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**UNUM LIMITED**

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

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# **UNUM Limited**

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## **DIRECTORS, OFFICERS AND ADVISERS**

### **Directors**

Peter O'Donnell (Chief Executive Officer)  
Stephen Harry (Chief Financial Officer)

### **Non-Executive Directors**

Thomas Watjen (Chairman)  
Cheryl Black  
Edward Langston  
Malcolm McCaig (Senior Independent Director)  
Rick McKenney  
Clifton Melvin  
Ian Owen  
David Stewart

### **Bankers**

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

### **Secretary and Registered Office**

Steve Leverett  
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.  
25 Bank Street  
Canary Wharf  
London  
E14 5JP

REGISTERED NUMBER: 983768

# UNUM Limited

## STRATEGIC REPORT

For the year ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014.

### Strategy

The principal activities of the Company continued to be the provision of Group Income Protection insurance, Group Life insurance, Group Dependants insurance and Group Critical Illness insurance to UK employers to help them protect and ensure the health and wellbeing of their workforces.

Our long-term strategy is focused on being a leader in the UK Group Risk market and both helping employers remove the volatility to their business of managing staff absence costs, and providing financial security for individuals through our product offerings. We believe that the best place to offer income protection and financial security is through the workplace and we seek to provide innovative solutions and product offerings to meet this need.

Our strategic development programme will see us continue testing new initiatives and building technology in order to quickly bring solutions to the market. By better understanding our customers' needs and partnering with key brokers, we will drive sustainable long term growth.

We remain committed to driving growth in the UK Group Income Protection market, by:

- Enhancing our broker distribution strategy to allow greater focus on brokers that are currently not active in the Group Income Protection insurance market and our key broker partners;
- Continuing to educate employers and workplace benefits decision-makers about the critical role group risk products play in supporting and caring-for their workforce;
- Realigning our back office operations to better support all our broker partners; and
- Investing in customer relationship management capabilities to provide bespoke services to our largest employer partners.

We want to be a credible group risk provider and the partner of choice for brokers across all group risk products.

- We will continue to grow the short-term disability market with our Sick Pay Insurance offering;
- We will launch updated Group Life and Group Critical Illness propositions to compete with the segment leaders; and
- We will continue to introduce simpler propositions to make it easy for inexperienced brokers or employers to derive value from group risk products.

### Review of the business

<u>Key performance indicators</u>	<b>2014</b> <b>£'000</b>	<b>2013</b> <b>£'000</b>	<b>Change</b> <b>%</b>
Net earned premiums	372,241	356,485	+4.4%
New business sales (gross of reinsurance)	80,621	110,655	-27.1%
Net investment income	90,646	91,745	-1.2%
Profit on ordinary activities before tax	60,486	61,596	-1.8%
Total investments under management	2,426,017	2,264,232	+7.1%
Equity shareholders' funds	512,232	521,280	-1.7%

# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Review of the business (continued)

<u>Key performance indicators</u>	<b>2014</b>	<b>2013</b>	<b>Change %</b>
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Lives insured	1,450,000	1,575,000	-8.0%
In-force premium	407,075	413,443	-1.5%

In-force premium represents the gross annualised premium equivalent of business in-force and is quoted in £'000.

	<b>2014 %</b>	<b>2013 %</b>	<b>Change %</b>
Premium persistency	85.2%	76.6%	+8.6%
Regulatory solvency – Pillar 1 multiple	252%	254%	-2%

	<b>2014</b>	<b>2013</b>
Financial Strength Rating (Standard & Poor's)	A- (Strong)	A- (Strong)

Gross premiums written reported a modest reduction year on year. Premiums written in 2014 were £423.3 million (2013: £442.1 million) reflecting a decline of 4.3% as our strategy of a disciplined approach to underwriting and pricing continued. Solid new business sales results have been achieved as rates in general in the industry have continued to harden during the course of 2014. This growth has been broadly offset by the effect of lapsing business on our portfolio.

New business sales achieved in 2014 were reduced on levels reported for 2013. Sales were £80.6 million for 2014 compared to prior year sales of £110.7 million, a reduction of 27.1% year on year. This reduction in sales is impacted by lower volumes of increases on existing business which reduced from £82.5 million in 2013 to £46.4 million in 2014. Increases in 2013 were favourably impacted by the increases in rate in particular on our Group Life and Dependents portfolio. Sales to new or returning clients were positive in the year and reported growth from £28.1m in 2013 to £34.2 million in 2014 representing an increase of 21.6%.

Premium persistency improved across all product lines through 2014 finishing the year at 85.2% compared to a prior year position of 76.6%. There were strong improvements in our Group Income Protection and Group Life products where lapses were lower than we planned and the prior year.

As noted in last year's report, the Company entered into revised reinsurance transactions effective 1 January 2014 which continue to protect and mitigate against volatility in claims experience on our Group Life and Dependents business. The reinsurance cessions for our Group Life products were at a lower level than in 2013 as the Company retained more of the risk consistent with the success of rebalancing the portfolio and increasing rate for these insurances.

# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Review of the business (continued)

Net earned premiums for the Company increased year on year and totalled £372.2 million in 2014 compared to £356.5 million in 2013, an increase of £15.7 million. The increase is driven by the effects of the lower levels of reinsurances on premium income with earned reinsurance premiums reduced on 2013 by £38.2 million.

The Company holds fixed and variable rate securities as assets both to match liabilities and to support insurance surplus and shareholders' funds. Market expectations of lower interest rates through the course of 2014 saw reductions in yields on these investments as market values increased. This contrasted to a picture of increasing yields and reducing values in 2013.

Investment income, net of expenses, arising both on our assets matching liabilities and on the assets which support our insurance surplus and shareholders' funds, totalled £90.6 million in 2014 and reported a modest decline on 2013 income of £91.7 million. This was impacted by the interest rate environment with new money rates lower than historic portfolio rates.

Net investment gains of £155.1 million were reported in 2014 as the market prices for fixed and variable securities in our portfolio increased. This compared to losses of £81.3 million in 2013, a year which saw reducing prices. The effect of these movements is largely offset by changes in benefits arising through discount rate effects.

Net reported benefit performance was significantly adverse for 2014 when compared to 2013, impacted both by the increase in business retention on our Group Life business and by the effect of the economic environment on market yields and claims reserving, relative to prior year. Charges in the year for claims incurred and changes in other technical provisions totalled £455.3 million compared to equivalent charges of £215.6 million. The effect of changing discount rates on our technical provisions is included in the benefits charge and was the largest contributor to the adverse year on year performance. Interest rates applied for the purposes of discounting reserves saw a marked reduction in the year as yields on matching assets reduced in 2014 having increased in 2013. The technical provisions note on page 69 provides further analysis of these movements.

Net operating expense levels for the Company increased in the year to £102.2 million (2013: £88.9 million) reflecting an increase in costs of £13.3 million or 14.9% primarily as a result of the change in reinsurance level reducing the reinsurers' share of expenses. Gross operating expenses increased on 2013 and included the effect of additional costs arising through operational investments in our business. These investments in processes and systems infrastructure initiated by the Company in 2013 continued in 2014. They will improve our Customer Operations and develop the use of end-to-end teams from quotation to service. Gross expenses rose from £100.8 million in 2013 to £107.8 million in 2014, an increase of 7%. Higher levels of expenditure were retained as quota share reinsurance protections, where we are reimbursed for the reinsurers' share of operating expenses, reduced. The reinsurers' share of expenses reduced from £11.9 million in 2013 to £5.6 million in 2014.

Profit on ordinary activities before tax totalled £60.5 million for 2014 and reported a modest reduction of 1.8% compared to levels reported in 2013.

During the course of the year a final dividend payment of £30.0 million was made in relation to 2013 and an interim payment of £30.0 million made for 2014 to shareholders (2013: £37.5 million). No final dividend is proposed for 2014.

# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Review of the business (continued)

Total investments under management comprise our fixed and variable interest securities which both match our liabilities and support our surplus and shareholders' funds, together with operational and investment cash balances. This increased year on year by 7.4% and totalled £2,426.0 million at year end (2013: £2,264.2 million). This growth was supported by net investment gains of £155.1 million as yields on gilts and corporate bonds reduced, and by positive cash flow from operations.

Equity shareholders' funds for the Company reduced in the year by 1.7% to £512.2 million (2013: £521.3 million), with recognised gains of £50.9 million offset by dividend payments of £60.0 million.

Capital and solvency measures for the Company use regulations prescribed by the Prudential Regulation Authority (PRA), 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 2014, the Company's 'Pillar 1' solvency ratio (available regulatory assets over its capital requirement) multiple remained strong and was broadly unchanged at 252% (2013: 254%). The solvency position is strong and significantly above the managed level of capital for the Company and in excess of the PRA requirements for both Pillar 1 and Pillar 2.

Regulatory net assets grew by £20.7 million reflecting solid profits from the year less dividends paid to a parent company. Capital requirements increased by £9.7 million largely through the effect of increased business retention on our Group Life policies.

From a customer perspective, the total number of lives the Company protected in 2014 reduced to 1.45 million (2013: 1.58 million) reflecting the rebalancing of our portfolio, in particular on large case Group Life and Dependants business, as we continued with our strategy of placing rate through the market on a disciplined basis. In 2014 we assisted 859 (2013: 772) individuals in returning to work, with the support of our vocational rehabilitation, which reflects our ongoing commitment to returning people to work wherever appropriate.

### 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 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.

# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Principal risks and uncertainties (continued)

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 risk taxonomy continues to give a clearer line of sight on key operational drivers of financial performance and greater granularity to conduct risk appetite and the introduction of a conduct risk framework. Risk mitigation plans are formulated to address all areas where the Company's exposure exceeds its Board agreed risk appetite.

The consumer remains a focal area for the Company. With the regulator increasing its emphasis on the importance of considering the consumer, as the end user of our products, the Company has reviewed and enhanced its governance and decision making process to ensure that consumer expectations are taken into consideration. Such activity includes a regular review of the terms and conditions of policies and feedback received from the Financial Ombudsman Service (FOS) in the event that complaints are referred to the Ombudsman. Any claim decisions that are referred to the FOS are managed and monitored carefully to ensure that any potential impact is well understood and that any action required is overseen.

The management of financial instruments, risk management and insurance risk is covered in detail in note 2 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.

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.

### Product changes

In 2014 we introduced Group Income Protection for Auto Enrolment, which is a group risk product sold to employers and operates in a similar way to our Pay Direct Group Income Protection product. We also introduced a Simple Group Life product, which is a group risk product sold to employers and operates in a similar way to our Registered Group Life product. We continued the expansion of our Sick Pay Insurance offering following full market launch.



# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Future outlook

Risks to UK economic growth remain significant and future prospects may be influenced by political and economic developments in both the Eurozone and in the Ukraine.

The risk of a period of deflation has increased in 2014 driven by the continuing low level of oil prices and market outlooks are of continuing low yields on investments. These reducing yields place pressure on insurance companies providing long-term benefits to policyholders, increasing the likelihood of premium rate increases in our business. We will continue to monitor investment markets and review the need for any rate increases.

In operational terms the coming year will see us:

- Developing our new fit-for-purpose administration platform;
- Preparing the business for Solvency II;
- Streamlining our operations and processes to make it easier for our customers to do business with us;
- Ensuring the customer is at the heart of what we do and to deliver a consistent first-class customer experience;
- Developing our leadership capabilities and developing a high-performance culture; and
- Maximising the depth of market data and analytics to sustain a competitive advantage in our key markets.

### Legislative developments

Legislation to split the previous insurance regulator, the Financial Services Authority, into two successor organisations, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) came into effect in April 2013. Unum Limited is authorised by the PRA and regulated by both the PRA and the FCA.

On 13 November 2013, political agreement in trialogue was reached between the European Parliament, European Commission and Council of the EU on the proposed Omnibus II Directive which will enable the Solvency II Directive (2009/138/EC) to be implemented. The European Parliament adopted the Omnibus II Directive following a plenary vote on 11 March 2014. This confirms that Solvency II remains on course for transposition by 31 March 2015, and implementation on 1 January 2016. As part of embedding our risk and capital management strategy we made our pre-application internal model submission in August 2014. We are currently working through the feedback cycle ahead of formal application in June 2015.

# UNUM Limited

## STRATEGIC REPORT (continued)

For the year ended 31 December 2014

### Pension scheme changes

The Company has provided a guarantee to Unum European Holding Company Limited (UEHCL) with regard to the current and future liabilities of the Unum Pension Scheme (a final salary plan providing defined benefits to certain current and former employees of UEHCL). On 12 September 2013, following required consultations with affected employees, the directors of UEHCL approved the closure of the Unum Pension Scheme to future service accrual. This took effect from 30 June 2014. The guarantee provided by the company is unaffected by these changes.

BY ORDER OF THE BOARD



**Steve Leverett**  
Company Secretary

24 March 2015

# UNUM Limited

## DIRECTORS' REPORT

For the year ended 31 December 2014

The directors present their annual report for the year ended 31 December 2014.

### Principal activity

The principal activity of the Company is to provide Group Income Protection insurance, Group Life insurance, Group Dependants insurance and Group Critical Illness insurance to the UK market. The Company is the leading provider of group income protection products and offers businesses of all sizes, and individuals, benefit plans to help protect the incomes and lifestyles of employees, individuals and their families should they become incapacitated.

### Financial performance

The pre-tax results of the Company for the year, as set out on pages 23 to 25 show a profit on ordinary activities of £60.5 million (2013: £61.6 million). Further details of the Company's performance for the year are contained in the 'Review of business' section of the Strategic Report.

### Dividends

During 2014 the Company paid a final dividend for 2013 of £30.0 million and an interim dividend of £30.0 million in relation to 2014. No final dividend is proposed for 2014. An interim dividend of £37.5 million was paid in 2013, relating to 2013.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, note 2 to the financial statements, Risk Management, 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 as well as insurance 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.

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.

# UNUM Limited

## DIRECTORS' REPORT

For the year ended 31 December 2014

### Directors and their interests

The directors who were members of the Board at the time of approving the directors' report are listed on page 3 and their service was continuous throughout the year unless stated below. None of the directors held shares in the Company.

Cheryl Black, Rick McKenney and Clifton Melvin were appointed as non-executive directors of the Company on 1 December 2014. David Stewart was appointed as a non-executive director of the Company on 22 December 2014. Peter Hales resigned as a non-executive director of the Company on 31 December 2014. His position as Senior Independent Director was taken up by Malcolm McCaig on his resignation.

Further details regarding the role of the Board and its Committees can be found in the Corporate Governance section beginning 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 the 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 £313,000 were made by the UK Group in 2014 (2013: £358,000). This included over 900 volunteering days undertaken by UK Group staff during the year.

### Political contributions

No contributions were made to political organisations during 2014 (2013: Nil).

### Supplier payment policy

The Company aims to agree the terms of payment with its suppliers when agreeing the terms and conditions of a 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.

### 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, a biennial 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.

# UNUM Limited

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

For the year ended 31 December 2014

### **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. The insurance was in force at 31 December 2014 and on the day the Directors' Report was approved.

BY ORDER OF THE BOARD



**Steve Leverett**  
**Company Secretary**

27 March 2015

# UNUM Limited

## CORPORATE GOVERNANCE

The Board of the Company is committed to strong corporate governance and the application of 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 Board 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.

Four Board meetings were scheduled during the year and additional meetings were convened as required. In all, the Board met on twelve occasions during 2014.

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 Executive Committee which meets weekly and is comprised of two executive directors and other executive management.

#### *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 nine non-executive directors at 31 December 2014.

During the year, as part of orderly succession planning, four additional non-executive directors joined the Board following approval by the Prudential Regulation Authority and Financial Conduct Authority.

On 31 December 2014, Peter Hales retired from the Board and as Senior Independent Director. On 1 January 2015 Malcolm McCaig became the Senior Independent Director.

The names of the directors are set out in full on page 3 and details of appointments and terminations in the year are provided in the Directors' Report on page 11.

#### *Board effectiveness*

An evaluation of the performance of the Board is carried out annually. Every third year this evaluation is carried out by an external party. An external evaluation was carried out in the early part of 2014 and its recommendations fully implemented during the year.

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

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

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Board of directors (continued)

#### *Board effectiveness (continued)*

Seven of the non-executive directors who were Board members during the year are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Of the two remaining non-executive directors, one is also Chairman of the Board and President and Chief Executive Officer of Unum Group, the Company's ultimate parent company; the other is Chief Financial Officer of Unum Group.

Any director with concerns regarding the operation of the Board may raise their concerns with the Chairman of the Board or the Senior Independent 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.

#### *Nomination and Remuneration Committee*

During the year, the Board created a Nomination and Remuneration Committee. The main objective of the Committee is to ensure that there is a robust process around appointments to the Board (and other Committees) and to determine overall remuneration policy.

New non-executive directors are appointed for an initial term of three years. This is extendable by no more than two additional three year periods.

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

### 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 but also in reports to Unum Group, its shareholders and to the Prudential Regulation Authority.

#### *Audit Committee*

The Company's Audit Committee ensures that internal control and financial reporting are appropriately executed. It also provides oversight of the Company's financial plans, investment strategy, investment performance and dividend policy.

The Audit Committee is chaired by a non-executive director.

The Head of Internal 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.

The Audit Committee met nine times during 2014.

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and audit (continued)

#### *Audit Committee (continued)*

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) for Unum Group purposes and other ad-hoc assurance activities. The results of all the assurance activities carried out gave no cause for concern in respect of the overall operation of the control environment, where control improvements have been recommended the appropriate management remediation plans are tracked and are being delivered on a timely basis.

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 Committee undertook an evaluation of its effectiveness during the year, as required by its terms of reference.

#### *Risk Committee*

The Risk Committee's main objective is to provide oversight in determining the nature and extent of significant risk faced by the Company and its capital requirements. It recommends the risk management strategy and appetite to the Board and oversees appropriate risk frameworks within which the Company's risk and capital management processes and annual risk plan can be tracked and monitored. The Risk Committee is chaired by a non-executive director.

The Committee met four times during 2014 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. During 2014, the Committee considered the requirements of Solvency II – the new risk based capital regime applicable to all EU insurers.

The Head of Risk has unrestricted access to the Chairman of the Risk Committee and has at least one closed session with the Risk Committee members each year.

#### *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, conduct risk, Treating Customers Fairly requirements and health and safety.



# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and audit (continued)

#### *Regulatory and Compliance Committee (continued)*

The Regulatory and Compliance Committee is chaired by a non-executive director.

The Committee met four times during 2014 and undertook full and proper consideration of matters relating to its objectives.

#### *Internal control*

The Board is responsible for the Company's overall system of internal controls 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 controls is included within an Annual Statement of Assurance, which is presented to the Audit Committee 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.

In addition to this 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). The Chief Executive Officer and Chief Financial Officer certify that all information that requires disclosure within the US Securities and Exchange Commission (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, and was satisfied that the internal control environment operated in accordance with the requirements of the guidance.

#### *Risk and Capital Management*

The Company views its management of risk and the capital that supports these risks 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 Company continues to strengthen its risk management and governance framework. The Company's risk and capital operating model incorporates a well-established three lines of defence model under which the Board and its Committees provide oversight and governance for the Company.

# UNUM Limited

## CORPORATE GOVERNANCE (continued)

### Accountability and audit (continued)

#### *Risk and Capital Management (continued)*

Risk mitigation plans are formulated to address all areas where the Company's exposure exceeds its Board agreed risk 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 and the Board Risk Committee.

The Company also conducts stress and scenario testing of its risks which have the greatest potential capital impact.

The ongoing development and documentation of the Company's own internal capital modelling capabilities link to the corporate risk profile with the longer term objective being to optimise the Company's capital requirements.

During 2014, the Company engaged with the PRA with regard to its application for approval for an Internal Model in accordance with the capital requirements envisaged by Solvency II. We are currently working through the feedback cycle ahead of formal application in June 2015.

Additional Board and Risk Committee meetings were held in 2014 to scrutinise the Company's pre-application internal model Solvency II submissions and to provide oversight and direction on building capability and governance appropriate to Solvency II.

The Company enhanced its governance regarding Solvency II ahead of the new regulatory regime which will take effect from 1 January 2016. This included revisions to expert judgement governance and other relevant business committees as well as the formation of the Internal Model Governance Committee to oversee the embedding of Solvency II, scrutinise internal model activities including validation and to make recommendations to the Risk, Capital and Solvency Committee and Board.

### 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.

By order of the board



Steve Leverett  
Company Secretary

24 March 2015

# **UNUM Limited**

## **TREATING CUSTOMERS FAIRLY REPORT**

The needs and feedback from our customers has remained central to activity within the Company during 2014. With changes in the regulatory environment, not least regulatory reform which saw Unum Limited become dual regulated by the FCA and the PRA in 2013.

As we worked on this transition, our approach has been informed by the views of our customers and the potential impact our actions have on them. A key activity this year was review of our Group Income Protection Policy Terms and Conditions and also the technical guide. This work is a part of our continuing work to ensure that the terms and conditions are as clear as possible and take account of feedback from a range of customers, as well as other stakeholders such as brokers and the Financial Ombudsman Service (FOS).

The fair treatment of customers continues to be a point of focus for the Board and Unum Group. Both receive regular reports in order to obtain the required comfort that the culture and conduct within the Company continues to ensure that those customer outcomes originally introduced through the Treating Customers Fairly initiative continue to be consistently achieved and this has been supported through Customer Centricity. Customer Centricity is one of the six core corporate objectives and helps Unum better understand its customers and business partners, enabling them to meet their differing needs and expectations.

# **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 judgements 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**

## **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 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 31. 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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 20, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2014 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## UNUM Limited

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

*Ernst & Young LLP*

Angus Millar (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

24 March 2015

# UNUM Limited

## PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Earned Premiums</b>			
Gross premiums written			
Direct insurance		416,294	436,919
Reinsurance inwards		6,995	5,204
	3a	<u>423,289</u>	<u>442,123</u>
Outward reinsurance premiums		<u>(50,556)</u>	<u>(95,268)</u>
Premiums written, net of reinsurance		372,733	346,855
Change in the provision for unearned premiums			
Gross amount	22	125	3,769
Reinsurers' share	22	<u>(617)</u>	<u>5,861</u>
		<u>(492)</u>	<u>9,630</u>
<b>Earned premiums, net of reinsurance</b>		372,241	356,485
Investment income	6	87,055	93,286
Unrealised gains on investments	6a	139,572	-
Other technical income	7a	8	63
<b>Total Technical Income</b>		<u>598,876</u>	<u>449,834</u>
<b>Claims incurred</b>			
Claims paid			
Gross amount		(332,963)	(334,259)
Reinsurers' share		<u>58,736</u>	<u>54,963</u>
		<u>(274,227)</u>	<u>(279,296)</u>
Change in the provision for claims			
Gross amount	24	(110,993)	66,365
Reinsurers' share	24	<u>(3,343)</u>	<u>8,098</u>
		<u>(114,336)</u>	<u>74,463</u>
<b>Claims incurred, net of reinsurance</b>		<u>(388,563)</u>	<u>(204,833)</u>

The notes on pages 29 to 77 form an integral part of these financial statements.

# UNUM Limited

## PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Change in other technical provisions</b>	23		
Long-term business provision, net of reinsurance – insurance contracts			
Gross amount		(10,665)	(3,217)
Reinsurers' share		535	(148)
		<u>(10,130)</u>	<u>(3,365)</u>
Technical provisions for inflation linked liabilities, net of reinsurance – insurance contracts			
Gross amount		(64,045)	1,620
Reinsurers' share		7,486	(9,022)
		<u>(56,559)</u>	<u>(7,402)</u>
<b>Change in other technical provisions, net of reinsurance</b>		<u>(66,689)</u>	<u>(10,767)</u>
<b>Other charges</b>			
Net operating expenses	5	(102,245)	(88,949)
Investment expenses and charges	6	(2,570)	(2,694)
Unrealised losses on investments	6a	-	(82,966)
Other technical charges, net of reinsurance	7b	(36)	(554)
Tax attributable to the long-term business	12a	(6,670)	(10,518)
<b>Total Technical Charges</b>		<u>(566,773)</u>	<u>(401,281)</u>
<b>Balance on the long-term business technical account</b>		<u>32,103</u>	<u>48,553</u>

The notes on pages 29 to 77 form an integral part of these financial statements.



# UNUM Limited

## PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Balance on the long-term business technical account		32,103	48,553
Tax credit attributable to the balance on long-term business technical account	12a	<u>6,670</u>	<u>10,518</u>
<b>Shareholders' pre tax profit from insurance business</b>		38,773	59,071
Investment income	6	8,068	11,663
Unrealised gains on investments	6b	14,302	-
Investment expenses and charges	6	(633)	(184)
Unrealised losses on investments	6b	-	(8,679)
Other income		301	3
Other charges	8	<u>(325)</u>	<u>(278)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	4	60,486	61,596
Tax on profit on ordinary activities	12b	<u>(11,336)</u>	<u>(11,181)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	27	<u>49,150</u>	<u>50,415</u>

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, net of reinsurance, or other technical charges, net of reinsurance, as appropriate, both within the technical account - long-term business. The Company is not conducting general insurance business at 31 December 2014. 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 29 to 77 form an integral part of these financial statements.

# UNUM Limited

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Profit for the financial year</b>		49,150	50,415
Depreciation charge taken to revaluation reserve	27	(47)	(48)
Revaluation gain taken to revaluation reserve	27	1,849	-
		<hr/>	<hr/>
<b>Other recognised gains/(losses) relating to the year</b>		1,802	(48)
		<hr/>	<hr/>
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u>50,952</u>	<u>50,367</u>

The notes on pages 29 to 77 form an integral part of these financial statements.

# UNUM Limited

## BALANCE SHEET at 31 December 2014

	Note	2014 £000	2013 £000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	15	14,534	12,068
Other financial investments	16	1,644,251	1,547,899
<b>Present value of acquired in-force business</b>	14	-	-
<b>Assets held to cover inflation linked liabilities</b>	16	705,751	649,192
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	22	9,283	9,900
Long-term business provision – insurance contracts		2,277	1,742
Claims outstanding	24	31,511	34,854
Technical provisions for inflation linked liabilities – insurance contracts		<u>61,978</u>	<u>54,492</u>
		105,049	100,988
<b>Debtors</b>			
Debtors arising out of direct insurance operations	18	29,831	36,217
Debtors arising out of reinsurance operations	18	4,285	1,430
Other debtors	18	<u>603</u>	<u>678</u>
		34,719	38,325
<b>Other assets</b>			
Tangible assets	20	4,196	4,185
Cash at bank and in hand		<u>39,975</u>	<u>30,345</u>
		44,171	34,530
<b>Prepayments and accrued income</b>			
Accrued interest and rent		36,040	36,796
Deferred acquisition costs	21	78,168	79,803
Other prepayments and accrued income		<u>589</u>	<u>477</u>
		114,797	117,076
<b>TOTAL ASSETS</b>		<u>2,663,272</u>	<u>2,500,078</u>

The notes on pages 29 to 77 form an integral part of these financial statements.

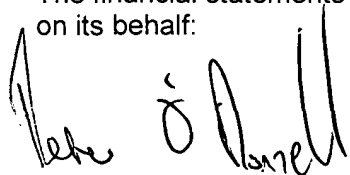
# UNUM Limited

## BALANCE SHEET at 31 December 2014

Registered Number: 983768

	Note	2014 £000	2013 £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	3,658	1,856
Profit and loss account	27	466,601	477,451
<b>Shareholders' funds</b>	27	<u>512,232</u>	<u>521,280</u>
<b>Technical provisions</b>			
Provision for unearned premiums	22	84,295	84,420
Long-term business provision – insurance contracts	23	(26,199)	(36,864)
Claims outstanding	24	1,272,148	1,161,155
	23	<u>1,330,244</u>	<u>1,208,711</u>
<b>Technical provisions for inflation linked liabilities – insurance contracts</b>	23	767,729	703,684
<b>Provisions for other risks</b>	19	1,863	2,180
<b>Creditors</b>			
Creditors arising out of direct insurance operations	26	22,696	32,202
Creditors arising out of reinsurance operations	26	786	13,601
Amounts owed to credit institutions	26	2,284	944
Fair value of derivative financial instruments	26	58	187
Other creditors including taxation and social security	26	24,580	16,308
		<u>50,404</u>	<u>63,242</u>
<b>Accruals and deferred income</b>		800	981
<b>TOTAL LIABILITIES</b>		<u>2,663,372</u>	<u>2,500,078</u>

The financial statements on pages 23 to 77 were approved by the Board of Directors and were signed on its behalf:

  
Peter O'Donnell  
Chief Executive Officer

  
Stephen Harry  
Chief Financial Officer

24 March 2015

24 March 2015

The notes on pages 29 to 77 form an integral part of these financial statements.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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 2014

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

#### B. Insurance contracts (continued)

##### Claims (continued)

The valuation assumptions are reviewed at least annually. The most significant assumptions are investigated, 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 2014

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

#### D. Investments

##### Land and buildings

Freehold 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 land is not depreciated. Freehold buildings and Leasehold property are depreciated over the estimated useful economic lives of the assets on a straight-line basis.

The periods used are as follows:

##### Freehold

Structure of buildings:	40 years from the date of the last valuation
Other assets integral to the buildings:	3 – 15 years

##### Leasehold

Leasehold property:	40 years or over the remainder of the lease if shorter
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##### 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### D. Investments (continued)

##### Other financial investments (continued)

##### (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 it is so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities or is, 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 Audit 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 or 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.

##### (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.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### D. Investments (continued)

##### Other financial investments (continued)

#### 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 2014

### 1. 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 2014

### 1. 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	4 years
Computer software	3 – 10 years
Plant and equipment	10 years
Leasehold improvements	15 years or over the remainder of the lease if shorter

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 transaction 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 2014

### 1. 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. Deferred tax balances are not discounted.

#### N. Pension benefits

The Company has provided a guarantee to Unum European Holding Company Limited with regard to the current and future liabilities of the Unum defined benefit pension 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 asset is created. On 12 September 2013, Unum European Holding Company Limited approved the closure of the Unum Pension Scheme to future service accrual with effect from 30 June 2014.

#### 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.

#### 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.

# **UNUM Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2014

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

#### **Q. Operating leases**

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

Provisions for onerous property leases are recognised when the Company considers that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. In determining the value of the provision future cash flows are discounted to their present value. The provisions recognised are estimates and the actual costs and timing of future cash flows are dependent on future events.

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

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

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT

The Company is exposed to a range of financial and insurance risks through its financial assets, reinsurance assets and policyholder liabilities and through the business written and the concentration of risk in policies subject to the same risks. 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 Audit 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. The matching of fixed interest bonds to non-linked non-profit business and index linked bonds to inflation linked business are monitored separately.

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

#### 31 December 2014

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Land and buildings	-	-	14,534	14,534
Variable yield securities	20,828	-	2,033	22,861
Debt securities and other fixed income securities	1,493,306	705,751	160,245	2,359,302
Derivative financial instruments	3,879	-	-	3,879
Assets arising from reinsurance contracts held	47,356	61,978	-	109,334
Amounts due from insurance policyholders	29,831	-	-	29,831
Cash at bank and in hand	20,574	-	19,401	39,975
Tangible assets	4,196	-	-	4,196
Deferred acquisition costs	78,168	-	-	78,168
Present value of acquired in-force business	-	-	-	-
Other assets	1,192	-	-	1,192
<b>Total assets</b>	<b>1,699,330</b>	<b>767,729</b>	<b>196,213</b>	<b>2,663,272</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

31 December 2014

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Provision for unearned premiums	84,295	-	-	84,295
Long-term business provision – insurance contracts	(26,199)	-	-	(26,199)
Claims outstanding	1,272,148	-	-	1,272,148
Technical provisions for inflation linked liabilities – insurance contracts	-	767,729	-	767,729
Creditors arising out of direct insurance operations	22,696	-	-	22,696
Creditors arising out of reinsurance operations	786	-	-	786
Amounts owed to credit institutions	2,284	-	-	2,284
Fair value of derivative financial instruments	58	-	-	58
Other liabilities	23,881	-	3,362	27,243
<b>Total liabilities</b>	<b>1,379,949</b>	<b>767,729</b>	<b>3,362</b>	<b>2,151,040</b>

31 December 2013

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Land and buildings	-	-	12,068	12,068
Variable yield securities	14,087	-	2,036	16,123
Debt securities and other fixed income securities	1,393,371	649,192	174,104	2,216,667
Derivative financial instruments	1,069	-	-	1,069
Assets arising from reinsurance contracts held	47,909	54,492	-	102,401
Amounts due from insurance policyholders	36,234	-	-	36,234
Cash at bank and in hand	13,936	-	16,412	30,348
Tangible assets	4,185	-	-	4,185
Deferred acquisition costs	79,803	-	-	79,803
Present value of acquired in-force business	-	-	-	-
Other assets	1,180	-	-	1,180
<b>Total assets</b>	<b>1,591,774</b>	<b>703,684</b>	<b>204,620</b>	<b>2,500,078</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

31 December 2013

	Non-linked non profit insurance contracts	Inflation linked non profit insurance contracts	Corporate	Total
	£000	£000	£000	£000
Provision for unearned premiums	84,420	-	-	84,420
Long-term business provision – insurance contracts	(36,864)	-	-	(36,864)
Claims outstanding	1,161,155	-	-	1,161,155
Technical provisions for inflation linked liabilities – insurance contracts	-	703,684	-	703,684
Creditors arising out of direct insurance operations	32,202	-	-	32,202
Creditors arising out of reinsurance operations	13,601	-	-	13,601
Amounts owed to credit institutions	944	-	-	944
Fair value of derivative financial instruments	187	-	-	187
Other liabilities	18,851	-	618	19,469
<b>Total liabilities</b>	<b>1,274,496</b>	<b>703,684</b>	<b>618</b>	<b>1,978,798</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 2014 and 2013.

#### (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.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

#### (a) Market risk

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

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 2014 - £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	(43,200)	(37,100)	(6,100)	(4,789)
Inflation Linked Bonds	+ 25 basis points on real yield	(18,300)	(24,300)	6,000	4,710
<b>Total</b>		<b>(61,500)</b>	<b>(61,400)</b>	<b>(100)</b>	<b>(79)</b>
Fixed Interest Bonds	- 50 basis points on gross redemption yield	45,800	47,400	(1,600)	(1,256)
Inflation Linked Bonds	- 25 basis points on real yields	20,200	25,800	(5,600)	(4,396)
<b>Total</b>		<b>66,000</b>	<b>73,200</b>	<b>(7,200)</b>	<b>(5,652)</b>

#### Reasonably possible interest rate changes – 31 December 2013 - £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	(38,100)	(31,600)	(6,500)	(4,989)
Inflation Linked Bonds	+ 25 basis points on real yield	(16,300)	(19,500)	3,200	2,456
<b>Total</b>		<b>(54,400)</b>	<b>(51,100)</b>	<b>(3,300)</b>	<b>(2,533)</b>
Fixed Interest Bonds	- 50 basis points on gross redemption yield	42,400	35,400	7,000	5,373
Inflation Linked Bonds	- 25 basis points on real yields	18,200	20,400	(2,200)	(1,689)
<b>Total</b>		<b>60,600</b>	<b>55,800</b>	<b>4,800</b>	<b>3,684</b>

Tax has been applied at the rate of 21.5% (2013: 23.25%) for illustrative purposes.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

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

##### (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.

#### (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;
- amounts due under derivative financial instruments;
- 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

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

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.

	2014 £000	2013 £000
Shares and other variable yield securities and units in unit trusts	22,861	16,123
Debt securities and other fixed interest securities	2,359,302	2,216,667
Derivative financial instruments	3,879	1,069
Assets arising from reinsurance recoverable	105,049	100,988
Amounts due from ceding reinsurers	4,285	1,413
Amounts due from insurance policyholders	29,831	36,234
Cash at bank and in hand	39,975	30,348
<b>Total assets bearing credit risk</b>	<b>2,565,182</b>	<b>2,402,842</b>
AAA	27,411	26,395
AA	767,127	726,640
A	873,675	825,827
BBB	804,408	727,119
BB	62,607	58,825
B	-	1,524
Below B or not rated	29,954	36,512
<b>Total assets bearing credit risk</b>	<b>2,565,182</b>	<b>2,402,842</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.

Analysis of financial assets - debtors	<u>Assets not past due</u> £000	<u>Age analysis of financial assets past due but not impaired</u>				Total £000
		less than 3 months £000	4 – 6 months £000	7 – 12 months £000	> one year £000	
<b>31 December 2014</b>						
Reinsurance operations	(4,717)	5,337	3,665	-	-	4,285
Direct insurance operations	1,924	17,883	4,789	5,235	-	29,831
<b>Total</b>	<b>(2,793)</b>	<b>23,220</b>	<b>8,454</b>	<b>5,235</b>	<b>-</b>	<b>34,116</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (continued)

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

Analysis of financial assets - debtors	<u>Assets not past due</u>  £000	<u>Age analysis of financial assets past due but not impaired</u>				Total  £000
		less than 3 months £000	4 – 6 months £000	7 – 12 months £000	> one year £000	
31 December 2013	£000	£000	£000	£000	£000	£000
Reinsurance operations	305	1,100	8	-	-	1,413
Direct insurance operations	5,708	19,509	4,515	6,502	-	36,234
<b>Total</b>	<b>6,013</b>	<b>20,609</b>	<b>4,523</b>	<b>6,502</b>	<b>-</b>	<b>37,647</b>

The prior year presentation of financial assets shown as debtors has been changed to provide consistency with the current year analysis.

#### Impaired financial assets

At 31 December 2014 there are impaired amounts due from insurance policyholders of £1,500,000 (2013 £1,250,000). Where contractual payments are in arrears for more than one year, the relevant assets are classified as past due and impaired.

#### (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 further information with regard to the Company's financial liabilities.

#### (d) Linked liabilities

Certain insurance contracts pay benefits which escalate in line with the Consumer Price Index or 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. RISK MANAGEMENT (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	2014 £000	2013 £000
<b>UK GAAP shareholders' funds</b>	512,232	521,280
<u>Adjustments onto regulatory basis:</u>		
Deduct: Deferred acquisition costs	(78,168)	(79,803)
Other adjustments to asset values	(14,407)	(13,410)
Foreseeable dividend	-	(30,000)
Other adjustments to liability values	26,228	27,152
<b>Total available capital resources</b>	445,885	425,219
Less: Allocated to general business capital requirement	(1,961)	(2,126)
<b>Total available capital resources for long-term business</b>	443,924	423,093
<b>Capital resources requirement for long-term business</b>	176,086	166,366
 Long-term business solvency multiple	252%	254%
 <b>Net technical provisions in balance sheet</b>	1,992,924	1,811,407
 <b>Shareholders' funds held in long-term business fund</b>	253,034	251,217

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 PRA. 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 2014

### 2. RISK MANAGEMENT (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 PRA'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). This was a Pillar 2 assessment at 31 December 2014.

At 31 December 2014, the available Pillar 1 capital was 252% of the capital requirement of £176.1 million (2013: 254% of a capital requirement of £166.4 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 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 2014

### 2. RISK MANAGEMENT (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.

#### (f) Insurance risk

Insurance risk is an inherent component of the Company's business and arises through the business written and the concentration of risk in policies subject to the same risks. This risk is managed through underwriting, pricing and reinsurance policies. Pricing of business is based on actuarial assumptions such as mortality, morbidity and persistency and the Company has specified strict underwriting criteria and limits. Reinsurance is used by the Company to limit exposures and potential loss from large risks and catastrophic events.

### 3. 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

	2014 £000	2013 £000
Direct insurance	416,294	436,919
Reinsurance inwards	6,995	5,204
<b>Gross premiums written</b>	<b>423,289</b>	<b>442,123</b>
	<b>2014 £000</b>	<b>2013 £000</b>
Gross direct insurance premiums written:		
Individual income protection	17,632	18,601
Group income protection	257,962	249,350
Group life	128,610	153,462
Group critical illness	12,090	15,506
<b>Total gross direct insurance premiums written</b>	<b>416,294</b>	<b>436,919</b>

Gross direct insurance premiums written comprise regular premium contracts.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3. 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:

	<b>2014</b> <b>£000</b>	<b>2013</b> <b>£000</b>
Sales to new customers:		
Direct insurance	34,211	28,140
Reinsurance inwards	-	-
<b>Total</b>	<b>34,211</b>	<b>28,140</b>
Incremental premiums:		
Direct insurance	46,317	82,274
Reinsurance inwards	93	241
<b>Total</b>	<b>46,410</b>	<b>82,515</b>
Gross new business premiums		
Direct insurance	80,528	110,414
Reinsurance inwards	93	241
<b>Total</b>	<b>80,621</b>	<b>110,655</b>
	<b>2014</b> <b>£000</b>	<b>2013</b> <b>£000</b>
Gross new business direct insurance premiums:		
Individual income protection	1,704	1,710
Group income protection	49,733	51,850
Group life	27,143	50,916
Group critical illness	1,948	5,938
<b>Total gross new business direct insurance premiums</b>	<b>80,528</b>	<b>110,414</b>

All business written is comprised of regular premium contracts, other than in the case of one single Group income protection premium arrangement which totalled £1,872,000.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3. SEGMENTAL INFORMATION (continued)

#### a) Long-term Business Technical Account (continued)

##### (ii) Net new business premiums

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

Net new premium income is made up of:

	2014 £000	2013 £000
Sales to new customers:		
Direct insurance	31,447	24,594
Reinsurance inwards	-	-
<b>Total</b>	<b>31,447</b>	<b>24,594</b>
Incremental premiums:		
Direct insurance	39,837	57,791
Reinsurance inwards	93	241
<b>Total</b>	<b>39,930</b>	<b>58,032</b>
Net new business premiums		
Direct insurance	71,284	82,385
Reinsurance inwards	93	241
<b>Total</b>	<b>71,377</b>	<b>82,626</b>
	2014 £000	2013 £000
Net new business direct insurance premiums:		
Individual income protection	1,699	1,710
Group income protection	49,733	51,850
Group life	17,904	22,887
Group critical illness	1,948	5,938
<b>Total net new business direct insurance premiums</b>	<b>71,284</b>	<b>82,385</b>

All business written is comprised of regular premium contracts, other than in the case of one single Group income protection premium arrangement which totalled £1,872,000.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3. SEGMENTAL INFORMATION (continued)

#### (iii) Geographical analysis

The Company currently carries out all of its business from offices situated within the United Kingdom. The company offers a Group and Life dependents insurance product specifically for companies registered in the Channel Islands and Isle of Man. The impact of transactions with non-UK policyholders on gross premiums written, net assets and profit before taxation is not material. The Company has no material exposure to insurance risks outside of the British Isles. 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 2014 of £17,819,000 (2013: £23,680,000 debit).

#### b) Results before tax

	2014 £000	2013 £000
Balance on the technical account		
- long-term business before tax	38,773	59,071
Shareholders' other income and charges	21,713	2,525
<b>Profit on ordinary activities before tax</b>	<u>60,486</u>	<u>61,596</u>

#### 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 £2,467,059,000 (2013: £2,295,458,000).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after:

	2014 £000	2013 £000
Depreciation charge – buildings (note 15)	325	278
Depreciation charge - tangible assets (note 20)	906	1,335
Impairment of computer software (note 20)	958	1,441
Operating leases – equipment leases	347	308
Operating leases – onerous property leases*	33	320
Operating leases – other property leases	1,094	1,240
Auditors' remuneration for:		
Statutory audit of the Company	374	359
Statutory audit of fellow group companies	31	30
Audit-related services	200	192
Tax compliance services for the Company	-	9
Tax compliance services of fellow group companies	-	4
Tax advisory services for the Company	-	-
Other assurance services for the Company	38	-

\*The payments made under the onerous lease were charged to the related provision shown in note 19.

### 5. NET OPERATING EXPENSES

	Long-term business	
	2014 £000	2013 £000
Acquisition costs	39,320	34,622
Change in deferred acquisition costs	1,635	3,496
Administrative expenses	59,072	50,707
	<hr/> 100,027	<hr/> 88,825
Reinsurance commissions and profit participations	2,218	124
<b>Net operating expenses</b>	<hr/> 102,245	<hr/> 88,949

The total commission accounted for during the year in respect of direct business, excluding payments to employees, was £22,887,000. (2013: £24,439,000). 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 immaterial for both 2014 and 2013.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 6. INVESTMENT RETURN

INVESTMENT INCOME	Technical account Long-term business		Non-technical Account	
	2014 £000	2013 £000	2014 £000	2013 £000
Interest income from financial assets at fair value through profit or loss	85,308	86,826	6,501	6,457
Interest income from financial assets not at fair value through profit or loss	74	56	31	15
Income from land and buildings	-	-	1,536	1,269
Gains on the realisation of investments	1,673	6,404	-	3,922
<b>Total investment income</b>	<b>87,055</b>	<b>93,286</b>	<b>8,068</b>	<b>11,663</b>

INVESTMENT EXPENSES AND CHARGES	Technical account long-term business		Non-technical Account	
	2014 £000	2013 £000	2014 £000	2013 £000
Investment management charges	2,533	2,571	198	164
Interest payable	37	123	-	1
Interest payable on finance leases	-	-	36	19
Losses on the realisation of investments	-	-	399	-
<b>Total investment expenses and charges</b>	<b>2,570</b>	<b>2,694</b>	<b>633</b>	<b>184</b>

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

	2014 £000	2013 £000
Investment income	87,055	93,286
Investment expenses and charges	(2,570)	(2,694)
Movement in unrealised investment gains/(losses)	139,572	(82,966)
<b>Total net investment return</b>	<b>224,057</b>	<b>7,626</b>

#### b) Non-technical account

	2014 £000	2013 £000
Investment income	8,068	11,663
Investment expenses and charges	(633)	(184)
Movement in unrealised investment gains/(losses)	14,302	(8,679)
<b>Total net investment return</b>	<b>21,737</b>	<b>2,800</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 6. INVESTMENT RETURN (continued)

#### c) Net investment gains/(losses)

	2014 £000	2013 £000
Technical account – Long-term business	141,245	(76,562)
Non-technical account	13,903	(4,757)
<b>Total net investment gains/(losses)</b>	<b>155,148</b>	<b>(81,319)</b>

All net investment gains and losses reported in 2014 and 2013 arose on financial assets at fair value through profit or loss, designated as such upon initial recognition.

### 7. OTHER TECHNICAL INCOME AND OTHER TECHNICAL CHARGES, NET OF REINSURANCE

	2014 £000	2013 £000
<b>a) Other technical income, net of reinsurance</b>		
Sundry income	8	63
	<u>8</u>	<u>63</u>

	2014 £000	2013 £000
<b>b) Other technical charges, net of reinsurance</b>		
Present value of acquired in-force business amortisation (note 14)	-	267
General insurance business result	1	287
Sundry charges	35	-
	<u>36</u>	<u>554</u>

### 8. OTHER CHARGES

	2014 £000	2013 £000
Depreciation on buildings (note 15)	325	278

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 9. DIRECTORS' EMOLUMENTS/PENSIONS

	2014 £000	2013 £000
Aggregate emoluments in respect of qualifying services	1,003	846
Aggregate amounts receivable under long-term incentive plans	156	143
Aggregate amounts paid under money purchase schemes	31	35
	<hr/>	<hr/>
	2014 No.	2013 No.
Number of directors who received shares in respect of qualifying services	2	3
Number of directors who exercised share options	-	-
Number of directors accruing benefits under money purchase schemes	2	2
Number of directors accruing benefits under defined benefits schemes	-	-
	<hr/>	<hr/>
In respect of the highest paid director:	2014 £000	2013 £000
Aggregate emoluments	577	486
Accrued pension at the end of the year	-	-
Accrued lump sum at the end of the year	-	-
	<hr/>	<hr/>

The highest paid director did not exercise 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 £nil (2013: £nil).

Where an individual serves more than one company in the Group, the individual's total remuneration is allocated across the relevant companies and the appropriate proportion is disclosed in each company's financial statements. The executive compensation of Unum Group directors is disclosed in the publicly available proxy statement, which is incorporated by reference in Unum Group's form 10-K, no part of this compensation is included in the disclosures above.

### 10. LONG-TERM INCENTIVE PLANS/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 and its subsidiaries from the award date to the date of the stock vesting to the directors. The total expense recognised in the financial statements for the company, including amounts in relation to the directors, in respect of equity-settled share based payments in 2014 was £nil (2013: £375,000).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 11. STAFF COSTS

The Company has no employees. It has a resourcing and services agreement with a parent company, Unum European Holding Company Limited under which it is provided with staff who perform administrative, management and other services on behalf of the Company. These costs are reported under the relevant headings in the profit and loss account.

### 12. TAXATION

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

	2014 £000	2013 £000
Current tax		
UK corporation tax on profits of the period at 21.5% (2013: 23.25%)	7,933	13,730
Adjustments in respect of previous periods	(539)	(916)
Total current tax charge	7,394	12,814
Deferred tax		
Origination and reversal of timing differences	(724)	(1,801)
Adjustments in respect of previous periods	-	(495)
Total deferred tax charge	(724)	(2,296)
<b>Total tax charge on technical account</b>	<b>6,670</b>	<b>10,518</b>

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

	2014 £000	2013 £000
Current tax		
UK corporation tax on profits of the period at 21.5% (2013: 23.25%)	4,666	645
Adjustments in respect of previous periods	-	18
Tax on long-term business technical account	7,394	12,814
Total current tax charge	12,060	13,477
Deferred tax		
Tax on long-term business technical account	(724)	(2,296)
Total deferred tax charge	(724)	(2,296)
<b>Total tax charge on non-technical account</b>	<b>11,336</b>	<b>11,181</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 12. TAXATION (continued)

#### c) Factors affecting tax charge

	2014 £000	2013 £000
<b>Technical account</b>		
Balance on the technical account before tax:	38,773	59,071
Balance on the technical account before tax multiplied by the standard rate of corporation tax of 21.5% (2013: 23.25%)	8,334	13,734
Which was affected by:		
Non-taxable income/expense not deductible for tax purposes	(979)	(1,581)
Timing effect of capital items	(337)	44
Other temporary differences	915	1,533
Adjustment to tax in respect of previous periods	(539)	(916)
<b>Current tax charge</b>	<b>7,394</b>	<b>12,814</b>
	2014 £000	2013 £000
<b>Non-Technical account</b>		
Balance on the non-technical account before tax	60,486	61,596
Less: income attributable to insurance business (as above)	(38,773)	(59,071)
Other income	21,713	2,525
Balance on the non-technical account before tax multiplied by the standard rate of corporation tax of 21.5% (2013: 23.25%)	4,666	587
Which was affected by:		
Depreciation in excess of capital allowances	64	58
Non-taxable income/expense not deductible for tax purposes	(64)	-
Adjustment to tax in respect of previous periods	-	18
Tax attributable to balance on long-term business technical account (from above)	7,394	12,814
<b>Current tax charge</b>	<b>12,060</b>	<b>13,477</b>



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 12. TAXATION (continued)

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

A reduction to the UK corporation tax rate was announced in the December 2012 Autumn Statement reducing the rate to 21% from 1 April 2014. In the March 2013 UK budget, a further reduction in the UK corporation tax rate was announced reducing the rate to 20% from 1 April 2015. These changes were enacted through the UK Parliament on 17 July 2013.

The substantively enacted rate of 20% has been used in the calculation of deferred tax assets and liabilities in both 2013 and 2014. 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.

### 13. DIVIDENDS PAID AND PROPOSED

	2014 £000	2013 £000
<b>Declared and paid during the year:</b>		
Equity dividends on ordinary shares:		
Interim dividend on class A shares: nil (2013: nil)	-	-
Interim dividend on class B shares: 892.86p (2013: 1,116.07p)	30,000	37,500
Final dividend on class A shares: nil (2013: nil)	-	-
Final dividend on class B shares: 892.86 (2013: nil)	30,000	-
	<hr/>	<hr/>
<b>Dividends paid</b>	<b>60,000</b>	<b>37,500</b>

In 2014 and 2013 dividends were declared and paid on class B shares only.

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

	2014 £000	2013 £000
<b>Cost</b>		
At 1 January and 31 December	<hr/> 21,939	<hr/> 21,939
<b>Amortisation</b>		
At 1 January	21,939	21,672
Charge for the year	-	267
At 31 December	<hr/> 21,939	<hr/> 21,939
<b>Net book value at 31 December</b>	<hr/> -	<hr/> -

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 15. LAND AND BUILDINGS

	Freehold land & buildings		Leasehold land & buildings		Total Land & buildings	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
<b>Valuation/cost</b>						
At 1 January	9,496	9,400	2,898	-	12,394	9,400
Additions	170	96	519	2,898	689	2,994
Reversal of previous impairment of land	300	-	-	-	300	-
Revaluation of buildings	1,284	-	-	-	1,284	-
<b>At 31 December</b>	<b>11,250</b>	<b>9,496</b>	<b>3,417</b>	<b>2,898</b>	<b>14,667</b>	<b>12,394</b>
<b>Depreciation</b>						
At 1 January	287	-	39	-	326	-
Charge for the year:						
Non technical account	231	239	94	39	325	278
Charge for the year:						
Revaluation reserve	47	48	-	-	47	48
Reversal of accumulated depreciation on revaluation	(565)	-	-	-	(565)	-
<b>At 31 December</b>	<b>-</b>	<b>287</b>	<b>133</b>	<b>39</b>	<b>133</b>	<b>326</b>
<b>Net book value</b>						
At 1 January	9,209	9,400	2,859	-	12,068	9,400
<b>At 31 December</b>	<b>11,250</b>	<b>9,209</b>	<b>3,284</b>	<b>2,859</b>	<b>14,534</b>	<b>12,068</b>

Land and buildings included above are occupied by the Company for its own activities. The last full valuation of the freehold land and buildings was carried out at 31 December 2014 and the most recent interim valuation was carried out at 31 December 2012. All freehold land and buildings were valued as at 31 December 2014 and 31 December 2012 at open market value (and on vacant possession for owner occupied property) by Montagu Evans, a firm of independent Chartered Surveyors. The valuation of freehold land and buildings has been reviewed by the directors and confirmed with Montagu Evans, a firm of independent Chartered Surveyors.

Leasehold land and buildings are carried at depreciated cost. The net book value of leasehold property includes £344,000 (2013: £353,000) in respect of the finance lease obligation arising from a head lease agreement. The depreciation charge for the year in respect of the head lease is £8,000 (2013: £5,000).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 16. INVESTMENTS: OTHER FINANCIAL INVESTMENTS

	Carrying value		Cost	
	2014	2013	2014	2013
	£000	£000	£000	£000
<b>Financial assets at fair value through profit or loss</b>				
Designated upon initial recognition	2,346,276	2,196,128	1,938,176	1,945,564
Derivative financial instruments	3,726	963	-	-
<b>Total financial assets</b>	<b>2,350,002</b>	<b>2,197,091</b>	<b>1,938,176</b>	<b>1,945,564</b>
Included in balance sheet as follows:				
<b>Other financial investments</b>				
<u>Assets not held to cover inflation linked liabilities:</u>				
Variable yield securities	22,804	15,999	17,287	11,275
Debt securities and other fixed income securities	1,617,721	1,530,937	1,399,638	1,408,770
Derivative financial instruments	3,726	963	-	-
	1,644,251	1,547,899	1,416,925	1,420,045
<u>Assets held to cover inflation linked liabilities:</u>				
Variable yield securities	705,751	649,192	521,251	525,519
<b>Total financial assets</b>	<b>2,350,002</b>	<b>2,197,091</b>	<b>1,938,176</b>	<b>1,945,564</b>

Included in the carrying values of other financial investments above are amounts in respect of listed investments as follows:

	2014	2013
	£000	£000
<b>Listed investments</b>	<b>2,213,259</b>	<b>2,119,728</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### 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. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

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

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

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

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### Fair Value Measurements (continued)

If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2014, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2013.

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

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

We actively manage our investment portfolio, establish pricing policy, and review the reasonableness of sources and inputs used in developing pricing. We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. In the event we receive a vendor's market price that does not appear reasonable based on our market analysis, we may challenge the price and request further information about the assumptions and methodologies used by the vendor to price the security. We may change the vendor price based on a better data source such as an actual trade. We also review all price changes from the prior month which fall outside a predetermined corridor. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of the financial conditions and industry in which the issuer operates, certain features of the financial instrument require that an adjustment be made to the value originally obtained from our pricing sources. These features may include the complexity of the financial instrument, the market in which the financial instrument is traded, counterparty credit risk, credit structure, concentration, or liquidity.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### Fair Value Measurements (continued)

Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument.

In the event an asset is sold, we test the validity of the fair value determined by our valuation techniques by comparing the selling price to the fair value determined for the asset in the immediately preceding month end reporting period.

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

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

Certain of our investments may 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 2014, approximately 0.5 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### Fair Value Measurements (continued)

At 31 December 2014, 99.5 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

- Approximately 92.9 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 0.3 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.
- Approximately 6.3 percent of our securities were valued based on prices of comparable securities, matrix pricing, 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 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 2014

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

#### Fair Value Measurements (continued)

The categorisation of fair value measurements by input level as at 31 December 2014 and 31 December 2013 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 Unobserva ble Inputs (Level 3)	Total
<b>31 December 2014</b>				
<b>Other financial investments</b>				
<u>Assets not held to cover inflation linked liabilities:</u>				
Variable yield securities	-	22,804	-	22,804
Debt securities and other fixed income securities	12,453	1,553,977	51,291	1,617,721
<u>Assets held to cover inflation linked liabilities:</u>				
Variable yield securities	-	705,751	-	705,751
	<u>12,453</u>	<u>2,282,532</u>	<u>51,291</u>	<u>2,346,276</u>
<b>Derivatives</b>	<u>-</u>	<u>3,726</u>	<u>-</u>	<u>3,726</u>
<b>Total financial assets</b>	<u>12,453</u>	<u>2,286,258</u>	<u>51,291</u>	<u>2,350,002</u>
<b>31 December 2013</b>				
<b>Other financial investments</b>				
<u>Assets not held to cover inflation linked liabilities:</u>				
Variable yield securities	-	15,999	-	15,999
Debt securities and other fixed income securities	-	1,475,149	55,788	1,530,937
<u>Assets held to cover inflation linked liabilities:</u>				
Variable yield securities	-	649,192	-	649,192
	<u>-</u>	<u>2,140,340</u>	<u>55,788</u>	<u>2,196,128</u>
<b>Derivatives</b>	<u>-</u>	<u>963</u>	<u>-</u>	<u>963</u>
<b>Total financial assets</b>	<u>-</u>	<u>2,141,303</u>	<u>55,788</u>	<u>2,197,091</u>



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

#### Fair Value Measurements (continued)

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

Year ended 31 December 2014					
Amounts in £000					
	Beginning of period	Profits recognised in profit or loss	Net sales	Net transfers	End of Period
Variable yield securities	-	-	-	-	-
Debt securities and other fixed income securities	55,788	1,824	(5,000)	(1,321)	51,291
<b>Total financial assets</b>	<b>55,788</b>	<b>1,824</b>	<b>(5,000)</b>	<b>(1,321)</b>	<b>51,291</b>
Year ended 31 December 2013					
Amounts in £000					
	Beginning of period	Profits/(losses) recognised in profit or loss	Net purchases and sales	Net transfers	End of Period
Variable yield securities	5,792	387	(6,179)	-	-
Debt securities and other fixed income securities	6,829	(2,777)	8,188	43,548	55,788
<b>Total financial assets</b>	<b>12,621</b>	<b>(2,390)</b>	<b>2,009</b>	<b>43,548</b>	<b>55,788</b>

Realised and unrealised investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the market relative to the level of activity and whether the market is considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

	Carrying value		Cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Debt securities and other fixed income securities	705,751	649,192	521,251	525,519

An analysis of total financial assets, including assets held to cover linked liabilities is provided in Note 16 'Other financial investments'.

### 18. 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	2014 £000	2013 £000
Due in less than one year:		
Amounts owed by Group undertakings	11	-
Onerous lease receivable	545	-
Sundry debtors	47	678
	<u>603</u>	<u>678</u>

### 19. PROVISIONS FOR OTHER RISKS

	Deferred tax £000	Onerous lease £000	Total £000
At 1 January 2013	4,039	1,645	5,684
Charge for the year	(2,296)	-	(2,296)
Increase during the year in the discounted amount	-	-	-
Utilised in the year - rent and other expenses	-	(345)	(345)
Unwind discount	-	81	81
Released in the year	-	(944)	(944)
At 31 December 2013	<u>1,743</u>	<u>437</u>	<u>2,180</u>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 19. PROVISIONS FOR OTHER RISKS (continued)

	Deferred tax £000	Onerous lease £000	Total £000
<b>At 1 January 2014</b>	1,743	437	2,180
Charge for the year	(724)	-	(724)
Increase during the year in the discounted amount	-	33	33
Utilised in the year - rent and other expenses	-	(193)	(193)
Unwind discount	-	22	22
Released in the year	-	-	-
Gross out provision	-	545	545
<b>At 31 December 2014</b>	<u>1,019</u>	<u>844</u>	<u>1,863</u>

	Amount provided	
Deferred tax is provided in the financial statements in full:	2014 £000	2013 £000
Excess of capital allowances over depreciation	(1,461)	(1,588)
Timing differences in respect of Group Life business	2,480	3,331
<b>Deferred tax liability</b>	<u>1,019</u>	<u>1,743</u>

There are no unprovided amounts of deferred tax at 31 December 2014 or 31 December 2013.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20. TANGIBLE ASSETS

	<b>Fixtures Fittings &amp; Equipment £000</b>	<b>Computer Hardware £000</b>	<b>Computer Software £000</b>	<b>Total £000</b>
<b>Cost</b>				
At 1 January 2014	741	865	23,376	24,982
Additions	86	75	1,714	1,875
Disposals	(166)	(218)	(327)	(711)
	<u>661</u>	<u>722</u>	<u>24,763</u>	<u>26,146</u>
<b>Accumulated depreciation</b>				
At 1 January 2014	732	865	19,200	20,797
Disposals	(166)	(218)	(327)	(711)
Charge for the year	11	-	895	906
Impairment	-	-	958	958
	<u>577</u>	<u>647</u>	<u>20,726</u>	<u>21,950</u>
<b>Net book value at 31 December 2014</b>	<u>84</u>	<u>75</u>	<u>4,037</u>	<u>4,196</u>
Net book value at 31 December 2013	<u>9</u>	<u>-</u>	<u>4,176</u>	<u>4,185</u>

The Company has assessed assets held in respect of operating platforms for certain group risk product offerings as being impaired because it considers the carrying amount may not be recoverable as the relevant product offerings have not performed in line with original expectations.

In order to determine the required impairment the Company has estimated the value in use of the assets by reference to discounted cash flows on forecast product offerings based on current operating plans. These cash flows have been discounted at a rate of 12% to allow for the inherent uncertainty and risk in taking new product offerings to market and for to take account of the time value of money. The cash flows have been projected over a six year period beginning on 1 January 2014 which reflects management's view of an acceptable period in which to embed the offerings in the market. The compound annual growth rate in sales is 32% over the six year period which the Company considers reasonable for the period and growth to maturity. This has been assessed on a declining basis over time reducing to 2.5% in years 5 and 6.

The estimated value in use of £2,336,000 has been compared to the assets' carrying amount of £3,294,000 and an impairment loss of £958,000 has been included within administrative expenses. The impairment has not been classified as an exceptional item.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20. TANGIBLE ASSETS (continued)

The Company undertook a review of the fixed asset inventory during the course of the year to identify assets that were fully depreciated and no longer in use by the business. Assets of £711,000 have been removed from the inventory of assets on this basis. These assets were all fully depreciated.

### 21. DEFERRED ACQUISITION COSTS

	2014 £000	2013 £000
Deferred acquisition costs at 1 January	79,803	83,299
Deferred in year	30,317	26,853
Amortisation	(31,952)	(30,349)
Deferred acquisition costs at 31 December	78,168	79,803

### 22. PROVISION FOR UNEARNED PREMIUMS

	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2014	84,420	(9,900)	74,520
Movement for the period	(125)	617	492
At 31 December 2014	84,295	(9,283)	75,012

All unearned premiums relate to long-term insurance business.

### 23. TECHNICAL PROVISIONS

All technical provisions are in relation to long-term insurance business.

#### 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.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. TECHNICAL PROVISIONS (continued)

#### b) Principal Assumptions

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 Dependants 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.

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 (%)		<i>Mortality / Morbidity</i>	
	2014	2013	2014	2013
Individual Income Protection long term business provision	2.110	3.190	Inception rates: CMIR7 Termination rates: CMIR12	Inception rates: CMIR7 Termination rates: CMIR12
Individual & Group Income Protection non-linked claims in payment	2.220	3.250	Termination rates: CMIR12	Termination rates: CMIR12
Individual & Group Income Protection linked claims in payment	-0.856	-0.287	Termination rates: CMIR12	Termination rates: CMIR12
Non-linked Dependants' Annuities in payment	2.170	3.210	85% WA00	85% WA00
Linked Dependants' Annuities in payment	-0.856	-0.287	85% WA00	85% WA00

The inception rates used in 2014 and 2013 were a proportion of CMIR7 that varied by type of contract, deferred period, sex, smoker status and occupational class.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. TECHNICAL PROVISIONS (continued)

#### b) Principal Assumptions (continued)

The termination rates used in 2014 and 2013 were a proportion of CMIR12 that varied by age of claimant at incapacity and the duration of sickness.

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 2013.

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 2013.

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 40% (2013: 40%) for fixed interest and 40% (2013: 40%) 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<sup>1</sup> cost inflation of 3.75% (2013: 3.75%).

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

**Bases of preparation** – The termination rates for Group Income Protection and Individual Income Protection were based on an unrounded, unsmoothed 10 year average for claims of duration of 6 years and over but a 5 year average for shorter durations (2013: same).

**Interest Rates** – The changes are as in the table shown in section (b). The interest rates decreased 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 decreased with lower longer duration gilt yields.

**Inception Rates** – There were no changes in our assumptions.

**Termination Rates** – The rates assumed for Group Income Protection business decreased slightly. The rates assumed for Individual Income Protection business decreased at shorter durations of sickness but increased at longer durations of sickness.

**Loss Ratios** – The loss ratios were assumed to decrease on Group Income Protection, Group Life and Group Critical Illness but increase on Group Dependants to reflect our smoothed recent experience.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. TECHNICAL PROVISIONS (continued)

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

**Incurred But Not Reported (IBNR) Delay tables** – The assumed reporting delays for IBNR for claims that should have been paid were unchanged on Group Income Protection, Individual Income Protection, Group Life and Group Critical Illness but decreased on Group Dependants.

The assumed IBNR delays for ceased claims reinstating increased on Group Income Protection and Individual Income Protection.

The assumed IBNR delays for declined claims reopening increased on Group Income Protection and Individual Income Protection.

The assumed reporting delays for IBNR for claims that should have terminated increased on Group Income Protection and Individual Income Protection.

**Expenses** – The claims management expenses on Group and Individual Income Protection increased slightly and the policy renewal expenses on Individual Income Protection increased.

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

**Lapses** – There were no changes in our assumptions.

#### 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., the long-term business provision would increase by approximately £50 million (2013: £40 million, based also on interest rates reducing by 0.25% p.a.). 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.



# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. TECHNICAL PROVISIONS (continued)

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

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.

#### e) Movements in Technical Provisions

	Gross £000	Reinsurers' Share £000	Net £000
<b>At 1 January 2014</b>	1,912,395	(100,988)	1,811,407
Change in provision for unearned premium (note 22)	(125)	617	492
Change in provisions for claims (note 24)	110,993	3,343	114,336
Change in long-term business provision	10,665	(535)	10,130
Change in technical provisions for index-linked liabilities	64,045	(7,486)	56,559
<b>At 31 December 2014</b>	<b>2,097,973</b>	<b>(105,049)</b>	<b>1,992,924</b>

	Gross £000	Reinsurers' Share £000	Net £000
<b>At 1 January 2014</b>			
Technical provisions for non-linked liabilities	1,208,711	(46,496)	1,162,215
Technical provisions for linked liabilities	703,684	(54,492)	649,192
<b>Total</b>	<b>1,912,395</b>	<b>(100,988)</b>	<b>1,811,407</b>

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. TECHNICAL PROVISIONS (continued)

#### e) Movements in Technical Provisions (continued)

	Gross £000	Reinsurers' Share £000	Net £000
<b>At 31 December 2014</b>			
Technical provisions for non-linked liabilities	1,330,244	(43,071)	1,287,173
Technical provisions for linked liabilities	767,729	(61,978)	705,751
<b>Total</b>	<b>2,097,973</b>	<b>(105,049)</b>	<b>1,992,924</b>

### 24. CLAIMS OUTSTANDING

	Gross £000	Reinsurers' Share £000	Net £000
<b>At 1 January 2014</b>	1,161,155	(34,854)	1,126,301
Movement for the period	110,993	3,343	114,336
<b>At 31 December 2014</b>	<b>1,272,148</b>	<b>(31,511)</b>	<b>1,240,637</b>

### 25. CALLED UP SHARE CAPITAL

	2014 £000	2013 £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
	<b>12,000</b>	<b>12,000</b>

The class A and B shares rank equally for dividend and for distribution in the event of the winding up of the Company. Subject to the availability of distributable reserves, the Company is entitled to declare and pay dividends to either or both classes of shareholders.

All of the class A shares are held by the immediate parent company Unum European Holding Company Limited. All of the class B shares are owned by a fellow group undertaking UnumProvident Finance Company PLC.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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 2014 are fair value losses of £58,000 (2013: £187,000) 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 16 – Financial Investments. All derivative financial instruments mature after five years. At 31 December 2014, no assets had been pledged as collateral to counterparties in support of the derivatives (2013: no assets had been pledged).

#### Other creditors including taxation and social security

	2014 £000	2013 £000
<b>Amounts due within one year</b>		
Corporation tax payable	4,471	3,408
Taxation and social security	527	620
Amounts due under finance leases	33	33
Other creditors	7,608	3,144
Amount owed to Group undertakings	11,624	8,786
	<u>24,263</u>	<u>15,991</u>
<b>Amounts due in two to five years</b>		
Amounts due under finance leases	<u>103</u>	<u>103</u>
<b>Amounts due in more than five years</b>		
Amounts due under finance leases	<u>214</u>	<u>214</u>
<b>Total</b>	<u>24,580</u>	<u>16,308</u>

The finance lease obligation results from a head lease on leasehold property acquired in 2013 (note 15).

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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 2013</b>	12,000	29,973	1,904	464,536	508,413
Profit for the year	-	-	-	50,415	50,415
Depreciation (note 15)	-	-	(48)	-	(48)
Dividends paid	-	-	-	(37,500)	(37,500)
<b>At 31 December 2013</b>	12,000	29,973	1,856	477,451	521,280
<b>At 1 January 2014</b>	12,000	29,973	1,856	477,451	521,280
Profit for the year	-	-	-	49,150	49,150
Gain on revaluation (note 15)	-	-	1,849	-	1,849
Depreciation (note 15)	-	-	(47)	-	(47)
Dividends paid (note 13)	-	-	-	(60,000)	(60,000)
<b>At 31 December 2014</b>	12,000	29,973	3,658	466,601	512,232

The directors consider that the amount of distributable profits included in the shareholders' funds at 31 December 2014 is £166,921,000 (2013: £157,813,000) as required to be disclosed by section 843 of the Companies Act 2006. A transfer of £30,000,000 from the long-term business fund to distributable profits has been made in the Company's regulatory return for 2014 (2013: £67,500,000).

### 28. FINANCIAL COMMITMENTS

At 31 December 2014 the Company had annual commitments as follows under operating leases:

	2014		2013	
	Land & Buildings	Other	Land & Buildings	Other
	£000	£000	£000	£000
Expiring within one year	-	8	-	-
Expiring between two and five years	343	355	181	198
Expiring in over five years	929	-	937	-
	<u>1,272</u>	<u>363</u>	<u>1,118</u>	<u>198</u>

The disclosure includes future costs on onerous leases as these are payments the Company is committed to make though the costs of these has been provided for (note 19).

Finance leases are disclosed in note 26.

# UNUM Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 29. SHARE IN SUBSIDIARIES

Company	Class of Share Capital	2014	% Owned	2013	% Owned
		Issued / Allotted		Issued / Allotted	
Claims Services International Limited	Ordinary	£2	50	£2	50

The Company is registered as a private limited company in England and Wales. Claims Services International Limited is not consolidated in these financial statements as Unum Limited is exempt from preparing consolidated financial statements, as it is a subsidiary included in a larger group consolidation.

### 30. PARENT UNDERTAKING

The Company's immediate parent company is Unum European Holding Company Limited (UEHCL), through UEHCL's ownership of the Company's class A share capital.

The directors regard Unum Group, a company incorporated in the United States of America as the ultimate parent company and ultimate controlling party. The smallest and largest group in which the results of the Company are consolidated is that of Unum Group. Copies of the consolidated financial statements of Unum Group can be obtained from Unum Group, 1 Fountain Square, Chattanooga, Tennessee, 37402, USA.

### 31. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption in FRS 8 'Related Party Disclosures' not to disclose transactions with the ultimate parent company or any of its wholly owned subsidiaries.

# **UNUM Limited**

## **REGIONAL SALES OFFICES**

### **South of England**

Unum Limited – Southern Sales Office  
Milton Court, Dorking,  
Surrey, RH4 3LZ  
Tel: 0845 712 5242

### **London**

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

### **Midlands**

Unum Limited – Midlands Sales Office  
1<sup>st</sup> Floor, Livery Place, 35 Livery Street,  
Birmingham, B3 2PB  
Tel: 0845 712 5241

### **North of England**

Unum Limited – North of England Sales Office  
1<sup>st</sup> Floor, The Observatory, Chapel Walks,  
Manchester, M2 1HL  
Tel: 0161 834 6770

### **Scotland and Northern Ireland**

Unum Limited – Scotland and Northern Ireland Sales Office  
Ground Floor, 183 St Vincent Street,  
Glasgow, G2 5QD  
Tel: 0845 712 5243

## **SPECIALIST AND ADMINISTRATIVE CENTRES**

### **Head Office**

Unum Limited, Milton Court, Dorking, Surrey, RH4 3LZ  
Tel: 01306 887 766

### **Basingstoke**

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

### **Bristol**

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

### **WEBSITE**

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