year ended 31 December 2010

### **Staff involvement**

A key cultural value of the Company is the operation of open, honest two-way communication throughout the organisation and the UK Group. This value is deployed through the Company's management style and is backed up by regular departmental communication meetings, quarterly Company-wide meetings, an annual UK Group staff opinion survey and a formal UK Group staff consultative group. The operation of a UK Group staff share plan provides an important vehicle for UK Group staff to be able to share in the financial success of the Group.

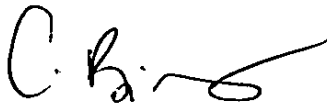
### **Employment policy**

It is the policy of the UK Group to provide employment and development opportunities to persons regardless of age, race, colour, religion, sex, sexual preference, marital status, nationality, ethnic origin or disability.

### **Insurance of directors and officers**

The directors and officers of the Company are covered under a global professional indemnity insurance policy held by Unum Group, the ultimate parent company.

BY ORDER OF THE BOARD



**Charlotte Birks**  
**Company Secretary**  
28 March 2011

# UNUM Limited

## CORPORATE GOVERNANCE

The Board of the Company is committed to strong corporate governance and applying the highest levels of industry best practice where appropriate and suitable. For example the Board Committees are all chaired by non-executive directors. The appropriateness of the governance structure and associated framework are continually under review. The Company has a clear governance structure and defined roles and responsibilities at all levels.

### Board of Directors

#### *The role of the Board*

The Board provides governance and oversight of the Company, either directly or through the operation of its committees. It brings independent judgement on all issues of strategy, performance, resources and standards of conduct. At its meetings, the Board deals with matters specifically reserved for its consideration which are set out within its terms of reference.

Five formal Board meetings were scheduled during the year and ad-hoc meetings were convened as required. In all, the Board met on twelve occasions during 2010.

Responsibility for implementing the Company's strategy and managing day-to-day business operations is delegated to the Chief Executive Officer, who operates through the Company's Executive Committee. The Executive Committee comprises of two Board directors and a number of executive directors and other executive management. During 2010 the Executive Committee met, on average, three times a month.

Information that is in the form appropriate to enable the effective discharge of duties and responsibilities is provided to members of the Board in good time. Board members are also provided with additional external advice, briefings and training where required. In addition to this there is a structured training plan in place for the Board.

Throughout their period in office, directors are regularly updated on the Company's business activities, the competitive and legal/regulatory environment within which it operates, corporate social responsibility matters and other matters affecting the financial services industry as a whole.

The Company operates a formal, comprehensive, monthly performance measurement process, which includes financial and non-financial management information. Financial information, including financial reporting and forward business planning is presented to the Board each quarter for review. The Board also receives formal reports from its Board Committees as well as briefings on other significant and relevant issues.

#### *The composition of the Board*

The Board of Directors of the Company comprises of two executive directors (the Chief Executive Officer and Chief Financial Officer) and five non-executive directors.

The names of the directors are set out on page 7.

The Board includes non-executive directors, who constructively challenge and help develop proposals on strategy, and bring strong independent judgement, knowledge and experience to the Board's activities and decisions.

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# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Board of Directors (continued)

The non-executive directors are of sufficient number and calibre that their views carry significant weight in the Board's decision making

Four of the non-executive directors are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The remaining non-executive director, who is also Chairman of the Board, is the President and Chief Executive Officer of Unum Group, the Company's ultimate parent company.

Any director with concerns regarding the operation of the Board may raise their concerns with the Chairman of the Board or the senior non-executive director. Directors also have the right where they consider it necessary in the furtherance of their duties, to seek independent professional advice at the Company's expense.

### *Appointments to the Board and remuneration*

Non-executive directors are appointed for an initial term of two years and at the end of the term of appointment, Unum Group considers whether it is appropriate for a further term to be served.

Senior executives' remuneration levels are set by the Human Capital Committee of Unum Group in accordance with the approved remuneration framework and policy.

### *Board effectiveness*

An evaluation of the performance of the Board is carried out annually.

### Accountability and Audit

The Board is required to present a balanced and comprehensive assessment of the Company's position and prospects, not only in the Annual Report and Accounts, but also in reports to Unum Group, its shareholders and the FSA.

### *Audit Committee*

The Company's Audit Committee ensures that internal control and financial reporting are appropriately executed.

The Audit Committee is chaired by a non-executive director and comprised of three additional non-executive directors considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. In August 2010 one of the non-executive directors resigned from the Board (and consequently this committee) and was replaced by another non-executive director in September 2010. Another non-executive director was appointed to this committee in November 2010 (making the total number of non-executive directors on this committee four). The current composition of the Audit Committee has the requisite recent and relevant financial expertise.

The Head of Audit and the external auditors have unrestricted access to the Chairman of the Audit Committee and have at least one closed session with the Audit Committee members each year.

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and Audit (continued)

The Audit Committee met six times during 2010, which included a session dedicated to considering the Company's Annual Report and Accounts and the FSA Return

The main objective of the committee is to ensure that the interests of the Company's shareholders are properly protected in relation to financial reporting and internal control, by way of the committee members monitoring the integrity of the Company's financial statements, regulatory returns and by undertaking an annual review of the adequacy of the Company's system of internal control. This is achieved through monitoring and reviewing the outputs from external audit, internal audit, testing to ensure compliance with the Sarbanes-Oxley Act 2002 (as amended) and other ad-hoc assurance activities

This committee also makes recommendations to the Audit Committee of Unum Group, via the Company's Board, in relation to (i) the appointment of the Company's External Auditors and (ii) seeking approval for non-audit services to be carried out for the Company by its External Auditors. All such assignments are reviewed and referred to the Audit Committee of Unum Group to ensure that the auditor independence requirements of the Sarbanes-Oxley Act 2002 (as amended) and other regulatory requirements are not breached or compromised

The Board undertook an evaluation of the effectiveness of the Audit Committee during the year, as required by its terms of reference. The evaluation was questionnaire based and concluded that the committee was operating effectively. The Audit Committee undertakes periodic reviews of the adequacy of the External Auditors and the Internal Audit function

On an annual basis the Audit Committee reviews the Company's arrangements by which staff can, in confidence, raise concerns about possible impropriety of any sort. The processes for which are set out in the Company's Whistle Blowing Policy and are also referred to in its Anti-Financial Crime Policy

### *The Risk Committee*

The Risk Committee's main objective is to provide an oversight of the Company's risks and capital requirements. It recommends the risk management strategy to the Board and oversees the implementation of the annual risk department plan and the appropriate risk framework and appetite within which the Company's risk management can be tracked and monitored

The Risk Committee is chaired by a non-executive director and comprised of three additional non-executive directors considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. One non-executive member of the Risk Committee resigned from the Board (and consequently the committee) in August 2010. This member was replaced by another non-executive director in November 2010. The committee met five times during 2010 and undertook full and proper consideration of matters relating to significant risks and monitored risk mitigation plans for significant risks or risk areas of the Company. A full evaluation of all risk areas is performed on a cyclical basis



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# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and Audit (continued)

#### *The Finance and Investment Committee*

There was a Finance and Investment Committee in place throughout the year and its main objectives were to provide oversight of the Company's financial plans, capital adequacy and projections, investment strategy and performance, dividend policy and financial performance

The Finance and Investment Committee was chaired by a non-executive director until August 2010 when this director resigned from the Board (and consequently the committee) and the Company's Chief Financial Officer was appointed in September 2010 as a member and chairman of the committee. An executive director of the committee also resigned in May 2010. Until August 2010 the committee comprised of two non-executive directors considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. In August 2010 one of the non-executive directors resigned from this committee, leaving the committee with one non-executive director and one executive director until the end of 2010. The committee met four times during 2010 and undertook full and proper consideration of matters relating to its objectives. This committee retired with effect from the 31 December 2010 with its responsibilities transferring to the Risk Committee and Audit Committee (as appropriate), further to the Board resolving to do this in November 2010.

#### *The Regulatory and Compliance Committee*

The Company's Regulatory and Compliance Committee's main objective is to provide oversight of the regulatory and legislative framework that the Company operates within. It monitors and reviews the Company's compliance, legal and regulatory requirements including financial crime, information security, data protection, human resources, remuneration, Treating Customers Fairly requirements and health and safety.

The Regulatory and Compliance Committee is chaired by a non-executive director and comprised of one additional non-executive director considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement, one executive director and one executive management member. In addition to the non-executive committee members there are two executive members, one of which retired as a member of this committee in July 2010 and was not replaced. Another non-executive director was appointed in November 2010. The committee met four times during 2010 and undertook full and proper consideration of matters relating to its objectives.

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and Audit (continued)

#### *Internal control*

The Board is responsible for the Company's overall system of internal control and sets appropriate policies to ensure such controls are complied with by the business. The Board also seeks regular assurance that enables it to satisfy itself that the system is functioning correctly within the Board's control framework. However, such a system can only provide reasonable, not absolute, assurance against material misstatement or loss.

To enable the Audit Committee to make its assessment of the internal control environment, an annual evaluation of the overall system of internal control is included within an Annual Statement of Assurance, which is presented to the Audit Committee in each year. The Statement of Assurance is based on a number of sources of assurance, including the Entity Level Control Assessment, prepared as an element of Sarbanes-Oxley compliance, conclusions of Internal Audit reviews, third party audits and risk management results. This assessment occurs every year.

As a result of such an assessment, Internal Audit's findings are presented to management and action plans are developed to strengthen the control environment where required. The delivery of audit action plans is tracked through the operational risk management process.

In addition to these evaluations, the Company is indirectly subject to compliance with the requirements of the Sarbanes-Oxley Act 2002 (as amended) further to its parent Company being a quoted insurance entity within the United States of America. The Chief Executive Officer and Chief Financial Officer certify that all information that requires disclosure within the US Securities and Exchange Commission (herein, the "SEC") has been provided to Unum Group.

The Board, with advice from the Audit Committee, completed its annual review of the effectiveness of the systems of internal control, in accordance with the revised guidance of the Turnbull Committee, for the period since 1 January 2010 and was satisfied that the internal control environment operated in accordance with the requirements of the guidance.

#### *Risk management*

The Company views its management of risk as a key element of delivering its objectives. The Company's Risk Management Framework provides a consistent and effective method of managing its risk and uncertainty to ensure a sustainable and competitive business.

The Risk Management Framework encompasses a three lines of defence model under which the Board and its committees provide oversight and governance for the Company. Management has prime responsibility for the identification, assessment, monitoring and mitigation of the Company's risk through the systems of internal controls it operates. The second line of defence comprises support functions, including Risk and Compliance, and the executive Risk, Capital and Solvency Committee which was formed in November 2010. Finally Internal Audit forms the third line of defence.

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and Audit (continued)

#### *Risk management (continued)*

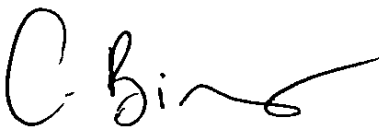
The Company's risks are captured at both a corporate and divisional level and are consolidated into the Company's risk register which is updated by all areas monthly. Risk mitigation plans are formulated to address areas where the Company's exposure exceeds appetite. The Company's Risk function provides oversight and challenge of the Company's risks and ensures regular reporting of the Corporate Risk Profile, based on the risk register and other Risk and Control Assurance processes, to the executive Risk, Capital and Solvency Committee (from November 2010) and the Board Risk Committee.

The Company also conducts stress testing of its risks which have the greatest potential capital impact. The Company creates scenarios both to further understand the potential interaction of risks and the associated capital impact and to understand which combination of risks in extremes could cause the Company to fail (reverse scenarios).

Looking forward the Company is engaged in a project to implement the European Solvency II Directive. Solvency II represents the single largest change to European insurance regulation requiring significant changes to all insurance companies' approaches to risk and capital governance. The Solvency II project was a key initiative during 2010 (with successful entry into the Internal Model Approval Process) and will continue to be during 2011 and 2012. Reporting of progress, issues and risks is provided on a monthly basis to the Company's Executive Committee and a quarterly basis to the Risk Committee.

### Relations with Shareholders

In recognition of the continuing contribution the Company is making to the results of Unum Group as a whole, certain segmental financial information of the Company is separately disclosed within Unum Group's SEC reports. Representatives of the Company's Board attend relevant board, annual general meetings and analyst meetings held by Unum Group and the Chairman of the Company gives feedback to the Board on issues raised with him by the shareholders of Unum Group.



**Charlotte Birks**  
**Company Secretary**  
28 March 2011

# **UNUM Limited**

## **TREATING CUSTOMERS FAIRLY REPORT**

Following the work carried out in previous years in response to specific deadlines associated with the Treating Customers Fairly ("TCF") initiative, the fair treatment of customers has for some time been embedded in business as usual activity rather than carried out on a standalone basis. To this end, work over 2010 has been focussed on continuous improvement and more efficient ways of obtaining feedback from customers on their perception and experience of the service that they receive. This allows customer requirements and views to be fed into areas such as communication and product development to enhance the customer offering and experience. The principles of TCF are therefore not only embedded in the approach of the Company's people but also in the processes and procedures of the Company in all areas including, importantly, product development, claims handling and rehabilitation services. In addition within the work that is carried out in respect of TCF specific audits of TCF within the Claims organisation were carried out during 2010 and will continue in 2011.

We continue to be committed to ensuring that our ability to make changes to enhance the customer experience becomes part of a continuous process. To this end, a number of internal changes which were introduced during 2009 have been built upon during 2010 such as

- TCF training is incorporated into the competency based staff development programme across the customer facing areas of the Company,
- Compulsory annual training on TCF is in place for all staff. In addition, quarterly TCF staff awards have been incorporated into the reward and recognition arrangements,
- The process whereby small system developments are prioritised and approved explicitly requires an evaluation of how the change will improve our ability to treat customers fairly, and
- A number of mechanisms have been put in place across the Company which allow staff to identify practices which could be subject to minor amendment to improve the customer experience. This had a positive impact in a number of areas.

Improvements are continually being made to the collection and presentation of management information about how well the Company is achieving its TCF customer outcomes and this will continue. The Board Regulatory and Compliance Committee oversees the Company's TCF framework and regularly reviews its TCF Management Information.

# UNUM Limited

## CORPORATE RESPONSIBILITY REPORT

Corporate responsibility is extremely important to the Company. The UK Group has a number of internal policies in place in relation to this area and its practices are largely based on a structure developed by Business in the Community. For the purpose of this report corporate responsibility is broken down into two main sub-headings of Community and the Workplace and the Environment.

### Community and the Workplace

In 2010 the UK Group continued to base its financial donations policy around the themes of Disability and Rehabilitation. It has continued to support national issues related to all aspects of disability through the membership of the Employer's Forum on Disability. At a local level it has helped approximately 60 smaller organisations and other charities with monetary donations.

The UK Group recruits its staff from its local and national communities and is committed to providing equal opportunities in employment and in avoiding unlawful and unfair discrimination. The UK Group believes that diversity is a positive force in bringing the best ideas and fresh perspectives to a successful business. The UK Group is a member of several key diversity campaigns and holds a silver award accreditation from the Employers' Forum on Disability. It is also authorised by the Employment Service to use the disability double-tick symbol, which indicates that it takes a positive attitude towards the employment of people with disabilities.

Despite the demanding business climate in 2010, the UK Group staff achieved 768 equivalent working days of volunteering and helped 97 community partners in the Company's local areas.

- The UK Group's flagship charity event in 2010 was its annual sponsored run, 'Site2Site' covering 164 miles between the main UK office sites. This was the eighth year that this type of event has taken place, with funds donated to the UK Group's newly selected main charity partner for 2010, Vitalise. Over 200 UK Group staff took part in the event, raising more than £31,000 for refurbishment work at Vitalise's Netley residential care centre located in Southampton. Vitalise is a national charity providing short breaks (respite care) and other services at five UK-wide centres for the disabled, visually impaired people and their carers. It was selected as the UK Group's new charity partner by a UK Group staff ballot from a list of nominations submitted in the early part of 2010.
- Staff across the UK Group took part in a wide range of volunteering and fund raising projects throughout 2010, such as working with young people in a number of schools, youth organisations and sports teams in various UK locations.
- There were also many gardening and maintenance type projects for local charities, including (i) the Queen Elizabeth Foundation in Surrey, which works with people living with physical and learning disabilities or brain injuries, (ii) a refurbishment project in Bristol with WellChild, the national charity for sick children and (iii) planting and stream clearance work with Green Spaces in Basingstoke, a charity which provides easily accessible, safe, attractive and welcoming parks, gardens and green spaces for local communities.

For the first time in March 2010 the UK Group also participated in a Unum Group-wide 'Food Drive' and collected both food and financial donations which were presented to a number of charities which the UK Group has links to from its offices located across the whole of the UK.

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# **UNUM Limited**

## **CORPORATE RESPONSIBILITY REPORT**

### **Community and the Workplace (continued)**

In addition to the UK Group's community involvement, it encourages its employees to make charitable donations in a tax-efficient way through a Give as you Earn (GAYE) scheme which is accredited under the Government initiated 'Payroll Giving Quality Mark' scheme

### **Environment**

The UK Group has continued to progress the action plan from its 2009 Carbon Trust Audit Report and many new initiatives have been implemented as a result of this initiative. These include significant energy savings from the installation of automatic light sensors, use of LED light fittings for emergency lighting and improved energy consumption monitoring through the planned introduction of metering and tracking systems to identify efficiency savings opportunities.

The UK Group's selection of fleet cars continues to be capped to those with a maximum CO<sub>2</sub> emission of 160g/km with all new cars leased within 2010 falling below this. The current fleet average is 145g/km. This compares favourably with the typical UK lease car average.

Paper purchasing proved a challenge in 2010 with fluctuating commodity markets. However, through strategic procurement initiatives, 100% of all paper purchased came from accredited sources and the UK Group's policy to shred and recycle all generated waste paper continues.

## **UNUM Limited**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also accountable for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **UNUM Limited**

## **REPORT OF THE AUDITORS**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED**

We have audited the financial statements of Unum Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 33. The financial reporting framework that has been applied, in their preparation, is both the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- Give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



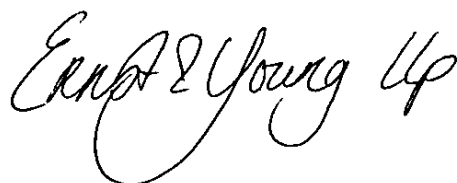
## UNUM Limited

### REPORT OF THE AUDITORS (continued)

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

A handwritten signature in black ink, reading "Ernst & Young LLP". The signature is written in a cursive, flowing style.

**Jasper Geert Kolsters (Senior statutory auditor)**  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
28 March 2011

## **UNUM Limited**

### **REPORT OF THE ACTUARY TO THE MEMBERS OF UNUM LIMITED**

In my opinion

- (i) the computation of the long term business technical provisions has been prepared on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in Council Directive 2002/83/EC, and
- (ii) the technical provisions are sufficient to enable the Company to meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen



**Jacquie M Curness**  
**Fellow of the Institute of Actuaries**

28 March 2011

# UNUM Limited

## PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2010

	Note	2010 £000	2009 £000
<b>Earned Premiums</b>			
Gross premiums written			
Direct insurance		424,383	431,392
Reinsurance inwards		6,194	6,842
	4a	<u>430,577</u>	<u>438,234</u>
Outward reinsurance premiums		<u>(12,020)</u>	<u>(11,674)</u>
Premiums written, net of reinsurance		418,557	426,560
Change in the provision for unearned premiums			
Gross amount	22	1,137	12,806
Reinsurers' share	22	<u>721</u>	<u>(813)</u>
		<u>1,858</u>	<u>11,993</u>
<b>Earned premiums, net of reinsurance</b>		420,415	438,553
Investment income	7	95,249	88,639
Unrealised gains on investments	7a	72,990	129,258
Other technical income	8a	<u>9,939</u>	<u>3,755</u>
<b>Total Technical Income</b>		<u>598,593</u>	<u>660,205</u>
<b>Claims incurred</b>			
Claims paid			
Gross amount		(297,695)	(287,858)
Reinsurers' share		<u>19,997</u>	<u>14,855</u>
		<u>(277,698)</u>	<u>(273,003)</u>
Change in the provision for claims	23		
Gross amount	24	(25,876)	(1,568)
Reinsurers' share	24	<u>(48)</u>	<u>(3,870)</u>
		<u>(25,924)</u>	<u>(5,438)</u>
<b>Claims incurred, net of reinsurance</b>		<u>(303,622)</u>	<u>(278,441)</u>

The Notes on pages 33 to 83 form an integral part of these accounts

# UNUM Limited

## PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2010

	Note	2010 £000	2009 £000
<b>Change in other technical provisions</b>	23		
Long term business provision, net of reinsurance – insurance contracts			
Gross amount		3,186	(2,406)
Reinsurers' share		58	(953)
		<u>3,244</u>	<u>(3,359)</u>
Technical provisions for inflation linked liabilities, net of reinsurance – insurance contracts			
Gross amount		(48,601)	(85,386)
Reinsurers' share		1,037	10,974
		<u>(47,564)</u>	<u>(74,412)</u>
<b>Change in other technical provisions, net of reinsurance</b>		<u>(44,320)</u>	<u>(77,771)</u>
<b>Other charges</b>			
Net operating expenses	6	(103,983)	(92,913)
Investment expenses and charges	7	(2,479)	(30,242)
Unrealised losses on investments	7a	-	-
Other technical charges, net of reinsurance	8b	(1,658)	(2,046)
Tax attributable to the long term business	13a	(36,408)	(47,893)
<b>Total Technical Charges</b>		<u>(492,470)</u>	<u>(529,306)</u>
<b>Balance on the technical account – long term business</b>		<u>106,123</u>	<u>130,899</u>

The Notes on pages 33 to 83 form an integral part of these accounts

## UNUM Limited

### PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

For the year ended 31 December 2010

	Note	2010 £000	2009 £000
Balance on the long term technical account		106,123	130,899
Tax credit attributable to balance on long term business technical account	13a	36,408	47,893
<b>Shareholders' pre tax profit from insurance business</b>		142,531	178,792
Investment income	7	13,338	8,024
Investment expenses and charges	7	-	(69)
Unrealised gains on investments	7b	3,334	2,243
Other income		15	76
Other charges	9	(281)	(784)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	5	158,937	188,282
Tax on profit on ordinary activities	13b	(40,602)	(51,503)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	27	118,335	136,779

The results of the Company's general business technical account are not considered material for separate disclosure, and have been included within other technical income or charges, net of reinsurance, as appropriate, within the technical account - long term business. All the amounts included in respect of the technical account - long term business and the non-technical account derive from continuing operations.

The Notes on pages 33 to 83 form an integral part of these accounts

# UNUM Limited

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2010

	Note	2010 £000	2009 £000
<b>Profit for the financial year</b>		118,335	136,779
Transfer from revaluation reserve	27	(62)	(1,389)
Actuarial losses on pension scheme	28d	-	(5,894)
Tax on actuarial losses on pension scheme		-	1,650
<b>Other recognised losses relating to the year</b>		<u>(62)</u>	<u>(5,633)</u>
<b>TOTAL RECOGNISED GAINS RELATING TO THE YEAR</b>		<u>118,273</u>	<u>131,146</u>

The Notes on pages 33 to 83 form an integral part of these accounts

# UNUM Limited

## BALANCE SHEET at 31 December 2010

	Note	2010 £000	2009 £000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	16	10,282	10,625
Other financial investments	17	1,553,923	1,465,878
<b>Present value of acquired in-force business</b>	15	3,467	5,067
<b>Assets held to cover inflation linked liabilities</b>	18	488,817	441,253
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	22	2,578	1,857
Long term business provision – insurance contracts		1,318	1,260
Claims outstanding	24	25,370	25,468
Technical provisions for inflation linked liabilities – insurance contracts		50,791	49,754
		<u>80,057</u>	<u>78,339</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	19	25,127	33,687
Debtors arising out of reinsurance operations	19	10,858	8,712
Other debtors	19	413	458
Deferred tax asset	20	-	759
		<u>36,398</u>	<u>43,616</u>
<b>Other assets</b>			
Tangible assets	21	8,387	1,745
Cash at bank and in hand		21,721	56,219
		<u>30,108</u>	<u>57,964</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		40,410	38,312
Deferred acquisition costs		86,157	86,056
Other prepayments and accrued income		356	-
		<u>126,923</u>	<u>124,368</u>
<b>TOTAL ASSETS</b>		<u>2,329,975</u>	<u>2,227,110</u>

The Notes on pages 33 to 83 form an integral part of these accounts

# UNUM Limited

## BALANCE SHEET at 31 December 2010

Registered Number 983768

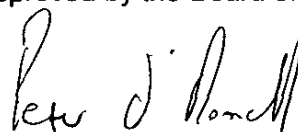
	Note	2010 £000	2009 £000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	25	12,000	12,000
Capital contribution	27	29,973	29,973
Revaluation reserve	27	2,443	2,505
Profit and loss account	27	509,940	441,605
<b>Shareholders' funds</b>	27	<u>554,356</u>	<u>486,083</u>
<b>Technical provisions</b>			
Provision for unearned premiums	22	90,703	91,815
Long term business provision – insurance contracts		(40,980)	(37,794)
Claims outstanding	24	<u>1,112,126</u>	<u>1,087,443</u>
		1,161,849	1,141,464
<b>Technical provisions for inflation linked liabilities – insurance contracts</b>		539,608	491,007
<b>Provisions for other risks</b>	20	4,015	7,992
<b>Creditors</b>			
Creditors arising out of direct insurance operations	26	37,958	42,642
Creditors arising out of reinsurance operations	26	790	1,244
Amounts owed to credit institutions	26	1,759	6,269
Fair value of derivative financial instruments	26	763	1,374
Other creditors including taxation and social security	26	<u>28,077</u>	<u>47,857</u>
		69,347	99,386
<b>Accruals and deferred income</b>		800	1,178
<b>TOTAL LIABILITIES</b>		<u>2,329,975</u>	<u>2,227,110</u>

The financial statements on pages 27 to 32 were approved by the Board of Directors and were signed on its behalf



**John McGarry**  
Chief Executive Officer

28 March 2011



**Peter O'Donnell**  
Chief Financial Officer

28 March 2011

The Notes on pages 33 to 83 form an integral part of these accounts



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

#### A. Basis of presentation

The financial statements have been prepared in accordance with the provisions of 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' ("SI 2008 No 410") relating to Insurance Companies and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 2005 as amended in December 2006

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the accounting policies that have a material effect on the financial statements is set out below

#### B. Insurance contracts

The Company issues contracts that transfer insurance risk. It has no contracts that transfer financial risk with no significant insurance risk that should be classified as investment contracts

#### Premiums

Premiums, including reinsurance premiums, are accounted for when due for payment. Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro-rata basis.

#### Claims

Claims are accounted for when due for payment or, in the case of deaths, when notification of death is received. Claims incurred include related internal and external claims handling costs paid in the year and the change in provision for claims outstanding.

The provision for claims outstanding includes estimated amounts set aside in respect of all claims which have occurred up to the end of the financial year and where, in the case of long term disability business, disability has occurred. The provision includes allowance for incurred but not reported claims.

Long term disability claims in payment are valued on a discounted cash flow basis having regard to future expected terminations of claims from all causes. The valuation basis adopted for both the long term business provision and the provision for claims outstanding reflects the value of related assets and the yield derived from them. The valuation basis also includes a prudent assessment of future rates of return on new monies receivable as income from existing business (premiums and investment income). Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. The details of key assumptions used are contained in note 23.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

#### B. Insurance contracts (continued)

##### Claims (continued)

The valuation assumptions are reviewed at least annually, and compared to actual experience and revised if necessary

Reinsurance recoveries are recorded in the same period as the related claim

##### Acquisition costs

The costs of acquiring new business which are incurred during a financial year but expected to be recoverable out of future revenue margins are deferred. Such costs are disclosed, as an asset, gross of tax, in the balance sheet and are determined explicitly. The asset is amortised over the period during which costs are expected to be recoverable out of revenue margins from the related policies. The rate of amortisation is consistent with the pattern of emergence of such margins.

##### Reinsurance

Long term business is ceded to reinsurers under contracts to transfer part or all of the insurance risk. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

#### C. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses, net of investment expenses, charges and interest payable.

All investment income is recognised on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price, or their fair value at the last balance sheet date, together with reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Long term fund investment return is recorded in the long term business technical account. All other investment return is recorded in the non-technical account.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

#### D. Investments

##### Land and buildings

Land and buildings are valued at open market valuation. Valuations are made by independent professionally qualified valuers, with a full valuation every five years and interim valuations in year three. In intervening years the valuation is reviewed by the directors and if necessary updated with the assistance of independent professional advice as required. Freehold property is depreciated over a period of 40 years on a straight-line basis, from the date of the latest valuation.

##### Other financial investments

The Company classifies its financial assets into the following categories: Variable-yield securities at fair value through profit or loss, Debt securities and other fixed-income securities – at fair value through profit or loss, and Deposits with credit institutions – loans and receivables. Management determines the classification of its investments at initial recognition.

#### (a) Variable-yield securities, debt securities and other fixed interest securities – at fair value through profit or loss

A financial asset is classified into this category at inception if they are so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities or are, in line with the Company's investment or risk management strategy, managed on a fair value basis.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's Finance and Investment Committee. The Company's investment strategy is to invest in variable-yield securities, debt securities, other fixed interest securities and derivatives designated upon initial recognition at fair value through profit or loss.

Investments carried at fair value are measured on bid prices on the balance sheet date. Investments for which a market exists are stated at the current bid price on the balance sheet date. The fair values of other investments, for which no active market exists, are established using valuation techniques which have prudent regard to the likely realisable value.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Net gains or losses arising from changes in the fair value of financial assets at fair value through profit and loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

#### D. Investments (continued)

##### Other financial investments (continued)

##### (b) Deposits with credit institutions – Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company has designated as at fair value through profit or loss. On initial recognition, measurement is at cost. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

#### E. Impairment of financial assets

For financial assets not at fair value through profit or loss the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. Impairment losses are deemed to have occurred where events that have taken place after initial recognition have an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Company about the following events:

- (a) significant financial difficulty of the issuer or debtor,
- (b) a breach of contract, such as a default or delinquency in payments, and
- (c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

If there is objective evidence that an impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period.

If in a subsequent period, the amount of the impairment loss decreases then the previously recognised impairment loss is reversed through the profit and loss account for the period.

# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **F. Derivative financial instruments**

Derivative financial instruments include interest rate and currency swaps that derive their value mainly from underlying interest rates or foreign exchange rates

All derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, which usually represents their cost, and are subsequently re-measured at fair value. Changes in the fair value of contractual derivative instruments are immediately recognised in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All contractual derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### **Interest rate and currency swaps**

Interest rate and currency swap arrangements are contractual agreements between two parties to exchange both periodic and final amounts in two different currencies each of which is computed on a different interest rate basis. Exposure to gain or loss will increase or decrease over the respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

#### **G. Collateral**

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of certain derivative contracts in order to reduce the credit risk of these transactions. The amount of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the balance sheet unless the Company either sells or re-pledges these assets at which point the obligation to return this collateral is recognised as a liability.

Collateral pledged in the form of cash, which is legally segregated from the Company, is de-recognised from the balance sheet with a corresponding receivable set up for its return. Non-cash collateral pledged is not de-recognised from the balance sheet unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the balance sheet within the appropriate asset classification.

#### **H. Present value of acquired in-force business**

On acquisition of a portfolio of long term insurance contracts the difference between the fair value and carrying amount of such contracts is recognised in the balance sheet as a present value of acquired in-force business asset. The present value of acquired in-force business is amortised on a straight line basis over its useful economic life which is estimated at a maximum of 10 years. The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of the acquisition.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

#### I Tangible fixed assets

The cost of fixed assets includes the purchase cost and any incidental costs of acquisition. Expenditure on computer hardware and software, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight-line basis. The periods used are as follows:

Fixtures, fittings and office equipment	5 years
Computer hardware	3 years
Computer software	3 – 10 years
Plant and equipment	10 years

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount, which is the higher of net selling price and value in use. Assets are grouped at the lowest levels for which there are separately identifiable cash flows.

#### J. Long term business provision – insurance contracts

The long term business provision is determined by the Company's Actuarial Function Holder following the annual investigation of the long term business and comprises the provision for future policy benefits. The valuation has due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 2002/83/EC). A gross premium valuation method is used, which brings into account the full premiums receivable under contracts written by the Company with due allowance for lapses, estimated renewal and maintenance costs and contractually guaranteed benefits.

#### K. Financial liabilities

Financial liabilities are recognised initially at fair value, net of transactions costs incurred. After initial recognition measurement is at amortised cost using the effective interest rate method.

#### L. De-recognition and offset of financial assets and financial liabilities

A financial asset is de-recognised where the rights to receive cash flows from the asset have expired.

A financial liability is de-recognised where the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis.

# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **M. Taxation**

The taxation charge shown in the profit and loss account is provided at the corporation tax rate applicable for the period and based on the profit on ordinary activities for the year after making adjustments for accounting deductions not allowable for tax purposes and claiming tax allowances

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

#### **N Pension benefits**

Prior to the transfer of staff contracts and operational assets to the immediate parent company referred to in note 2, the Company operated both a defined benefit pension scheme, which closed to new members at the end of 2002, and a defined contribution scheme

Consequent to the staff transfer the immediate parent company, UEHCL, became the sponsoring employer to the scheme and the Company entered in to a guarantee with UEHCL with regard to the current and future liabilities of the scheme. The Company recognises the guarantee on the basis of the defined benefit pension liability under FRS 17 representing the value of the scheme's assets less the present value of the scheme's liabilities, where this constitutes a deficit. Where the scheme is in surplus no provision is made and no asset is created

Amounts charged to the technical account for the defined contribution scheme represent the contributions payable to the scheme in the period

#### **O. Foreign currencies**

Items included in the financial statements are measured in pounds sterling, the functional and presentation currency of the Company

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period

# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **P. Share based payment transactions – in the shares of the ultimate parent company**

The grant date fair value of options granted to employees is recognised as an employee expense over the period that the employees become unconditionally entitled to the options

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately

#### **Q Operating leases**

Payments made under operating leases are charged to the profit and loss account as incurred over the lease term

#### **R. Cash flow statement**

As a wholly owned subsidiary of a group that produces publicly available consolidated accounts, the Company does not prepare a cash flow statement by taking advantage of the exemption granted by FRS 1 (Revised)



# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **2. TRANSFER OF STAFF AND OPERATIONAL ASSETS**

During 2009 the Company undertook an internal reorganisation. Effective from 1 November 2009, UEHCL, the immediate parent company, provided the Company with management services. Staff previously employed by the Company and the operational assets of the organisation were transferred to the immediate parent, UEHCL.

Consequent to the transfer of staff, and also effective 1 November 2009, the immediate parent company became the sponsoring employer of the pension schemes previously operated by the Company. In respect of the defined benefit pension scheme, the Unum Pension Scheme, the Company entered in to a guarantee with the immediate parent company regarding the funding of current and future liabilities of the scheme. Provision was made for the guarantee on the basis of the defined benefit pension liability under FRS 17 representing the value of the scheme's assets less the present value of the scheme's liabilities as the scheme was in deficit. No asset is created where the scheme is in surplus.

An FRS 17 pension valuation at 31 October 2009 showed the scheme to have a deficit of £10,012,000. This was recorded in the financial statements in accordance with the requirements of FRS 17. On transfer of sponsoring employer, the defined benefit liability was reclassified in the balance sheet as a provision for guarantee and deferred tax provided. Subsequent movements in the provision have been taken through profit or loss as other finance income. The scheme is in surplus at 31 December 2010 and no asset is held.

Disclosure regarding the provision for guarantee has been detailed at note 20.

### **3. MANAGEMENT OF FINANCIAL RISK**

The Company is exposed to a range of financial risks through its financial assets, reinsurance assets and policyholder liabilities. In particular the key financial risk is that the proceeds and cash flows from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate products which are exposed to general and specific market movements.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. It manages these through an asset liability management framework that has been designed to achieve returns in excess of new-money yield rates whilst managing the portfolio within the risk appetite set by the Board. Policyholder liabilities are matched by nature, term and currency in order to preserve and enhance the long-term economic value of the Company's product lines (and to maintain an average credit rating of single A on debt and other fixed income securities). The Company produces regular performance reports at portfolio, asset and liability class level that are circulated to members of the Company's Finance and Investment Committee. The principal technique of the framework is to match the profile of assets to the liabilities arising from insurance contracts and to ensure that the assets held to match liabilities are of appropriate quality. Separate portfolios of assets are maintained for non-linked non-profit business and inflation linked business.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3 MANAGEMENT OF FINANCIAL RISK (continued)

The following tables reconcile the balance sheet to each distinct category of liabilities

31 December 2010

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Land and buildings	-	-	10,282	10,282
Shares and other variable yield securities and units in unit trusts	10,741	-	-	10,741
Debt securities and other fixed income securities	1,373,182	488,817	209,940	2,071,939
Derivative financial instruments	464	-	-	464
Assets arising from reinsurance contracts held	40,124	50,791	-	90,915
Amounts due from insurance policyholders	25,127	-	-	25,127
Cash at bank and in hand	15,798	-	5,923	21,721
Tangible assets	8,387	-	-	8,387
Deferred acquisition costs	86,157	-	-	86,157
Present value of acquired in-force business	3,467	-	-	3,467
Other assets	775	-	-	775
<b>Total assets</b>	<b>1,564,222</b>	<b>539,608</b>	<b>226,145</b>	<b>2,329,975</b>

31 December 2010

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Provision for unearned premiums	90,703	-	-	90,703
Long term business provision – insurance contracts	(40,980)	-	-	(40,980)
Claims outstanding	1,112,126	-	-	1,112,126
Technical provisions for inflation linked liabilities – insurance contracts	-	539,608	-	539,608
Creditors arising out of direct insurance operations	37,958	-	-	37,958
Creditors arising out of reinsurance operations	790	-	-	790
Amounts owed to credit institutions	1,759	-	-	1,759
Fair value of derivative financial instruments	763	-	-	763
Other liabilities	31,698	-	1,194	32,892
<b>Total liabilities</b>	<b>1,234,817</b>	<b>539,608</b>	<b>1,194</b>	<b>1,775,619</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3 MANAGEMENT OF FINANCIAL RISK (continued)

31 December 2009

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Land and buildings	-	-	10,625	10,625
Shares and other variable yield securities and units in unit trusts	1	-	-	1
Debt securities and other fixed income securities	1,335,312	441,253	168,862	1,945,427
Assets arising from reinsurance contracts held	37,297	49,754	-	87,051
Amounts due from insurance policyholders	33,687	-	-	33,687
Cash at bank and in hand	20,857	-	35,377	56,234
Tangible assets	1,745	-	-	1,745
Deferred acquisition costs	86,056	-	-	86,056
Present value of acquired in-force business	5,067	-	-	5,067
Other assets	1,217	-	-	1,217
<b>Total assets</b>	<b>1,521,239</b>	<b>491,007</b>	<b>214,864</b>	<b>2,227,110</b>

31 December 2009

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Provision for unearned premiums	91,815	-	-	91,815
Long term business provision – insurance contracts	(37,794)	-	-	(37,794)
Claims outstanding	1,087,443	-	-	1,087,443
Technical provisions for inflation linked liabilities – insurance contracts	-	491,007	-	491,007
Provisions for other risks	7,992	-	-	7,992
Creditors arising out of direct insurance operations	42,642	-	-	42,642
Creditors arising out of reinsurance operations	1,244	-	-	1,244
Amounts owed to credit institutions	6,269	-	-	6,269
Fair value of derivative financial instruments	1,374	-	-	1,374
Other liabilities	46,971	-	2,064	49,035
<b>Total liabilities</b>	<b>1,247,956</b>	<b>491,007</b>	<b>2,064</b>	<b>1,741,027</b>

Accrued interest has been allocated as appropriate to debt securities and other fixed income securities, and cash at bank and in hand in the above tables for 2010 and 2009

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (a) Market risk

##### (i) Interest rate risk

Interest rate risk arises primarily from investments in fixed and variable interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company monitors interest rate risk by calculating the mean duration of the relevant investment portfolio and of the liabilities to the policyholder under insurance contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of mortality, morbidity and terminations. This is calculated in a consistent manner with the prior year. The Company seeks to match policyholder liabilities by nature term and currency.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. Management monitors the sensitivity of interest rates on a monthly basis by investigating the sensitivity of the bid value of assets and the value of UK Statutory liabilities to changes in underlying interest rates. Scenarios considered are consistent with INSPRU 3 1 16R.

The following table indicates the sensitivity of the insurance contract assets and liabilities to reasonably possible changes in interest rates.

Reasonably possible interest rate changes – 31 December 2010 - £000					
	Interest rate change	Increase/ (Decrease) in assets	Increase/ (Decrease) in liabilities	Increase/ (Decrease) on profit before tax	Increase/ (Decrease) on equity
Fixed Interest Bonds	+ 50 basis points on gross redemption yield	(33,100)	(26,900)	(6,200)	(4,464)
Inflation Linked Bonds	+ 25 basis points on real yield	(12,000)	(12,800)	800	576
<b>Total</b>		<b>(45,100)</b>	<b>(39,700)</b>	<b>(5,400)</b>	<b>(3,888)</b>
Fixed Interest Bonds	- 50 basis points on gross redemption yield	34,400	28,900	5,500	3,960
Inflation Linked Bonds	- 25 basis points on real yields	12,500	13,100	(600)	(432)
<b>Total</b>		<b>46,900</b>	<b>42,000</b>	<b>4,900</b>	<b>3,528</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (a) Market risk (continued)

##### (i) Interest rate risk (continued)

Reasonably possible interest rate changes – 31 December 2009 - £000					
	Interest rate change	Increase/ (Decrease) in assets	Increase/ (Decrease) in liabilities	Increase/ (Decrease) on profit before tax	Increase/ (Decrease) on equity
Fixed Interest Bonds	+ 50 basis points on gross redemption yield	(29,900)	(24,200)	(5,700)	(4,104)
Inflation Linked Bonds	+ 25 basis points on real yields	(9,200)	(11,000)	1,800	1,296
<b>Total</b>		<b>(39,100)</b>	<b>(35,200)</b>	<b>(3,900)</b>	<b>(2,808)</b>
Fixed Interest Bonds	- 50 basis points on gross redemption yield	31,000	26,100	4,900	3,528
Inflation Linked Bonds	- 25 basis points on real yields	9,600	11,700	(2,100)	(1,512)
<b>Total</b>		<b>40,600</b>	<b>37,800</b>	<b>2,800</b>	<b>2,016</b>

Tax has been applied at the rate of 28% for illustrative purposes

##### (ii) Currency risk

Management has established a policy to manage significant foreign exchange risks against the functional currency of Pounds Sterling. Foreign exchange risk arises when recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Company is primarily exposed to currency risk on Euro and Canadian Dollar denominated investments. The Company has removed this exposure through the use of derivative financial instruments that convert the currency cash flows to fixed sterling cash flows. The Company does not have significant currency exposures with regard to policyholder liabilities under insurance contracts.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3 MANAGEMENT OF FINANCIAL RISK (continued)

#### (b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. Key areas where the Company is exposed to credit risk are

- amounts due from insurance policyholders,
- amounts due from corporate bond issuers,
- cash deposits at bank,
- reinsurers' share of insurance contract liabilities, and
- amounts due from reinsurers in respect of claims already paid

The Company manages the level of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as a primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered initially by reviewing their financial strength prior to finalisation of any contract and on an ongoing basis creditworthiness is assessed on a quarterly basis. Provisions are made for potential non-recovery.

The Company maintains strict control on open derivative positions by amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Exposures to individual policyholders and groups of policyholders are collected within the monitoring of the controls associated with regulatory solvency. Where significant exposure exists to individual policyholders or homogenous groups of policyholders, financial analysis is carried out by management and provisions are made for potential doubtful debts.

The assets bearing credit risk are summarised below, together with an analysis by credit rating (using Standard & Poor's ratings). The maximum exposure that the Company has to credit risk at the balance sheet date is the carrying value of the assets shown below.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (b) Credit risk (continued)

	2010 £000	2009 £000
Shares and other variable yield securities and units in unit trusts	10,741	1
Debt securities and other fixed interest securities	2,072,403	1,945,427
Assets arising from reinsurance recoverable	80,057	78,339
Amounts due from ceding reinsurers	10,858	8,712
Amounts due from insurance policyholders	25,127	33,687
Cash at bank and in hand	21,721	56,234
<b>Total assets bearing credit risk</b>	<b>2,220,907</b>	<b>2,122,400</b>
AAA	524,891	622,793
AA	264,347	304,647
A	870,648	736,006
BBB	489,569	364,514
BB	38,851	56,276
B	6,604	1,478
Below B or not rated	25,997	36,686
<b>Total assets bearing credit risk</b>	<b>2,220,907</b>	<b>2,122,400</b>

The concentration of credit risk is substantially unchanged compared to prior year. Where credit limits are exceeded the Company does not follow a forced sale process.

Age analysis of financial assets past due but not impaired	less than 3 months	4 – 6 months	7 – 12 months	> one year	Total past due but not impaired
31 December 2010	£000	£000	£000	£000	£000
Amounts due from ceding reinsurers	8,252	452	429	1,725	10,858
Amounts due from insurance policyholders	17,803	4,273	3,051	-	25,127
<b>Total</b>	<b>26,055</b>	<b>4,725</b>	<b>3,480</b>	<b>1,725</b>	<b>35,985</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (b) Credit risk (continued)

Age analysis of financial assets past due but not impaired	less than 3 months	4 – 6 months	7 – 12 months	> one year	Total past due but not impaired £000
31 December 2009	£000	£000	£000	£000	
Amounts due from ceding reinsurers	3,236	(733)	5,364	845	8,712
Amounts due from insurance policyholders	21,510	6,400	5,777	-	33,687
<b>Total</b>	<b>24,746</b>	<b>5,667</b>	<b>11,141</b>	<b>845</b>	<b>42,399</b>

#### Impaired financial assets

At 31 December 2010 there are impaired amounts due from insurance policyholders of £1,749,000 (2009 £3,423,000) For assets to be classified as past due and impaired, contractual payments must be in arrears for more than one year

#### (c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due. The Company establishes the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The Company's financial liabilities are all due within one year or less with the exception of derivative financial instruments.

The Company has no callable liabilities.

The table in note 26 provides an analysis of the Company's financial liabilities.

#### (d) Linked liabilities

Certain insurance contracts pay benefits which escalate in line with the Retail Price Index or National Average Earnings. The Company matches the liabilities for these benefits with assets whose values are based on the retail price index. The Company is well matched over the medium term in respect of these liabilities.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3 MANAGEMENT OF FINANCIAL RISK (continued)

#### (e) Capital management

The Company operates a single fund in respect of its long term insurance business which is non-participating General business written by the Company is in run-off and capital requirements are shown as an adjustment to total available capital resources. The table shows the capital on a regulatory basis available to meet the regulatory capital requirements of the long term insurance business (known as 'Pillar 1')

Available capital resources	2010 £000	2009 £000
Shareholders' funds	298,602	291,133
Shareholders' funds held in long term business fund	255,754	194,950
<b>Total shareholders' funds</b>	<b>554,356</b>	<b>486,083</b>
<u>Adjustments onto regulatory basis</u>		
Intangible assets	(3,467)	(5,067)
Deferred acquisition costs	(86,157)	(86,056)
Adjustments to asset values	(7,732)	(13,402)
Adjustments to liabilities	23,704	26,192
General business capital requirement	(1,998)	(2,056)
<b>Total available capital resources for long term business</b>	<b>478,706</b>	<b>405,694</b>
<b>Capital resources requirement for long term business</b>	<b>210,156</b>	<b>178,687</b>
Long term business solvency multiple	228%	227%
 <b>Technical provisions in balance sheet</b>	 <b>1,621,400</b>	 <b>1,554,132</b>

The capital held by the Company is subject to the requirement to meet and maintain a margin in excess of the Company's capital resources requirement in its regulatory filing with the FSA

The Company maintains an efficient capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business

#### Objectives

The Company's objectives in managing its capital are

- to match the profile of assets and liabilities, taking account of the inherent risks in the business,
- to ensure that assets held by the Company to match liabilities are of appropriate quality,
- to maintain financial strength and allocate capital efficiently to support new business growth, and
- to satisfy the requirements of policyholders, shareholders, regulators and rating agencies

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (e) Capital management (continued)

##### Regulatory requirements

The Company is required to hold sufficient capital to meet, and provide a margin in excess of, the FSA's capital requirements. The Company must manage to the most onerous capital requirement under two bases of assessment: Pillar 1 (a regulatory formula basis) and Pillar 2 (a risk based Individual Capital Assessment).

At 31 December 2010 the available Pillar 1 capital was 228% of the capital requirement of £210.1 million (2009: 227% of a capital requirement of £178.7 million).

##### Restrictions on capital

There are certain legal restrictions on the Company's ability to transfer capital (as with other UK life companies):

- transfers can only take place from long term business funds following an up to date actuarial valuation, and
- the surplus capital that can be distributed to shareholders is restricted to the level of distributable profits that are available (as defined by the Companies Act 2006).

##### Capital resources sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to termination rates, loss ratios and mortality and to a lesser extent, expenses and persistency.

The most significant sensitivities arise from the following risks:

- a reduction in the valuation interest rates would reduce the impact of discounting on the long term business provision which may not be fully matched by the corresponding effect on the valuation of assets,
- a reduction in asset values arising through changes in credit ratings may not be matched by a reduction in liabilities if increases in credit risk default allowances are required,
- higher loss ratios in the Company's group and individual risk business would see long term provisions rise,
- mortality risk in relation to annuity business on dependants annuities in payment, if the mortality of annuitants improved more rapidly than the assumptions used for reserving,
- market risk for the business if the return from fixed interest investments supporting the business was lower than assumed for reserve valuation, and
- termination rate risk in relation to income protection claims which would see long term provisions rise if termination rates were lower than assumed.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. MANAGEMENT OF FINANCIAL RISK (continued)

#### (e) Capital management (continued)

The timing of any impact on capital would depend on interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then the assumptions relating to future experience would be changed to reflect this. Liabilities would be increased to anticipate the future impact of adverse experience with an immediate impact on the capital position.

### 4. SEGMENTAL INFORMATION

#### a) Long Term Business Technical Account

In the opinion of the directors, the Company operates in a single business segment being that of long term insurance business.

#### (i) Gross premiums written

	2010 £000	2009 £000
Direct insurance	424,383	431,392
Reinsurance inwards	6,194	6,842
<b>Gross premiums written</b>	<b>430,577</b>	<b>438,234</b>
	<b>2010 £000</b>	<b>2009 £000</b>
Gross direct insurance premiums written		
Individual income protection	18,402	17,440
Group income protection	265,502	293,684
Group life	126,366	106,013
Group critical illness	14,113	14,255
<b>Total gross direct insurance premiums written</b>	<b>424,383</b>	<b>431,392</b>

Gross direct insurance premiums written comprise regular premium contracts.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 4. SEGMENTAL INFORMATION (continued)

#### a) Long Term Business Technical Account (continued)

##### (ii) Gross new business premiums

New business premiums (including incremental premiums on existing policies), are the annualised equivalent of new business written in the year

Gross new premium income is made up of

	2010 £000	2009 £000
Sales to new customers		
Direct insurance	62,501	68,577 *
Reinsurance inwards	339	322
Total	62,840	68,899
Incremental premiums		
Direct insurance	21,420	34,290
Reinsurance inwards	158	97
Total	21,578	34,387
Gross new business premiums		
Direct insurance	83,921	102,867
Reinsurance inwards	497	419
Total	84,418	103,286

\* Direct insurance sales to new customers in 2009 include sales of £17,427,000 in relation to the exit of a competitor from the group risk market. Direct sales in 2009 excluding this one-off item totalled £51,150,000

	2010 £000	2009 £000
Gross new business direct insurance premiums		
Individual income protection	3,484	3,522
Group income protection	38,316	52,770
Group life	38,438	40,909
Group critical illness	3,683	5,666
Total gross new business direct insurance premiums	83,921	102,867

All business written is comprised of regular premium contracts

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 4. SEGMENTAL INFORMATION (continued)

#### a) Long Term Business Technical Account (continued)

##### (iii) Geographical analysis

The Company transacts an immaterial amount of overseas business in respect of income protection and accident and health contracts that are in run-off. The effect of these to gross premiums written, net assets and profit before taxation is not material. Other than in this respect, all business written is in respect of risks in the United Kingdom. No geographical analysis has been produced.

##### (iv) Reinsurance balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2010 of £9,773,000 (2009 £8,443,000 credit)

#### b) Results before tax

	2010 £000	2009 £000
Balance on the technical account		
- long term business before tax	142,531	178,792
Shareholders' other income and charges	16,406	9,490
<b>Profit on ordinary activities before tax</b>	<b>158,937</b>	<b>188,282</b>

#### c) Net assets

The total amount of assets attributable to the long term fund maintained in accordance with Chapter 1 of the Prudential Sourcebook for Insurers is £2,103,831,000 (2009 £2,012,246,000)

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after:

	2010 £000	2009 £000 (Restated)
Depreciation charge for year		
Land and buildings	281	309
Tangible assets	1,082	2,593
Auditors' remuneration for		
Audit	450	523
Work pursuant to legal and regulatory requirements	30	30
Local statutory audits for fellow group undertakings	35	28
Other services	50	-
Operating lease rentals – other operating leases	2,433	2,673

Auditors' remuneration for the prior year has been restated to reallocate costs incurred by the Company in respect of Sarbanes-Oxley reporting for the Unum UK Group of companies to be classified as audit costs

### 6. NET OPERATING EXPENSES

	Long term business	
	2010 £000	2009 £000
Acquisition costs	34,889	43,671
Change in deferred acquisition costs	(96)	(69)
Administrative expenses	67,930	48,527
	<u>102,723</u>	<u>92,129</u>
Reinsurance commissions and profit participations	1,260	784
Net operating expenses	<u>103,983</u>	<u>92,913</u>

The total commission accounted for during the year in respect of direct business, excluding payments to employees, was £26,035,000 (2009 £25,094,000) The amount of exchange differences recognised in profit and loss other than in respect of financial instruments measured at fair value through profit or loss was a loss of £879,000 (2009 £785,000 profit)

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 6. NET OPERATING EXPENSES (continued)

The Company implemented an Activity Based Costing model for the allocation of management expenses in 2010 which better reflects the operational activities of the organisation. This implementation reduced the level of expenses allocated to acquisition activities and claims assessment and management activities, which are included in paid claims costs, and increased charges to administrative functions. The effect of the implementation, relative to 2009, reduced acquisition costs by £8.1 million and claims expenses by £7.8 million. Administrative expenses increased by £15.9 million.

### 7. INVESTMENT RETURN

INVESTMENT INCOME	Technical account Long term business		Non-technical Account	
	2010 £000	2009 £000	2010 £000	2009 £000
Interest income from financial assets at fair value through profit or loss	90,051	88,369	10,435	7,211
Interest income from financial assets not at fair value through profit or loss	98	270	13	60
Income from land and buildings	-	-	1,045	446
Gains on the realisation of investments	5,100	-	1,845	-
Net interest credit on pensions	-	-	-	307
<b>Total investment income</b>	<b>95,249</b>	<b>88,639</b>	<b>13,338</b>	<b>8,024</b>

INVESTMENT EXPENSES AND CHARGES	Technical account long term business		Non-technical Account	
	2010 £000	2009 £000	2010 £000	2009 £000
Investment management charges	2,431	2,105	-	-
Interest payable on financial liabilities at amortised cost	48	85	-	-
Losses on the realisation of investments	-	28,052	-	69
	<b>2,479</b>	<b>30,242</b>	<b>-</b>	<b>69</b>

#### a) Technical account – Long term business

	2010 £000	2009 £000
Investment income	95,249	88,639
Investment expenses and charges	(2,479)	(30,242)
Movement in unrealised investment gains	72,990	129,258
<b>Total net investment return</b>	<b>165,760</b>	<b>187,655</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 7. INVESTMENT RETURN (continued)

#### b) Non-technical account

	2010 £000	2009 £000
Investment income	13,338	8,024
Investment expenses and charges	-	(69)
Movement in unrealised investment gains	3,334	2,243
<b>Total net investment return</b>	<b>16,672</b>	<b>10,198</b>

#### c) Net investment gains

	2010 £000	2009 £000
Technical account – Long term business	78,090	101,206
Non-technical account	5,179	2,174
<b>Total net investment gains</b>	<b>83,269</b>	<b>103,380</b>

All net investment gains reported in 2010 and 2009 arose on financial assets at fair value through profit or loss, designated as such upon initial recognition

### 8 OTHER TECHNICAL INCOME AND OTHER TECHNICAL CHARGES, NET OF REINSURANCE

	2010 £000	2009 £000
<b>a) Other technical income, net of reinsurance</b>		
Other finance income	7,813	2,199
Release of deferred gain on acquisition	720	1,554
Sundry income	15	2
General insurance business result	1,391	-
	<b>9,939</b>	<b>3,755</b>

Other finance income reflects the reversal of the provision for guarantee in relation to the current and future liabilities of the Unum Pension Scheme, which was transferred to UEHCL, the immediate parent company, with effect from 1 November 2009, as commented on in note 2. The scheme is now in surplus.

The release of deferred gain on acquisition represents the release of gains deferred on a group income protection business inwards reinsurance claims arrangement over the expected period in which the gains will arise.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 8 OTHER TECHNICAL INCOME AND OTHER TECHNICAL CHARGES, NET OF REINSURANCE (continued)

	2010 £000	2009 £000
<b>b) Other technical charges, net of reinsurance</b>		
Present value of acquired in-force business amortisation	1,600	1,535
Deferral of gain on acquisition	58	98
Sundry charges	-	1
General insurance business result	-	412
	<u>1,658</u>	<u>2,046</u>

### 9. OTHER CHARGES

	2010 £000	2009 £000
Depreciation on buildings	281	309
Impairment loss on revaluation of land	-	475
	<u>281</u>	<u>784</u>

### 10. STAFF COSTS

The average number of persons (including executive directors) employed by the Company during the year was

By activity	2010 Number	2009 Number
Sales, Marketing and Underwriting	-	226
Claims	-	125
Administration and Finance	-	442
	<u>-</u>	<u>793</u>

Staff cost for the above persons were

	2010 £000	2009 £000
Wages and salaries	-	30,214
Social security costs	-	3,253
Pension costs	-	4,333
	<u>-</u>	<u>37,800</u>

With effect from 1 November 2009, all employees of the Company were transferred to UEHCL, the immediate parent company. UEHCL also became the sponsoring employer of the Unum Pension Scheme.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 10. STAFF COSTS (continued)

Prior to the transfer, the Company operated an approved Save As You Earn (SAYE) share scheme in conjunction with the ultimate parent company, Unum Group. Under the exemptions granted by Urgent Issues Task Force Abstract 17, the Company is not required to make any further disclosures about this scheme.

### 11. DIRECTORS' EMOLUMENTS/PENSIONS

	2010 £000	2009 £000
Aggregate emoluments in respect of qualifying services	986	825
Aggregate amounts receivable under long term incentive plans	299	119
Aggregate amounts paid under money purchase schemes	36	150
	<b>2010 No.</b>	<b>2009 No.</b>
Number of directors who received shares in respect of qualifying services	2	1
Number of directors who exercised share options	1	1
Number of directors accruing benefits under money purchase schemes	2	1
Number of directors accruing benefits under defined benefits schemes	2	1
In respect of the highest paid director	<b>2010 £000</b>	<b>2009 £000</b>
Aggregate emoluments	385	518
Accrued pension at the end of the year	61	57
Accrued lump sum at the end of the year	735	760

The highest paid director exercised 5,955 share options in the ultimate parent company, Unum Group, during the year. Shares were receivable by that director under the Company's long term incentive plan.

The aggregate amount of compensation paid to directors or past directors for loss of office amounted to £ 30,000 (2009: £nil).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 12. SHARE OPTIONS/LONG TERM INCENTIVE PLANS

#### a) Share options

The executive directors who held office in the year had options in the ultimate parent company, Unum Group, at 31 December 2010 as follows

Date of award	Number of options at 1 January 2010	Options granted during the period	Options exercised during period	Options lapsed un-exercised	Number of options at 31 December 2010	Exercise prices \$	Date from which exercisable	Expiry date
08/02/01	8,000	-	-	8,000	-	27 9750	current	08/02/11
15/02/02	4,800	-	-	4,800	-	28 9000		
21/02/08	3,587	-	-	3,587	-	23 7400	21/02/09	21/02/16
21/02/08	3,587	-	-	3,587	-	23 7400	21/02/10	21/02/16
21/02/08	3,587	-	-	3,587	-	23 7400	21/02/11	21/02/16
24/02/09	5,955	-	5,955	-	-	11 3700	24/02/10	24/02/17
24/02/09	5,955	-	-	5,955	-	11 3700	24/02/11	24/02/17
24/02/09	5,955	-	-	5,955	-	11 3700	24/02/12	24/02/17
25/02/10	-	2,116	-	2,116	-	20 7800	25/02/11	25/02/18
25/02/10	-	2,116	-	2,116	-	20 7800	25/02/12	25/02/18
25/02/10	-	2,116	-	2,116	-	20 7800	25/02/13	25/02/18
<b>Total</b>	<b>41,426</b>	<b>6,348</b>	<b>5,955</b>	<b>41,819</b>	<b>-</b>			

The number of options represents all options granted to directors, including options granted prior to their appointment as directors

The middle market price of the ordinary shares of Unum Group at 31 December 2010 was \$24 22  
The lowest price of the shares during the year was \$18 73 and the highest price was \$26 41

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 12. SHARE OPTIONS/LONG TERM INCENTIVE PLANS (continued)

#### b) Long Term Incentive Plan/Performance Restricted Stock

The executive directors have been granted restricted stock in the ultimate parent company, Unum Group under a long term incentive plan (LTIP). Under the conditions of the award the directors have to have been in continuous full-time employment with Unum Group from the award date to the date of the stock vesting to the directors. The awards are as follows

Award date	Restricted stock at 1 January 2010	Stock awarded during the period/ held or on appointment	Stock vested during the period	Stock lapsed /unexercised during the period	Restricted stock at 31 December 2010	Fair value at date of award \$	Vesting date
23/02/07	4,546	-	4,546	-	-	21 680	
21/02/08	5,355	21	-	5,376	-	23 740	
21/02/08	5,355	3,139	-	5,398	3,096	23 740	21/02/11
24/02/09	10,644	42	10,686	-	-	11 370	
24/02/09	10,644	5,156	-	10,725	5,075	11 370	24/02/11
24/02/09	10,645	5,156	-	10,726	5,075	11 370	24/02/12
25/02/10	-	5,331	-	2,772	2,559	20 780	25/02/11
25/02/10	-	5,331	-	2,772	2,559	20 780	25/02/12
25/02/10	-	5,332	-	2,771	2,561	20 780	25/02/13
01/06/10	-	891	-	-	891	22 620	01/06/11
01/06/10	-	892	-	-	892	22 620	01/06/12
01/06/10	-	893	-	-	893	22 620	01/06/13
<b>Total</b>	<b>47,189</b>	<b>32,184</b>	<b>15,232</b>	<b>40,540</b>	<b>23,601</b>		

In September 2007 the ultimate parent company, Unum Group, issued 175,000 Performance Restricted Stock Units (PRSUs) to executive directors and senior executives of the Company. These had a grant date fair value of \$24.15 and a vesting date of February 2012. Vesting for the grant is contingent upon meeting various company threshold performance and stock price conditions. Dividend equivalents on PRSUs are accrued in the form of additional restricted stock units. At 31 December 2010, 15,845 PRSUs granted to current directors were outstanding, all of which are non-vested.

The fair value on the date of the grant of the LTIPs and PRSUs was estimated using a Monte-Carlo model. The following assumptions were used to value the 2007 grants:

- Expected volatility of 29 %, based on historical daily stock prices,
- Expected life of 3 years, which equals the maximum term,
- Expected dividend yield of 1.24 %, based on the dividend rate at the date of grant, and
- Risk-free interest rate of 3.97 %, based on the yield of US treasury bonds at the date of grant

The total expense recognised in the financial statements in respect of equity-settled share based payments in 2010 was £1,012,698 (2009: £1,319,174).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 13. TAXATION

#### a) Technical Account – analysis of charge

	2010 £000	2009 £000
Current tax		
UK corporation tax on profits of the period at 28% (2009 – 28%)	33,992	52,161
Adjustments in respect of previous periods	(1,008)	(375)
Total current tax charge	32,984	51,786
Deferred tax		
Origination and reversal of timing differences	2,230	(3,909)
Adjustments in respect of previous periods	1,194	(69)
Defined benefit liability charge	-	85
Total deferred tax charge/(credit)	3,424	(3,893)
Total tax charge on technical account	36,408	47,893

#### b) Non-Technical Account – analysis of charge

	2010 £000	2009 £000
Current tax		
UK corporation tax on profits of the period at 28% (2009 – 28%)	4,659	2,658
Adjustments in respect of previous periods	(465)	866
Tax on long term business technical account	32,984	51,786
Total current tax charge	37,178	55,310
Deferred tax		
Origination and reversal of timing differences	-	-
Tax on long term business technical account	3,424	(3,893)
Defined benefit liability charge	-	86
Total deferred tax charge/(credit)	3,424	(3,807)
Total tax charge on non-technical account	40,602	51,503

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 13 TAXATION (continued)

#### c) Factors affecting tax charge

	2010 £000	2009 £000
<b>Technical account</b>		
Balance on the technical account before tax	142,531	178,792
Balance on the technical accounts before tax multiplied by the standard rate of corporation tax of 28% (2009 28%)	39,909	50,062
Which was affected by		
Non-taxable income /expenses not deductible for tax purposes	(3,488)	(1,920)
Timing effect of capital items	(931)	(7)
Other temporary differences	(1,498)	2,960
Group relief to fellow subsidiary companies	-	1,066
Adjustment to tax in respect of previous periods	(1,008)	(375)
<b>Current tax charge</b>	<b>32,984</b>	<b>51,786</b>
	2010 £000	2009 £000
<b>Non-Technical account</b>		
Balance on the non-technical account before tax	158,937	188,282
Less income attributable to insurance business (as above)	(142,531)	(178,792)
Other income	16,406	9,490
Balance on the non-technical account before tax multiplied by the standard rate of corporation tax of 28% (2009 28%)	4,594	2,657
Which was affected by		
Defined benefit liability adjustment	-	(86)
Depreciation in excess of capital allowances	65	87
Group relief from fellow subsidiary companies	-	-
Tax attributable to balance on long term business technical Account	32,984	51,786
Adjustment to tax in respect of previous periods	(465)	866
<b>Current tax charge</b>	<b>37,178</b>	<b>55,310</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 13. TAXATION (continued)

#### d) Factors affecting current and future tax charges

During the year, as a result of the change in the UK main corporation tax rate from 28% to 27% that was substantively enacted on 20 July 2010 and that will be effective from 1 April 2011, the relevant deferred tax balances have been re-measured

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget and subsequently the March 2011 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements. Had they been substantively enacted they would have reduced the deferred tax liability at 31 December 2010 by £0.4m. The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

No tax is expected to arise if the Company were to sell its land and buildings at current market values

### 14. DIVIDENDS PAID AND PROPOSED

	2010 £000	2009 £000
<b>Declared and paid during the year:</b>		
Equity dividends on both ordinary class A and B shares		
Final dividend for 2010 416 67p (2009 237 50p)	50,000	28,500
<b>Dividends paid</b>	<b>50,000</b>	<b>28,500</b>

### 15. PRESENT VALUE OF ACQUIRED IN-FORCE BUSINESS

	2010 £000	2009 £000
<b>Cost</b>		
At 1 January and 31 December	21,939	21,939
<b>Amortisation</b>		
At 1 January	16,872	15,337
Charge for the year	1,600	1,535
At 31 December	18,472	16,872
<b>Net book value at 31 December</b>	<b>3,467</b>	<b>5,067</b>

There are no circumstances that indicate that the current carrying value of £3,467,000 is not expected to be recoverable in full

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 16. LAND AND BUILDINGS

	Freehold land & buildings	
	2010 £000	2009 £000
<b>Valuation</b>		
At 1 January	10,625	13,150
Transfer from fixed assets	-	1,240
Revaluation	-	(3,765)
<b>At 31 December</b>	<b>10,625</b>	<b>10,625</b>
<b>Depreciation</b>		
At 1 January	-	892
Transfer from fixed assets	-	702
Charge for the year charged to the non technical account	281	309
Charge for the year transferred to the revaluation reserve	62	169
Revaluation adjustment – transfer of accumulated depreciation	-	(2,072)
<b>At 31 December</b>	<b>343</b>	<b>-</b>
<b>Net book value</b>		
At 1 January	10,625	12,258
<b>At 31 December</b>	<b>10,282</b>	<b>10,625</b>

All land and buildings included above are occupied by the Company for its own activities

The last full valuation of the land and buildings was carried out at 31 December 2009. All land and buildings were valued as at 31 December 2009 at open market value (and on vacant possession for owner occupied property). Montagu Evans, a firm of independent Chartered Surveyors, made this valuation.

The valuation of land and buildings has been reviewed by the directors and confirmed with Montagu Evans, a firm of independent Chartered Surveyors.

The transfer from fixed assets reflects assets integral to the buildings that were transferred from ordinary fixed assets as part of the transfer of staff and associated assets to the immediate parent company, referred to in note 2.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17. INVESTMENTS: OTHER FINANCIAL INVESTMENTS

	Carrying value		Cost	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Financial assets at fair value through profit or loss</b>				
Designated upon initial recognition	2,042,276	1,907,131	1,892,994	1,833,104
Derivative financial instruments	464	-	-	-
<b>Total financial assets</b>	<b>2,042,740</b>	<b>1,907,131</b>	<b>1,892,994</b>	<b>1,833,104</b>
Included in balance sheet as follows				
<b>Other financial investments</b>				
Shares and other variable yield securities and units in unit trusts	10,741	1	9,691	1
Debt securities and other fixed income securities	1,542,718	1,465,877	1,473,060	1,444,570
Derivative financial instruments	464	-	-	-
	1,553,923	1,465,878	1,482,751	1,444,571
Assets held to cover inflation linked liabilities	488,817	441,253	410,243	388,533
<b>Total financial assets</b>	<b>2,042,740</b>	<b>1,907,131</b>	<b>1,892,994</b>	<b>1,833,104</b>

All financial investments above are listed investments

### Fair Value Measurements

The degree of judgment utilised 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 utilised 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17. INVESTMENTS: OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

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 instrument, and overall market conditions

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

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 using quoted prices in an active market for identical assets). 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 being valued. For assets 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 establishing 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. At year end 2010, we have applied valuation techniques on a consistent basis to similar assets and consistent with those techniques used at year end 2009.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17 INVESTMENTS· OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

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

- Broker market maker prices and price levels,
- Trade Reporting and Compliance Engine (TRACE) pricing,
- Prices obtained from external pricing services,
- Benchmark yields (Treasury and interest rate swap curves),
- Transactional data for new issuance and secondary trades,
- Security cash flows and structures,
- Recent issuance/supply,
- Sector and issuer level spreads,
- Security credit ratings/maturity/capital structure/optionality,
- Corporate actions,
- Underlying collateral,
- Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning,
- Public covenants,
- Comparative bond analysis,
- Derivative spreads, and
- 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.

Observable inputs which we utilise to determine the fair values of our investments and derivative financial instruments include broker market maker prices, TRACE pricing, prices obtained from external pricing services, and broker price levels.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17. INVESTMENTS: OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

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

At 31 December 2010, approximately 1.5 percent of our fixed maturity securities were valued using 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 98.5 percent of our fixed maturity securities were valued based on non-binding quotes or other observable or unobservable inputs, as discussed below:

- Approximately 93.0 percent of our 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 1.0 percent of our securities were valued based on one or more non-binding broker price levels, if validated by observable market data. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.
- Approximately 4.5 percent of our fixed maturity securities were valued based on prices of comparable securities, 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 categorisation 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 categorised as Level 3 are generally those that lack observable inputs and 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17 INVESTMENTS OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

The categorisation of fair value measurements by input level as at 31 December 2010 and 31 December 2009 is as follows

	Amounts in £000			
	Quoted prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>31 December 2010</b>				
<b>Other financial investments</b>				
Shares and other variable yield securities and units in unit trusts	-	5,741	5,000	10,741
Debt securities and other fixed income securities	30,470	1,486,647	25,601	1,542,718
Assets held to cover inflation linked liabilities	-	488,817	-	488,817
	<u>30,470</u>	<u>1,981,205</u>	<u>30,601</u>	<u>2,042,276</u>
<b>Derivatives</b>	<u>-</u>	<u>464</u>	<u>-</u>	<u>464</u>
<b>Total financial assets</b>	<u>30,470</u>	<u>1,981,669</u>	<u>30,601</u>	<u>2,042,740</u>
<b>31 December 2009</b>				
<b>Other financial investments</b>				
Shares and other variable yield securities and units in unit trusts	-	1	-	1
Debt securities and other fixed income securities	54,602	1,391,884	19,391	1,465,877
Assets held to cover inflation linked liabilities	-	441,253	-	441,253
<b>Total financial assets</b>	<u>54,602</u>	<u>1,833,138</u>	<u>19,391</u>	<u>1,907,131</u>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17. INVESTMENTS. OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

In 2010 £33,098,000 (2009 £32,744,000) of debt securities and other fixed income securities were transferred in to level 1 from level 2. This is because the investments were valued on an unadjusted quoted price in an active market having previously been valued on the basis of a quoted price for an identical or similar asset.

In 2010 £54,641,000 (2009 £20,027,000) of debt securities and other fixed income securities were transferred out of level 1 to level 2. This is because the investments were valued on the basis of a quoted price for an identical or similar asset, having previously been valued on the basis of an unadjusted quoted price in an active market.

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

Year ended 31 December 2010					
Amounts in £000					
	Beginning of period	Unrealised losses included in profit or loss	Net Purchases and Sales	Transfers Into	End of Period
Debt securities and other fixed income securities	19,391	(1,775)	4,812	8,173	30,601
<b>Total financial assets</b>	<b>19,391</b>	<b>(1,775)</b>	<b>4,812</b>	<b>8,173</b>	<b>30,601</b>

Year ended 31 December 2009					
Amounts in £000					
	Beginning of period	Unrealised gains included in profit or loss	Purchases	Transfers Out of	End of Period
Debt securities and other fixed income securities	32,109	2,578	4,484	(19,780)	19,391
<b>Total financial assets</b>	<b>32,109</b>	<b>2,578</b>	<b>4,484</b>	<b>(19,780)</b>	<b>19,391</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 17 INVESTMENTS: OTHER FINANCIAL INVESTMENTS (continued)

#### Fair Value Measurements (continued)

Unrealised investment gains represent gains only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the market relative to the level of trade activity and whether the market is considered orderly at the time of valuation, 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.

### 18. ASSETS HELD TO COVER INFLATION LINKED LIABILITIES

	Carrying value		Cost	
	2010 £000	2009 £000	2010 £000	2009 £000
Debt securities and other fixed income securities	488,817	441,253	410,243	388,533

An analysis of total financial assets, including assets held to cover linked liabilities is provided in Note 17 'Other financial investments'.

### 19. DEBTORS

All debtors arising out of direct insurance operations are due from policyholders. All debtors arising out of direct insurance operations and reinsurance operations are due within one year.

Other Debtors	2010 £000	2009 £000
Due in less than one year		
Sundry debtors	413	412
Amounts due from Group undertakings	-	46
	<u>413</u>	<u>458</u>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 20. PROVISIONS FOR OTHER RISKS/DEFERRED TAX ASSET

	Deferred Tax £000	Pension Guarantee £000	Other £000	Total £000
<b>At 1 January 2009</b>	6,022	-	4,171	10,193
Transfer of pension liability	(2,803)	10,012	-	7,209
Transferred to parent company	-	-	(828)	(828)
Credit for the year	(3,978)	(2,199)	-	(6,177)
Utilised in the year	-	-	(3,242)	(3,242)
Increase during period in discounted amount	-	-	78	78
<b>At 31 December 2009</b>	<u>(759)</u>	<u>7,813</u>	<u>179</u>	<u>7,233</u>
Presented as deferred tax asset	<u>759</u>	<u>-</u>	<u>-</u>	<u>759</u>
<b>At 1 January 2010</b>	-	7,813	179	7,992
Transferred from deferred tax asset	(759)	-	-	(759)
Transferred from parent company	-	-	811	811
Charge/(credit) for the year	3,424	(7,813)	450	(3,939)
Utilised in the year	-	-	(137)	(137)
Increase during period in discounted amount	-	-	47	47
<b>At 31 December 2010</b>	<u>2,665</u>	<u>-</u>	<u>1,350</u>	<u>4,015</u>

With effect from 1 November the sponsoring employer for the Unum Pension Scheme transferred to UEHCL as commented on in note 2 and the Company provided a guarantee for the current and future liabilities of the scheme. Provision is made where the scheme is in deficit. Following the accounting valuation of the pension scheme at 31 December 2010, the scheme is in surplus and the provision has been reduced to £nil at December 2010.

Full disclosure of the movement in position and underlying sensitivities of the pension scheme can be found in the financial statements of Unum European Holding Company Limited.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 20. PROVISIONS FOR OTHER RISKS/DEFERRED TAX ASSET (continued)

Deferred tax is provided in the financial statements in full	Amount provided	
	2010 £000	2009 £000
Timing differences in respect of investment values	289	300
Excess of capital allowances over depreciation	(2,345)	(3,431)
Provision for group relief payable	1,489	478
Timing differences in respect of Group Life business	3,797	4,557
Long term incentive plans	(565)	(475)
Provision for pension guarantee	-	(2,188)
<b>Deferred tax liability/(asset)</b>	<b>2,665</b>	<b>(759)</b>

There are no unprovided amounts of deferred tax at 31 December 2010 or 31 December 2009

### 21. TANGIBLE ASSETS

	Fixtures Fittings & Equipment £000	Computer Hardware £000	Computer Software £000	Total £000
<b>Cost</b>				
At 1 January	4,006	13,994	13,122	31,122
Additions	-	-	7,827	7,827
Disposals	(914)	(9,296)	(585)	(10,795)
Foreign exchange adjustment	-	-	(103)	(103)
	<b>3,092</b>	<b>4,698</b>	<b>20,261</b>	<b>28,051</b>
<b>Accumulated depreciation</b>				
At 1 January	4,005	13,994	11,378	29,377
Disposals	(914)	(9,296)	(585)	(10,795)
Charge for the year	-	-	1,082	1,082
	<b>3,091</b>	<b>4,698</b>	<b>11,875</b>	<b>19,664</b>
<b>Net book value at 31 December 2010</b>	<b>1</b>	<b>-</b>	<b>8,386</b>	<b>8,387</b>
<b>Net book value at 31 December 2009</b>	<b>1</b>	<b>-</b>	<b>1,744</b>	<b>1,745</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 22. PROVISION FOR UNEARNED PREMIUMS

	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2010	91,815	1,857	89,958
Movement for the period			
- long term business	(1,137)	721	(1,858)
- general business	25	-	25
At 31 December 2010	90,703	2,578	88,125

### 23. LONG TERM BUSINESS TECHNICAL PROVISION

#### a) Methodology

For Individual Income Protection contracts the long-term business provision includes an allowance for current claims outstanding and expected future claims and expenses. This has been calculated for each policy by deducting the present value of the office premiums receivable from the present value of the benefits plus expenses using a gross premium cash flow method of valuation.

For Group Income Protection contracts the long-term business provision is made up of an allowance for current claims outstanding and for future profit sharing, on policies where this applies.

For Individual and Group Income Protection contracts current claims outstanding include incurred but not reported claims, claims currently within the deferred period, ceased claims that are in litigation, the possibility that a declined claim may reopen or that a ceased claim may reinstate and all pending claims, claims in payment and claims where payments have been suspended.

For Group Life contracts the long-term business provision includes an allowance for incurred but not reported claims and those that have been notified but not paid. As the liabilities are of a short duration no mortality table or valuation interest rate is used.

For Group Dependents contracts the long-term business provision includes an allowance for incurred but not reported claims and those that have been notified but payments not commenced, as well as annuities in payment. For an annuity in payment a provision of the discounted value of the expected annual amounts of claim, allowing for any escalation in payment, and future expenses of administration has been made.

For Group Critical Illness contracts the long-term business provision includes an allowance for incurred but not reported claims, the possibility that a declined claim may reopen and for claims that have been notified but not paid. As the liabilities are of a short duration no morbidity table or valuation interest rate is used.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 23. LONG TERM BUSINESS TECHNICAL PROVISION (continued)

#### b) Principal Assumptions

Assumptions are set by reference to publicly available market data and the Company's recent experience. Prudent margins are added to our best estimate of future experience.

The principal assumptions underlying the calculation of the long-term business provision are as follows:

Class of Business	Interest Rate (%)		Mortality / Morbidity	
	2010	2009	2010	2009
Individual Income Protection long term business provision	3.57	3.95	Inception rates CMIR7 Termination rates CMIR12	Inception rates CMIR7 Termination rates CMIR12
Individual & Group Income Protection non-linked claims in payment	3.64	4.05	Termination rates CMIR12	Termination rates CMIR12
Individual & Group Income Protection linked claims in payment	0.21	0.57	Termination rates CMIR12	Termination rates CMIR12
Non-linked Dependants' Annuities in payment	3.61	3.98	85% WA00	85% WA00
Linked Dependants' Annuities in payment	0.21	0.48	85% WA00	85% WA00

The inception rates used in 2010 and 2009 were a proportion of CMIR7 that varied by type of contract, deferred period, sex, smoker status and occupational class.

The termination rates used in 2010 and 2009 were a proportion of CMIR12 that varied by age of claimant at incapacity and the duration sick.

The allowance made for future improvements in annuitants' mortality and the possible detrimental impact of significant changes in the incidence of disease or developments in medical science is contained within the percentage of the standard mortality table and commencing 2001 mortality was assumed to improve at the rate suggested by the average of the CMI Working Paper No. 1 projection MC with a minimum of 2.00% p.a. up to age 90 tapering to 0% p.a. at 120. This is unchanged from 2009.

It is assumed that there are prudent lapses under the regular premium individual protection contracts and no lapses under the other contracts. This is unchanged from 2009.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 23 LONG TERM BUSINESS TECHNICAL PROVISION (continued)

#### b) Principal Assumptions (continued)

Valuation discount rate assumptions are set with regard to the current gross redemption yields on the supporting bonds and the level of current gilt yields. The non-gilt bond yields were reduced for default and credit rating transition risk by 45% (2009 45%) for fixed interest and 55% (2009 55%) for index linked of the spread between a bond and a gilt of similar term and nature. In addition the yield was also reduced to allow for investment expenses.

The level of expenses included in the valuation are based on recent expenses allowing for future cost inflation of 4.25% (2009 3.75%).

#### c) Changes in significant assumptions or bases of preparation

**Bases of preparation** – There were no significant changes from the previous year.

**Interest Rates** – The changes are as in the table shown in section (b). The interest rates fell on non-linked and linked claim liabilities reflecting the change in gross redemption yields on the assets backing our liabilities together with changes in default risk adjustment. The interest rates for policy reserves fell with lower longer duration gilt yields.

**Inception Rates** – The rates assumed for Individual Income Protection business decreased slightly overall to reflect our smoothed recent experience.

**Termination Rates** – The rates assumed for Group Income Protection business at longer durations of sickness decreased slightly but those at shorter durations of sickness increased. The rates assumed for Individual Income Protection business increased slightly for younger claimants and longer durations but those for other groups decreased slightly to reflect our smoothed recent experience.

**Loss Ratios** – The loss ratios were assumed to be unchanged on Group Income Protection, Group Life and Group Critical Illness but were higher on Group Dependants to reflect our smoothed recent experience. The loss ratios on policies that renew after the loss ratio investigation date were adjusted to allow for premium rate changes.

**IBNR Delay tables** – Slightly higher IBNR delays were assumed on Group Income Protection and Group Dependants business, unchanged on Group Life and lower on Individual Income Protection and Group Critical Illness. Slightly lower assumptions were used for IBNR reinstatements and reopens on Group and Individual Income Protection, to reflect our smoothed recent experience.

**Expenses** – Lower Group and Individual Income Protection claim management expenses and initial claim expenses were assumed for all products. Slightly higher renewal costs were assumed on individual contracts. The assumptions reflect our current expense expectations.

**Dependants Mortality** – There were no changes in our assumptions.

**Lapses** – There were only very small changes to the lapse rates assumed.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 23 LONG TERM BUSINESS TECHNICAL PROVISION (continued)

#### d) Sensitivity of provision to changes in significant assumptions or bases of preparation

For Group Income Protection long-term business provisions the most significant assumptions are the valuation interest rates, termination rates and loss ratios

For Individual Income Protection long-term business provisions the most significant assumptions are the valuation interest rates, inception rates, termination rates and lapse rates

For Group Dependants long-term business provisions the most significant assumptions are the valuation interest rates, mortality rates and loss ratios

For Group Life and Group Critical Illness long-term business provisions the most significant assumptions are the loss ratios

A reduction in valuation interest rates would reduce the impact of discounting on the long-term business provision, resulting in an increased provision. If valuation interest rates reduced by 0.25% p.a. (2009 0.25% p.a.), the long-term business provision would increase by approximately £30 million (2009 £27 million). This does not include the corresponding effect on the valuation of the assets.

If lower termination rates were assumed to apply to Income Protection claims, the long-term provisions would rise.

If higher inception rates were assumed to apply to Individual Income Protection, the long-term provisions would rise.

If higher loss ratios were assumed to apply to Group Income Protection, Dependants, Life and Critical Illness contracts, their long-term provisions would rise.

If lower mortality rates were assumed to apply to Dependants annuities in payment, the long-term provisions would rise.

If higher lapse rates were assumed to apply to Individual Income Protection, the long-term provisions would rise.

### 24. CLAIMS OUTSTANDING

	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2010	1,087,443	25,468	1,061,975
Movement for the period			
- long term business	25,876	(48)	25,924
- general business	(1,193)	(50)	(1,143)
At 31 December 2010	1,112,126	25,370	1,086,756

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 25. CALLED UP SHARE CAPITAL

	2010 £000	2009 £000
<b>Authorised, allotted, called up and fully paid</b>		
8,640,000 ordinary class A voting shares of £1 each	8,640	8,640
3,360,000 ordinary class B non-voting shares of £1 each	3,360	3,360
	<u>12,000</u>	<u>12,000</u>

The class A and B shares rank equally for dividend and for distribution in the event of the winding up of the Company

### 26. FINANCIAL LIABILITIES

#### CREDITORS

All creditors arising out of direct insurance and reinsurance operations are due within one year and are due to non related entities. Creditors arising out of direct insurance operations relate to policyholders

Amounts owed to credit institutions reflect cash book credit balances

#### Derivative financial instruments

Included within financial liabilities at 31 December 2010 are fair value losses of £763,000 (2009 £1,374,000) on derivative financial instruments in relation to cross currency swaps used to match the Company's debt securities and other fixed income securities currency risk. Fair value movements are recorded through profit or loss in the year. There was no purchase cost. Derivative financial instruments 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 liabilities were classified as Level 2 in terms of the fair value measurements hierarchy commented on in note 17 – Financial Investments. All derivative financial instruments mature after five years. At 31 December 2010 no assets had been pledged as collateral to counterparties in support of the derivatives (2009 assets with a fair value of £2,418,000 had been pledged)

#### Other creditors including taxation and social security

	2010 £000	2009 £000
<b>Amounts due within one year</b>		
Corporation tax payable	14,026	26,360
Taxation and social security	541	557
Other creditors	5,615	3,645
Amount owed to Group undertakings	7,895	17,295
	<u>28,077</u>	<u>47,857</u>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 27. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital	Capital contri- bution	Revalu- ation reserve	Profit and loss account	Total Share- holders' funds
	£000	£000	£000	£000	£000
<b>At 1 January 2009</b>	12,000	29,973	3,894	337,570	383,437
Profit for the year	-	-	-	136,779	136,779
Other recognised losses	-	-	(1,389)	(4,244)	(5,633)
Dividends paid	-	-	-	(28,500)	(28,500)
<b>At 31 December 2009</b>	12,000	29,973	2,505	441,605	486,083
<b>At 1 January 2010</b>	12,000	29,973	2,505	441,605	486,083
Profit for the year	-	-	-	118,335	118,335
Other recognised losses	-	-	(62)	-	(62)
Dividends paid	-	-	-	(50,000)	(50,000)
<b>At 31 December 2010</b>	12,000	29,973	2,443	509,940	554,356

The directors consider that the amount of distributable profits included in the shareholders funds at 31 December 2010 is £207,518,000 (2009 £197,260,000) as required to be disclosed by section 843 of the Companies Act 2006. Distributable profits includes surplus for the year ended 31 December 2010 of £50,000,000 (2009 £75,000,000) transferred from the long term business fund in the Company's regulatory return.

### 28. PENSION LIABILITIES/PENSION GUARANTEE

Prior to the transfer of employees commented on in note 2, the Company operated and contributed to two separate pension schemes, a defined benefit pension scheme – The Unum Pension Scheme, which was closed to new members at the end of 2002 and a defined contribution scheme for which new employees were eligible. Both schemes were operated by the Company in the United Kingdom and funded by the payment of contributions to separately administered trust funds.

UEHCL became the sponsoring employer for the schemes on 1 November 2009 and recorded the defined benefit liability for the Unum Pension Scheme. At this same date the Company entered into a guarantee with UEHCL with regard to the current and future liabilities of the Unum Pension Scheme. The guarantee is carried in the Company's books on the basis of the accounting valuation where the scheme is in deficit.

#### Defined contribution scheme

The costs for the year in respect of the defined contribution scheme were £nil (2009 £1,128,000). There were no outstanding or prepaid contributions at the balance sheet date. Contributions in 2009 reflect the period to October.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 28. PENSION LIABILITIES/PENSION GUARANTEE (continued)

#### Defined benefit scheme

#### a) Assets and liabilities of the defined benefit scheme/pension guarantee on transfer

	2010 December £000	2009 December £000	2009 October £000
<b>Scheme assets at fair value</b>			
Equities	-	-	56,839
Gilts and Bonds	-	-	40,239
Other	-	-	598
Fair value of scheme assets	-	-	97,676
Present value of scheme liabilities	-	-	(107,688)
<b>Defined benefit pension scheme deficit</b>	-	-	(10,012)

The defined benefit pension scheme deficit of £10,012,000 at October 2009 was transferred to Provisions for Other Risks as an opening balance for the guarantee provided by the Company

#### b) Analysis of amount charged to operating profit

	2010 £000	2009 £000
Current service cost	-	2,557
Past service cost	-	120
<b>Total operating charge – technical account</b>	-	2,677

#### c) Analysis of amount credited to investment income

	2010 £000	2009 £000
Expected return on pension scheme assets	-	4,930
Interest on pension scheme liabilities	-	(4,623)
<b>Net credit – non-technical account</b>	-	307



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 28. PENSION LIABILITIES/PENSION GUARANTEE (continued)

#### Defined benefit scheme (continued)

#### d) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2010 £000	2009 £000
Actual return on pension scheme assets	-	15,435
Less expected return on pension scheme assets	-	(4,930)
	-	10,505
Experience gains/( losses) arising on scheme liabilities	-	2,817
Changes in assumptions underlying the present value of scheme liabilities	-	(19,216)
<b>Actuarial loss recognised in STRGL</b>	<b>-</b>	<b>(5,894)</b>

#### e) Changes in the present value of the defined benefit obligation and in the fair value of scheme assets

	2010 £000	2009 £000
<b>Defined benefit obligation</b>		
Opening balance	-	86,827
Current and prior service charge	-	2,677
Interest cost	-	4,623
Benefits paid	-	(2,838)
Actuarial (gains) and losses	-	16,399
Transfer to parent company	-	(107,688)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

	2010 £000	2009 £000
<b>Fair value of scheme assets</b>		
Opening balance	-	82,097
Expected return on scheme assets	-	4,930
Contributions to the scheme	-	2,982
Benefits paid	-	(2,838)
Actuarial gains	-	10,505
Transfer to parent company	-	(97,676)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

<b>Defined benefit pension scheme deficit transferred to parent company</b>	<b>-</b>	<b>(10,012)</b>
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The defined benefit obligation comprises the present value of the funded scheme

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 29. FINANCIAL COMMITMENTS

At 31 December 2010 the Company had annual commitments as follows

	2010		2009	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Expiring within one year	230	-	32	-
Expiring between two and five years	576	-	198	-
Expiring in over five years	933	-	1,509	-
	<u>1,739</u>	<u>-</u>	<u>1,739</u>	<u>-</u>

The Company had no financial commitments in respect of finance leases at either 31 December 2010 or 31 December 2009

### 30. SHARE IN SUBSIDIARIES

Company	Class of Share Capital	2010 Issued / Allotted	% Owned	2009 Issued / Allotted	% Owned
Claims Services International Limited	Ordinary	£2	50	£2	50

The Company is registered as a private limited company in England & Wales. Claims Services International Limited is not consolidated in Unum Limited as it claims exemption from preparing group accounts, as it is a subsidiary included in a larger group consolidation.

### 31. PARENT UNDERTAKING

The Company's immediate parent company is UEHCL, through UEHCL's ownership of the Company's class A share capital.

The Company's ultimate parent company is Unum Group, a company incorporated in the United States of America. Copies of the ultimate parent company's consolidated financial statements may be obtained from Unum Group, 1 Fountain Square, Chattanooga, Tennessee, 37402, USA.

# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **32. RELATED PARTY TRANSACTIONS**

The Company has chosen to take advantage of the exemption under FRS 8 'Related Party Disclosures' and has not disclosed transactions with the companies in the Unum Group, as it is a 100% owned subsidiary of Unum Group, which publishes consolidated financial statements

### **33. POST BALANCE SHEET EVENT**

On 1 March 2011 the European Court of Justice ("ECJ") announced that it had upheld the ruling on gender discrimination which results in insurers not being able to use gender related information to calculate insurance premiums and benefits. The ECJ has declared that the adoption of unisex premiums and benefits will apply with effect from 21 December 2012.

A transitional period has been granted to allow insurance companies sufficient time to adjust to the new legal framework and adapt its products and pricing policies accordingly. The Company has carried out a preliminary assessment of the ruling, but it is too early to quantify the impact at this stage. The Company will where appropriate adopt the new requirements by 21 December 2012.

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## **UNUM Limited**

### **REGIONAL SALES OFFICES**

#### **South of England**

Unum Limited – Dorking Sales Office  
Milton Court, Dorking,  
Surrey, RH4 3LZ  
Tel 0845 712 5242  
Fax 0845 408 2631

#### **London**

Unum Limited – London Sales Office  
Swan House, 37-39 High Holborn,  
London, WC1V 6AA  
Tel 020 7841 5900  
Fax 020 7831 8391

#### **Midlands**

Unum Limited – Birmingham Sales Office  
4<sup>th</sup> Floor, Berwick House, 35 Livery Street  
Birmingham, B3 2PB  
Tel 0845 712 5241  
Fax 0845 408 2635

#### **North of England**

Unum Limited – Manchester Sales Office  
1<sup>st</sup> Floor, The Observatory, Chapel Walks  
Manchester, M2 1HL  
Tel 0161 834 6770  
Fax 0845 408 2634

#### **Scotland and Northern Ireland**

Unum Limited – Glasgow Sales Office  
1<sup>st</sup> Floor, The Beacon, 176 St Vincent Street,  
Glasgow, G2 5SG  
Tel 0845 712 5243  
Fax 0845 408 2637

### **SPECIALIST AND ADMINISTRATIVE CENTRES**

#### **Head Office**

Unum Limited, Milton Court, Dorking, Surrey, RH4 3LZ  
Tel 01306 887 766  
Fax 01306 881 394

#### **Basingstoke**

Unum Limited, Unum House, Basing View, Basingstoke,  
Hampshire, RG21 4EQ  
Tel 01256 301 000  
Fax 01256 301 399

#### **Bristol**

Unum Limited, Redcliffe Way, Bristol, BS1 6NL  
Tel 0117 910 7700  
Fax 0117 910 7555

#### **WEBSITE**

[www.unum.co.uk](http://www.unum.co.uk)