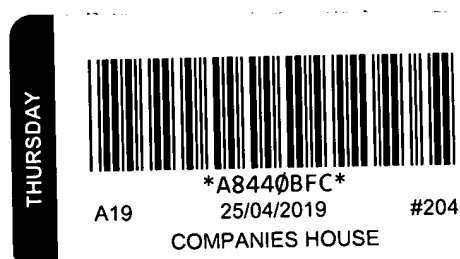




UNUM LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

UNUM LIMITED IS A MEMBER OF THE UNUM GROUP OF COMPANIES



UNUM Limited

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UNUM Limited

DIRECTORS, OFFICERS AND ADVISERS

Directors

Peadar O'Donnell (Chief Executive Officer)
Jonathan Fletcher (Chief Financial Officer)

Non-Executive Directors

Cheryl Black
Malcolm McCaig (Chairman)
Richard McKenney
Clifton Melvin
Samantha Hoe-Richardson

Bankers

Lloyds TSB Bank plc, City Offices
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Kent
ME8 0LS

Secretary and Registered Office

Steven Leverett
Unum Limited
Milton Court
Dorking
Surrey
RH4 3LZ

Registered Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

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 2018

The directors present their strategic report for the year ended 31 December 2018.

Strategy

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

Our strategy is to become a broader employee benefits provider, whilst growing our business. Our focus is on helping employers remove the volatility on their business by managing staff absence costs, and on providing financial security for individuals through our product offerings. We believe the best place to offer income protection and employee benefits is through the workplace and we continually seek to provide innovative solutions and product offerings to meet this need.

Our strategic development programme will see us continue testing new growth initiatives and building digital capability 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. In 2019, Unum Limited is expected to benefit from the recently launched distribution channel, "Benni", an education and enrolment service providing access to a range of 'Unum Limited' products, communication and enrolment services to individuals through their employers.

We remain committed to driving growth in the UK Risk and Employee Benefits market, by:

- Continuing to educate employers and workplace benefits decision-makers about the critical role employee benefits play in supporting and caring for their workforce;
- Continuing to explore ways to provide education and support to employees looking to enrol in employee paid benefits through their employers;
- Investing in digital solutions to better support all our broker partners and employers; and
- Remaining focused on being a customer centric organisation.

We are an established employee benefits provider and the partner of choice for distribution partners across all group risk products and adjacent areas:

- We will continue to grow our portfolio with products that are relevant to, and valued by our customers, like our Dental insurance;
- We will continue to introduce simpler propositions to make it easy for distributors and employers with limited experience with group risk products to derive value from our offering;
- We will continue to invest in alternative distribution whilst maximising our current distribution; and
- We will grow the Dental business by exploring opportunities to increase sales through Unum's strong distribution relationships and by increasing the number of employees who take up this valuable benefit driven by Unum's expertise in worksite education and communication.

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Review of the business

Key Performance Indicators	2018 £000	2017 £000	Change %
Net earned premiums	414,362	399,143	+3.8%
New business sales (gross of reinsurance)	62,463	66,788	-6.5%
Net investment income (incl. realised gains)	97,013	99,023	-2.0%
Profit on ordinary activities before tax	15,090	81,052	-81.4%
Total investments under management	2,451,505	2,577,572	-4.9%
Equity shareholders' funds	452,855	554,288	-18.3%

New business sales represent new business premiums (including incremental premiums on existing policies). They are the annualised equivalent of new business written in the year gross of reinsurance.

	2018 £000	2017 £000	Change %
Lives insured	1,807,937	1,754,115	+3.1%
In-force premium	449,682	438,127	+2.6%

In-force premium represents the gross annualised premium across all product lines including general business in respect of Dental insurance which has been underwritten directly by Unum Ltd since January 2017.

Our financial rating for 2018 from Standard & Poor's is A- (Strong), consistent with the 2017 rating.

	2018 %	2017 %	Change %
Premium Persistency	88.6%	86.9%	+1.7%
Regulatory solvency	137.0%	141.0%	-4.0%

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Review of the business (continued)

Gross premiums written in 2018 totalled £455.7million, a 3.5% increase on the prior year figure of £440.2million. This growth in premium was driven by a 7.5 % increase in sales to existing customers, a disciplined approach to underwriting and pricing and strong customer retention.

Net earned premiums for the Company totalled £414.4million in 2018 compared to £399.1million in 2017, an increase of 3.8%, driven by significant increases in Dental and Group Critical Illness (GCI) products particularly.

New business sales were £62.5million for 2018 compared to prior year sales of £66.8million, reflecting our disciplined approach to pricing and underwriting. Strong customer service focus ensured that sales on existing policies increased from £20.0million in 2017 to £21.5million in 2018, an increase of 7.5%. The new business sales KPI reflects the way we manage and report new business. Sales are identified and reported by line of business either as sales to new customers and incremental sales to existing customers.

The Company holds fixed rate and index-linked securities as assets to match insurance liabilities. Market expectations of lower interest rates through the course of 2018 saw decreases in yields on these investments. The Company will continually seek out new investment opportunities which have the potential for greater returns on its existing bond securities. In December 2018, the Company invested less than 0.1% of total funds in a Private Equity Partnership.

Investment income totalled £97.0million in 2018, a fall of 2.0% on the previous year. This figure includes interest earned on investments as well as gains on the sale of bonds. This reduced income was partly due to a lower overall portfolio yield in 2018, coupled with a reduction in the value of our portfolio following the sale of a number of bonds.

Profit on ordinary activities before tax totalled £15.1million for 2018 (2017: £81.1million). This fall in profits is largely due to the significant movement in the fair value of bond securities charged to the income statement in the year, £103.1million compared to £25.6million in 2017. The Company views these unrealised losses as timing differences on the value of our bonds which are largely expected to reverse as we generally hold investments to maturity.

During the course of the year a final dividend in respect of 2017 totalling £35million was paid in addition to a 2018 interim dividend of £80million.

Total investments under management comprise our fixed rate and index-linked securities which match our liabilities and support our surplus, together with operational and investment cash balances. The total value of £2,451.5million is £126.1million lower than the 2017 figure of £2,577.6million, and reflects the fall in the market value of bonds as well as the reduced value of the Company's investments.

Equity shareholders' funds for the Company reduced in the year from £554.3 million at 1 January 2018, to £452.9 million at 31 December 2018. This movement reflects the after tax profit for the year of £13.6 million and dividends paid of £115.0 million (£35.0million in relation to the 2017 final dividend, and £80.0million in relation to the 2018 interim dividend).

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Review of the business (continued)

The retention of existing customers is a key driver of premium growth and is an essential part of our strategy to grow the business. Our premium persistency measure tracks our retention of customers by comparing total premium on in-force policies at the start of the year to in-force premium at the end of the year. This was strong across all product lines through 2018 finishing the year at 88.6%, compared to a prior year figure of 86.9%.

The reinsurance cessions for our Group Life, Group Dependents and Group Income Protection (GIP) products remain at the same levels as 2017. Surplus reinsurance for GIP has been reviewed in light of our long term experience, and the cover limit extended with effect from 1 January 2019.

Net reported benefit performance for 2018 was similar to 2017. Charges in the year for claims incurred and changes in other technical provisions totalled £295.9million compared to equivalent charges of £289.2million in 2017. Further analysis of these movements can be found in note 23.

Net operating expenses of £94.4 million in 2018 against £98.0million in 2017, reflected our disciplined approach to cost management, which is aimed at reducing costs by creating efficiencies in our business processes and operations.

Capital and solvency measures for the Company use regulations prescribed by the Prudential Regulation Authority (PRA), which require it to determine capital adequacy under Solvency II. During 2018, the Company's solvency ratio (available regulatory assets over its capital requirement) remained strong at 137% (2017: 141%). The solvency ratio reduced due to the payment of an £115million interim dividend in 2018 and a number of other key movements (in particular an adverse impact from the widening of credit spreads and a favourable impact from operating profits) with the net impact being a small reduction in the solvency ratio.

Regulatory net assets decreased by £88.2million from £672.3million in 2017 to £584.1million in 2018, driven largely by dividends paid and proposed to a parent company of £115million, partly offset by retained profits for 2018. Capital requirements decreased by £24.5million from the opening Solvency II regulatory balance sheet from £451.7million in 2017 to £427.2million in 2018.

From a customer perspective, the total number of lives the Company protected at 31 December 2018 was 1.807 million, a 3.1% increase on the total for 2017 of 1.754 million. In 2018 we paid £314.7million (gross excluding expenses) in claims and assisted 1,260 individuals in returning to work (2017: 1,106), with the support of our vocational rehabilitation teams. This increase of 13.9% on the prior year 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.

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Principal risks and uncertainties (continued)

Such risks and uncertainties would include factors such as:

- General economic or business conditions, including uncertainty around Brexit, that may adversely impact levels of employment, customer confidence and investment results, including credit deterioration;
- Changes in the interest rate environment that may adversely affect the Company's valuation 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, or alter the acceptance on payment of claims;
- The occurrence of a pandemic or catastrophic event impacting our claims experience or a step change in the underlying treatment and diagnosis of medical conditions covered by our policies; and
- The occurrence of a cyber-attack, which may compromise data and systems, disrupting the performance of key business processes and our ability to serve our customers, and damaging our reputation.

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 insurance, market, credit, liquidity, operational, conduct, strategic and group risks. Risk assessments in these areas include the consideration of related financial, customer, legal, regulatory and reputational risk factors. Risk mitigation plans are formulated to address all areas where the Company's exposure exceeds or is expected to exceed, its Board agreed risk appetite.

As always, the customer remains a focal area for the Company as the end user of our products. The Company has reviewed and enhanced its governance and decision making process to ensure that customer expectations are taken into consideration. This is aligned with the regulator increasing its emphasis on the importance of considering the customer. 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 3 to the financial statements.

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

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.

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Principal risks and uncertainties (continued)

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 2018, Unum has re-designed its Excepted Group Life Policy Master Trust, to simplify the employer experience. The new offering allows Unum to write multiple Group Life policies under a single Master Trust, saving employers time and reducing the administrative burden usually associated with the set-up, on-going management and payment of benefits. This enhanced tool will be made available to employers at no additional cost.

Mental health in the workplace is now a growing concern for employers. GIP customers now have access to the 'Mental Health Pathway', which provides access to specialist support, through a trained health professional, when mental health or mental wellbeing first becomes apparent. The individual or employer can be provided with targeted, personalised resources and rehabilitation aimed at helping the employee stay in, or return to, work.

In 2018, a new sales distribution channel, "Benni", was launched. It is an employee-paid workplace education and enrolment service to compliment employer paid options. The "Benni" online platform allows businesses to provide staff with direct access to a range of Unum's products, such as Critical Illness, Dental cover and Life insurance, in addition to a cash plan offering from a third party provider. "Benni" will be operated through Unum Select Ltd, an associated company.

In addition, Unum has revised its Executive Income Protection product designed for small or medium sized businesses, and now offers selected employees the benefits of an extended sick pay arrangement. Cover can be tailored to the individual's needs with a number of optional benefits that can be selected.

Future outlook

There is considerable uncertainty surrounding the potential financial, regulatory, legal, and tax implications of the UK's withdrawal of membership from the European Union.

Unum Limited has assessed the potential impact for its business, and considers the general outlook being the potential for slower economic growth, and profit pressure from lower interest rates over longer periods.

We believe Unum is well placed to be able to meet any challenges as a result of an EU exit. In the event of a 'no deal' Brexit, Unum will continue to be able to provide our products and services to UK based employees. We have not been required to, and will not need to make, any changes to our current business model. We will monitor the impacts of a 'no deal' Brexit on the external environment including the economy, our brokers and our customers.

UNUM Limited

STRATEGIC REPORT (Continued)

For the year ended 31 December 2018

Future outlook (continued)

Unum Limited does not foresee any direct challenges to its business model and operations from the broader economic uncertainties surrounding Brexit, due to our predominantly UK customer base. However, there is the potential for slower economic growth, volatility in the markets and lower interest rates for longer periods. There is also the potential for some minor disruption from suppliers. These risks are managed within our Risk and Capital Management Framework and mitigated by our strong capital position.

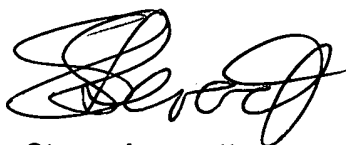
While we remain confident in our strategy and are fully committed to delivery of our growth aspirations, we continue to closely monitor and respond to the changes in our external environment.

There are a number of operational initiatives that we will be focusing on in 2019 in order to support our growth agenda, particularly the improvement of customer experience, enhancing our digital capabilities, widening our distribution and investing in employee engagement. These will be driven by:

- Enhancement of service delivery by simplifying our customer journeys and accelerating the digitalisation of our business to ensure we are easy to do business with;
- Continuing to grow and diversify our portfolio, particularly focusing on growth in Dental and Group Critical Illness markets as well as Voluntary segment;
- Investments we are making in "Benni", alongside the digital enhancements are expected to broaden our distribution and drive growth;
- Widening our distribution by engaging with third parties with access to a currently uninsured population;
- Increasing participation and first time buyers through improved communication, marketing and propositions in Dental and Group Critical Illness products; and
- Meeting our aspiration to be a place where people want to work, through talent management, encouraging engagement, and promoting diversification by creating a high performance culture and an enhanced employee experience

We look to achieve these improvements whilst maintaining pricing discipline, claims management, and optimal financial management.

BY ORDER OF THE BOARD



Steven Leverett
Company Secretary

12 April 2019

UNUM Limited

DIRECTORS' REPORT

For the year ended 31 December 2018

The directors present their annual report for the year ended 31 December 2018.

Principal activity

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

Financial performance

The pre-tax results of the Company for the year, as set out on pages 26 to 26, show a profit on ordinary activities of £15.1million (2017: £81.1million). Further details of the Company's performance for the year are contained in the 'Review of the business' section of the Strategic Report.

Dividends

During the year, the company paid a final dividend in respect of 2017 of £35million. Interim and final dividends in respect of 2018 totalling £80m were also paid.

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 3 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 (Continued)

For the year ended 31 December 2018

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.

Statement as to disclosure of information to auditors and appointment of 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.

In accordance with Section 487(2) of the Companies Act 2006, the Auditors Ernst and Young LLP are deemed reappointed.

Charitable donations

A strong commitment to Corporate Social Responsibility is one of our core values, and in 2018 we were proud to support more than 100 charitable and voluntary organisations through our corporate giving, fundraising and volunteering programmes. Our corporate donations totalled £362,000 (2017: £246,000) and our employees gave back 616 volunteering days throughout the year.

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 Unum 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 Unum UK Group staff opinion survey and a formal staff consultative group. The operation of a staff share plan provides an important vehicle for staff to be able to share in the financial success of the global Group, by purchasing shares in the ultimate parent, company Unum Group US.

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.

UNUM Limited

DIRECTORS' REPORT (Continued)

For the year ended 31 December 2018

Inclusion and Diversity

During the year, the company hosted a number of events focusing on inclusion and diversity in the workplace. These included hosting 'Open House' sessions which gave employees a collaborative space to contribute, listen and respond to questions on inclusion and diversity and included presentations from external speakers on gender equality.

Women in Finance Charter

Unum was one of the first companies to sign up to the Women in Finance Charter, an initiative set up by HM Treasury to drive firms to work with each other to build a more balanced and fair industry. The Company has a commitment to increase the female representation in its Executive Committee to at least 35% by 2021 and is continuing to invest in developing external and internal talent.

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 2018 and on the day the Directors' Report was approved.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in note 17 to the financial statements. In particular, the Company's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note.

BY ORDER OF THE BOARD



Steven Leverett
Company Secretary

12 April 2019

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED

Opinion

We have audited the financial statements of Unum Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 30 (except for the sections in note 3e which are marked unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and FRS 103 'Insurance Contracts'.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> Valuation of insurance liabilities
Materiality	<ul style="list-style-type: none"> Overall materiality of £11m which represents 2% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of insurance liabilities (£2,126m, 2017: £2,133m) Refer to the accounting policies (page 32); and Note 23 and 24 of the Annual Report (page 79 - 89).</p> <p>Gross insurance liabilities includes long term business provision, claims outstanding and provision for inflation linked liabilities.</p> <p>Insurance liabilities are subjective in nature and involve judgment in their determination, which inherently increases the risk of manipulation of results or management override, particularly through the use of inappropriate assumptions.</p> <p>Insurance liabilities are established when a claim is incurred or estimated to have been incurred but not yet reported to Unum and represent management's long term</p>	<p>We understood, assessed and tested the design and operational effectiveness of key controls over the process applied by management in valuing insurance liabilities.</p> <p>Using our actuarial specialists, we:</p> <ul style="list-style-type: none"> Assessed the methodologies used in the actuarial models to apply the economic and non-economic assumptions to policy data Compared the non-economic assumptions to the company's claims experience and demographic trends Considered whether the non-economic assumptions, 	<p>We concluded that the economic and non-economic assumptions, including the best estimate assumptions and margins for adverse deviation are reasonable by comparison to the company's experience, market practice and relevant regulatory and accounting guidance.</p> <p>We consider that the financial statement disclosures in respect of insurance liabilities are consistent with the requirements of FRS102 and FRS103.</p>

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

<p>estimate of the present value of the liability for future claims payments and claim adjustment expenses.</p> <p>For Group and Individual Income Protection, the outstanding claims provision includes claims at various stages of the claims development cycle which includes those in payment, in the deferral period, and claims incurred but not reported.</p> <p>In establishing insurance liabilities under UK GAAP, management calculate best estimate liabilities reflecting past and expected future claims experience and adjust these amounts to include a margin for adverse deviation.</p> <p>The most important non-economic assumptions applied in determining the insurance liabilities relate to termination rates, loss ratios and mortality assumptions. The most significant economic assumption is the valuation rate of interest used to discount the insurance liabilities, which is based on yields on the asset portfolio as hypothecated to liabilities, with adjustments for default and reinvestment risk.</p>	<p>adjustments to the valuation rate of interest for default and reinvestment risk and the margins for adverse deviation were consistent with market practice and relevant regulatory and accounting guidance</p> <ul style="list-style-type: none"> • Tested the derivation of the valuation rate of interest from the yield on the asset portfolio, including an assessment of the asset hypothecation used by management <p>We considered whether the disclosures in the financial statements in respect of insurance contract liabilities, including the disclosures in respect of assumptions and sensitivities, were consistent with the requirements of FRS102 and FRS103.</p>	
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In the prior year, our auditor's report included a key audit matter in relation to Business process and systems change risk. In the current year, we do not consider the risk to be a key audit matter as the changes to processes and systems were fully implemented in the prior year and we performed appropriate audit procedures to respond to the risk in that year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £11 million (2017: £11 million), which is 2% (2017: 2%) of equity. We consider that users of the financial statements are likely to be more focused on the solvency position of the Company than UK GAAP profitability and equity is the GAAP measure that is the most appropriate proxy for the solvency position of the Company. During the course of our audit, we reassessed initial materiality and there was no change in final materiality from the original assessment.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality 75% (2017: 75%) of our planning materiality, namely £8m (2017: £8m). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2017: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 to be audited 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

Responsibilities of directors (continued)

the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how Unum Limited is complying with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and the FCA and PRA, reviewed minutes of the Company's Risk Committee ('RC') and Regulatory and Compliance Committee ('RCC'); and gained an understanding of the Company's approach to governance and risk management.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management as to their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and inquiring about the company's methods of enforcing and monitoring compliance with such policies.

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

Our approach (continued)

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher i.e. within the valuation of insurance liabilities, we performed audit procedures to address the identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company to audit the financial statements for the year ending 31 December 1999 and subsequent financial periods on 18 February 2000.

The period of total uninterrupted engagement including previous renewals and reappointments is 20 years, covering the years ending 31 December 1999 to 31 December 2018.

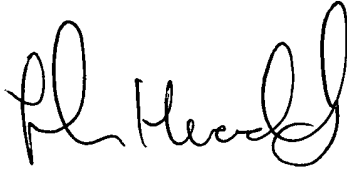
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

UNUM Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNUM LIMITED (continued)

Use of our report

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.

A handwritten signature in black ink, appearing to read 'John Headley', written in a cursive style.

**John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London**

15 April 2019

UNUM Limited

INCOME STATEMENT TECHNICAL ACCOUNT – GENERAL BUSINESS

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Earned Premiums			
Gross premiums written			
Direct insurance		23,302	12,206
Reinsurance inwards		(143)	8,510
Premiums written, net of reinsurance	4a	<u>23,159</u>	<u>20,716</u>
 Change in the provision for unearned premiums			
Gross amount	22	<u>(615)</u>	<u>(1,427)</u>
Earned premiums, net of reinsurance		<u>22,544</u>	<u>19,289</u>
 Claims incurred			
Claims paid - Gross amount		<u>(16,816)</u>	<u>(13,784)</u>
 Change in the provision for claims			
Gross amount	24	<u>(291)</u>	<u>546</u>
Claims incurred, net of reinsurance		<u>(17,107)</u>	<u>(13,238)</u>
 Other Charges			
Net operating expenses	6	<u>(3,257)</u>	<u>(4,276)</u>
 Total Technical Charges		<u>(20,364)</u>	<u>(17,514)</u>
Balance on the General Business technical account		<u>2,180</u>	<u>1,775</u>

The notes on pages 32 to 93 form an integral part of these financial statements.

UNUM Limited

INCOME STATEMENT TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Earned Premiums			
Gross premiums written			
Direct insurance		429,679	416,358
Reinsurance inwards		<u>2,882</u>	<u>3,144</u>
	4b(i)	432,561	419,502
Outward reinsurance premiums		<u>(36,998)</u>	<u>(38,210)</u>
Premiums written, net of reinsurance		395,563	381,292
Change in the provision for unearned premiums			
Gross amount	22	(2,956)	(2,832)
Reinsurers' share	22	<u>(789)</u>	<u>1,394</u>
		<u>(3,745)</u>	<u>(1,438)</u>
Earned premiums, net of reinsurance		391,818	379,854
Investment income	7	95,846	97,678
Other technical income	8	<u>50</u>	<u>95</u>
Total Technical Income		<u>487,714</u>	<u>477,627</u>
Claims incurred			
Claims paid			
Gross amount		(318,741)	(310,557)
Reinsurers' share		<u>44,523</u>	<u>40,514</u>
		<u>(274,218)</u>	<u>(270,043)</u>
Change in the provision for claims			
Gross amount	23d	(3,867)	(12,882)
Reinsurers' share	23d	<u>(6,771)</u>	<u>(8,361)</u>
		<u>(10,638)</u>	<u>(21,243)</u>
Claims incurred, net of reinsurance		<u>(284,856)</u>	<u>(291,286)</u>

UNUM Limited

INCOME STATEMENT TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Change in other technical provisions			
Long-term business provision, net of reinsurance: insurance contracts			
Gross amount	23d	3,255	(4,479)
Reinsurers' share	23d	(241)	30
		<u>3,014</u>	<u>(4,449)</u>
Technical provisions for inflation linked liabilities, net of reinsurance – insurance contracts			
Gross amount	23d	7,432	27,105
Reinsurers' share	23d	(4,378)	(7,310)
		<u>3,054</u>	<u>19,795</u>
Change in other technical provisions, net of reinsurance		<u>6,068</u>	<u>15,346</u>
Other charges			
Net operating expenses	6	(91,149)	(93,778)
Investment expenses and charges	7	(2,830)	(4,359)
Unrealised losses on investments	7	(103,077)	(25,609)
Total Technical Charges		<u>(475,844)</u>	<u>(399,686)</u>
Balance on the long-term business technical account		<u>11,870</u>	<u>77,941</u>

The notes on pages 32 to 93 form an integral part of these financial statements.

UNUM Limited

INCOME STATEMENT NON TECHNICAL ACCOUNT

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Balance on the general business technical account		2,180	1,775
Balance on the long-term business technical account		11,870	77,941
Shareholders' pre-tax profit from insurance business		14,050	79,716
Investment income	7	1,167	1,345
Investment expenses and charges	7	-	(18)
Unrealised gains on investments	7	-	407
Other income	8	38	-
Other charges	9	(165)	(398)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	5	15,090	81,052
Tax on profit on ordinary activities	13a	(1,371)	(12,869)
PROFIT FOR THE FINANCIAL YEAR		13,719	68,183

All the amounts included in respect of the technical account - general business, technical account - long-term business and the non-technical account derive from continuing operations.

The notes on pages 32 to 93 form an integral part of these financial statements.

UNUM Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit for the financial year		13,719	68,183
Depreciation charge taken to revaluation reserve	16	(152)	-
Revaluation gain taken to revaluation reserve		-	2,734
Total comprehensive income for the year		13,567	70,917

The notes on pages 32 to 93 form an integral part of these financial statements.

UNUM Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

REGISTERED NUMBER: 983768

	Note	2018 £000	2017 £000
Assets			
Intangible assets	15	27,541	24,565
Investments			
Land and buildings	16	14,213	13,080
Financial Instruments	17	1,723,078	1,855,216
Assets held to cover inflation linked liabilities	17	643,810	643,852
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	8,301	9,090
Long-term business provision – insurance contracts		1,753	1,995
Claims outstanding	24	100,980	107,751
Technical provisions for inflation linked liabilities – insurance contracts		62,430	66,807
	23	<u>173,464</u>	<u>185,643</u>
Debtors			
Debtors arising out of direct insurance operations		58,866	47,838
Debtors arising out of reinsurance operations		175	134
Other debtors	18	<u>1,593</u>	<u>2,415</u>
		60,634	50,387
Other assets			
Tangible assets	20	3,047	3,176
Cash at bank and in hand		<u>51,894</u>	<u>43,107</u>
		54,941	46,283
Prepayments and accrued income			
Accrued interest and rent		32,693	35,398
Deferred acquisition costs	21	72,802	73,934
Other prepayments and accrued income		<u>375</u>	<u>375</u>
		105,870	109,707
TOTAL ASSETS		<u><u>2,803,551</u></u>	<u><u>2,928,733</u></u>

The notes on pages 32 to 93 form an integral part of these financial statements.

UNUM Limited

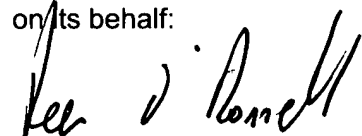
STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

REGISTERED NUMBER: 983768

	Note	2018 £000	2017 £000
Liabilities			
Capital and reserves			
Called up share capital	25	12,000	12,000
Capital contribution		29,973	29,973
Revaluation reserve		5,912	6,064
Profit and loss account		404,970	506,251
Shareholders' funds		<u>452,855</u>	<u>554,288</u>
Technical provisions			
Provision for unearned premiums	22	96,572	93,001
Long-term business provision: insurance contracts		(37,882)	(34,627)
Claims outstanding	24	1,324,471	1,320,313
	23	<u>1,383,161</u>	<u>1,378,687</u>
Technical provisions for inflation linked liabilities – insurance contracts	23	840,080	847,512
Provisions for other risks	19	1,231	1,036
Creditors			
Creditors arising out of direct insurance operations		30,779	28,536
Creditors arising out of reinsurance operations		74,096	87,660
Amounts owed to credit institutions		-	442
Fair value of derivative financial instruments		2,483	4,468
Other creditors including taxation and social security	26	16,284	24,418
		<u>123,642</u>	<u>145,524</u>
Accruals and deferred income		2,582	1,686
TOTAL LIABILITIES		<u>2,803,551</u>	<u>2,928,733</u>

The financial statements on pages 23 to 29 were approved by the Board of Directors and were signed on its behalf:



Peadar O'Donnell
Chief Executive Officer



Jonathan Fletcher
Chief Financial Officer

12 April 2019

12 April 2019

UNUM Limited

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Called up share capital £000	Capital contribution £000	Revaluation reserve £000	Profit and loss account £000	Total Shareholders' funds £000
At 1 January 2018	12,000	29,973	6,064	506,251	554,288
Profit for the year	-	-	-	13,719	13,719
Other comprehensive income for the year (note 16)	-	-	(152)	-	(152)
Total comprehensive income for the year	-	-	(152)	13,719	13,567
Transfer of depreciation	-	-	-	-	-
Dividends paid (note 14)	-	-	-	(115,000)	(115,000)
At 31 December 2018	12,000	29,973	5,912	404,970	452,855
At 1 January 2017	12,000	29,973	3,436	487,962	533,371
Profit for the year	-	-	-	68,183	68,183
Other comprehensive income for the year (Note 16)	-	-	2,734	-	2,734
Total comprehensive income for the year:	-	-	2,734	68,183	70,917
Transfer of depreciation	-	-	(106)	106	-
Dividends paid (note 14)	-	-	-	(50,000)	(50,000)
At 31 December 2017	12,000	29,973	6,064	506,251	554,288

The directors consider that the amount of distributable profits included in the shareholders' funds at 31 December 2018 is £141,416,000 (2017: £202,338,000) as required to be disclosed by section 833A of the Companies Act 2006.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

A. General Information

Unum Limited is incorporated and domiciled in England, registration number 983768, and is limited by shares. The registered office is Milton Court, Dorking, Surrey RH4 3LZ.

B. Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103), being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. A summary of the accounting policies that have a material effect on the financial statements is set out below.

C. Basis of preparation

The financial statements are prepared on a going concern basis under the historical cost convention except for land and buildings, and certain financial instruments which are prepared at fair value, and actuarial reserves that are prepared in accordance with specific valuation methods, details of which are discussed in note 23. The accounts are presented in pounds sterling, the functional and presentation currency of the Company, and rounded to the nearest one thousand pounds.

A general business technical account has been prepared for the income statement to reflect the Dental insurance results.

D. Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company is a qualifying entity for the purposes of the preparation of individual financial statements. Details regarding the parent entity of the group in whose consolidated financial statements the Company's financial statements are consolidated, and from where those financial statements may be obtained are provided in note 29.

The Company has chosen to take exemption from the requirement to provide disclosures in relation to:

- a. The requirement to prepare a statement of cash flows,
- b. The disclosure of key management personnel compensation in total, and
- c. Share based payments disclosures.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

E. 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.

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.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

E. Insurance contracts (continued)

Acquisition costs (continued)

Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits. These tests are sensitive to lapse assumptions. Judgement is also required in assessing the recoverability of costs over the life of the policy.

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.

F. 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 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

G. Investments

Land and buildings

Land and buildings include both freehold land and buildings and leasehold property. 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. Subsequently, it is recognised at fair value less accumulated depreciation and impairment losses. Fair value movements are recognised in other comprehensive income and taken to the revaluation reserve. Leasehold property is held at cost less accumulated depreciation and impairment losses. Leasehold property is reviewed for impairment annually and impairment losses are recognised in the technical account.

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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Investments in subsidiaries

Investments in fellow subsidiary undertakings are included in the balance sheet at cost. At the end of each reporting period investments in subsidiaries are assessed for objective evidence of impairment. In the event that assets are impaired, they are valued at their realisable value or value in use as appropriate.

Financial instruments

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; other financial Investments 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 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

G. Investments (continued)

Financial instruments (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 income statement within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

(b) Other Financial Investments

Other Financial Investments consists of a non-derivative financial instrument that is equity of the issuer, that is not publicly traded, and whose fair value cannot otherwise be measured reliably; therefore it is measured at cost less impairment.

(c) 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 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

H. 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 income statement 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 income statement for the period.

I. 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 income statement. 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.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

J. 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.

K. Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If such an indication exists the Company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through impairment in the income statement unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

L. Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets includes the purchase cost and any incidental costs of acquisition. Expenditure on computer software is capitalised and amortised over its estimated useful economic life, on a straight-line basis to allocate the depreciable amount of the assets to their residual values over their estimated useful lives. This has been assessed as being between three and ten years. Where factors such as technological advancement or changes in market price indicate that residual value or useful life has changed the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the expenditure attributable to the software during its development can be reliably measured.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

M. 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
Plant and equipment	10 years
Leasehold improvements	15 years or over the remainder of the lease if shorter

N. 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 2009/138/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.

O. 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.

P. 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 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Q. Taxation

The taxation charge shown in the income statement 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 items that are not taxable or tax deductible.

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 probable 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.

R. 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.

S. Foreign currencies

The functional currency of the company is GBP. 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 income statement for the period.

T. Long term incentives

Long term incentives relate to employee share options granted in the ultimate parent company to employees under a long term incentive plan. As stated in accounting policy 1D(c), the Company has taken the exemption from providing disclosures in relation to Share Based payments as these are presented in the ultimate parent company financial statements. The Company recognises an employee expense at the grant date for the fair value of options granted to employees over the period that they become unconditionally entitled to the options. 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 income statement for the award is expensed immediately.

Disclosures of directors' long term incentive schemes are provided in the Directors' Emoluments/Pensions note 10.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

U. Operating leases

Payments made under operating leases are charged to the income statement 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.

V. Statement of cash flows

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Unum Group, include the Company's cash flows in their own consolidated statements.

W. Consolidated financial statements

The Company is a wholly owned subsidiary of its ultimate parent Unum Group, and is included in their consolidated financial statements which are publicly available. The Company is therefore exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

In preparation of these financial statements, management is required to make significant judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Estimations and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although some uncertainty is inherent in these judgements and estimates management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgements have been made are listed below and discussed throughout the notes to these financial statements including:

- The actuarial assumptions, such as mortality and morbidity of policyholders used in the valuation of insurance technical provisions. The carrying value of these provisions is £2,223,241,228 (2017: £2,226,199,000) gross of reinsurance. See notes 23 and accounting policy 1E.
- The estimation of Deferred Acquisition costs and their recoverability. The carrying value of deferred acquisition costs is £72,802,296 (2017: £73,934,000). See note 21 and accounting policy note 1E.
- In the determination of the fair value of financial instruments, the Company's management exercises judgement in the determination of fair value inputs, particularly those items categorized within level 3 of the fair value hierarchy. The carrying value at year end is £96,584,000 (2017: £22,475,000). See note 17 and accounting policy 1G and 1I.

3. 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) and credit risk.

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

The key insurance risk is termination risk which refers to the risk of incapacity claims on income protection business lasting longer than expected.

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 market yield rates whilst managing the portfolio within the risk appetite set by the Board.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

31 December 2018	Technical Account Non-linked non-profit insurance contracts	Technical Account Inflation linked non- profit insurance contracts	Non- Technical Account	Total
	£000	£000	£000	£000
Land and buildings	65	-	14,148	14,213
Assets held to cover inflation linked liabilities	-	643,810	-	643,810
Debt securities and other fixed income securities	1,745,453	-	-	1,745,453
Derivative financial instruments	9,530	-	-	9,530
Other financial investments	818	-	-	818
Assets arising from reinsurance contracts held	111,210	62,430	-	173,640
Amounts due from insurance policyholders	58,866	-	-	58,866
Cash at bank and in hand	47,407	-	4,487	51,894
Tangible assets and intangible assets	30,588	-	-	30,588
Deferred acquisition costs	72,802	-	-	72,802
Other assets	1,937	-	-	1,937
Total assets	2,078,676	706,240	18,635	2,803,551

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. RISK MANAGEMENT (continued)

31 December 2018	Technical Account Non- linked non-profit insurance contracts	Technical Account Inflation linked non- profit insurance contracts	Non- Technical Account	Total
	£000	£000	£000	£000
Provision for unearned premiums	96,572	-	-	96,572
Long-term business provision - insurance contracts	(37,882)	-	-	(37,882)
Claims outstanding	1,324,471	-	-	1,324,471
Technical provisions for inflation linked liabilities: insurance contracts	-	840,080	-	840,080
Creditors arising out of direct insurance operations	30,779	-	-	30,779
Creditors arising out of direct reinsurance operations	74,096	-	-	74,096
Amount owed to credit institutions	-	-	-	-
Fair value of derivative financial instruments	2,483	-	-	2,483
Other liabilities	20,097	-	-	20,097
Total liabilities	1,510,616	840,080	-	2,350,696

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. RISK MANAGEMENT (continued)

31 December 2017	Technical Account Non-linked non-profit insurance contracts	Technical Account Inflation linked non- profit insurance contracts	Non- Technical Account	Total
	£000	£000	£000	£000
Land and buildings	73	-	13,007	13,080
Assets held to cover inflation linked liabilities	-	643,852	-	643,852
Debt securities and other fixed income securities	1,890,604	-	-	1,890,604
Derivative financial instruments	9	-	-	9
Other financial investments	-	-	-	-
Assets arising from reinsurance contracts held	118,970	66,808	-	185,777
Amounts due from insurance policyholders	47,838	-	-	47,838
Cash at bank and in hand	38,241	-	4,866	43,107
Tangible assets and intangible assets	27,741	-	-	27,741
Deferred acquisition costs	73,934	-	-	73,934
Other assets	2,791	-	-	2,791
Total assets	2,200,200	710,660	17,874	2,928,733

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

3. RISK MANAGEMENT (continued)

31 December 2017	Technical Account Non- linked non-profit insurance contracts	Technical Account Inflation linked non- profit insurance contracts	Non- Technical Account	Total
	£000	£000	£000	£000
Provision for unearned premiums	93,001	-	-	93,001
Long-term business provision - insurance contracts	(34,627)	-	-	(34,627)
Claims outstanding	1,320,313	-	-	1,320,313
Technical provisions for inflation linked liabilities: insurance contracts	-	847,512	-	847,512
Creditors arising out of direct insurance operations	28,536	-	-	28,536
Creditors arising out of direct reinsurance operations	87,660	-	-	87,660
Amount owed to credit institutions	442	-	-	442
Fair value of derivative financial instruments	4,468	-	-	4,468
Other liabilities	27,139	-	-	27,139
Total liabilities	1,526,932	847,512	-	2,374,444

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

(a) Market risk

(i) Interest rate risk

Interest rate risk is the risk of adverse interest rate movements, such that the value of the Company's assets reduces/increases by more/less than the value of the Company's liabilities. The Company seeks to match policyholder liabilities by nature, term and currency.

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 at 31 December 2018: £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	(60,815)	(57,537)	(3,278)	(2,656)
Inflation Linked Bonds	+ 25 basis points on real yields	(17,860)	(20,247)	2,387	1,933
Total		(78,675)	(77,784)	(891)	(723)
Fixed Interest Bonds	- 50 basis points on gross redemption yield	64,790	64,522	267	217
Inflation Linked Bonds	- 25 basis points on real yields	18,868	22,731	(3,863)	(3,129)
Total		83,658	87,253	(3,596)	(2,912)

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(i) Interest rate risk (continued)

Reasonably possible interest rate changes - 31 December 2017 - £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	(68,823)	(46,598)	(22,225)	(18,002)
Inflation Linked Bonds	+ 25 basis points on real yields	(15,927)	(27,200)	11,273	9,131
Total		(84,750)	(73,798)	(10,952)	(8,871)
Fixed Interest Bonds	- 50 basis points on gross redemption yield	74,270	50,899	23,371	18,931
Inflation Linked Bonds	- 25 basis points on real yields	16,684	28,471	(11,788)	(9,548)
Total		90,954	79,370	11,583	9,383

Tax has been applied at the rate of 19% (2017: 19.25%) for illustrative purposes.

(ii) Currency risk

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

The Company has limited exposure to currency risk on Euro, US Dollar and Canadian Dollar denominated investments. The Company has reduced this exposure through the use of derivative financial instruments that convert the currency cash flows to fixed sterling cash flows. The Company has minimal currency exposures with regard to policyholder liabilities under insurance contracts.

(b) Credit risk

Credit risk is the risk from another party failing to perform its debt or reinsurance obligations or failing to perform them in a timely fashion, including the risk of reductions in the market value of corporate bonds due to:

- failure to meet principal or interest payments in full and on time (default risk) reduction in the credit rating of a bond issuer (transition risk)
- widening of spread over a comparable risk free rate due to changes in the expectation of default, liquidity or other causes (credit spread risk)

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

(b) Credit risk (continued)

The Company manages the level of credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties. The Company has also entered into a series of credit spread swaps with its ultimate parent company, Unum Group in the US, to mitigate the credit risk on a portion of its portfolio of bonds.

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

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

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

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

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(b) Credit risk (continued)

	2018 £000	2017 £000
Assets held to cover index-linked liabilities	643,810	643,852
Fixed interest securities	1,745,453	1,890,604
Other financial investments	-	-
Derivative financial instruments	9,530	9
Other financial investments	818	-
Assets arising from reinsurance recoverable	173,465	185,643
Amounts due from ceding reinsurers	175	134
Amounts due from insurance policyholders	58,866	47,838
Cash at bank and in hand	51,894	43,107
Total assets bearing credit risk	2,684,011	2,811,187
AAA	14,907	15,586
AA	795,208	768,287
A	831,145	902,425
BBB	950,102	1,041,050
BB	32,928	35,997
Below B or not rated	59,721	47,842
	2,684,011	2,811,187

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

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(b) Credit risk (continued)

Aged Analysis of financial assets: debtors

31 December 2018

	Assets not past due	Age analysis of financial assets past due but not impaired				
		less than 3 months	4 - 6 months	7 - 12 months	> one year	Total
	£000	£000	£000	£000	£000	£000
Reinsurance operations	-	175	-	-	-	175
Direct insurance operations	948	25,125	7,033	24,101	1,659	58,866
	948	25,300	7,033	24,101	1,659	59,041

31 December 2017

	Assets not past due	Age analysis of financial assets past due but not impaired				
		less than 3 months	4 - 6 months	7 - 12 months	> one year	Total
	£000	£000	£000	£000	£000	£000
Reinsurance operations	-	134	-	-	-	134
Direct insurance operations	590	20,975	10,199	15,325	749	47,838
	590	21,109	10,199	15,325	749	47,972

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(b) Credit risk (continued)

Impaired financial assets

At 31 December 2018 there are impaired amounts due from insurance policyholders of £1,250,000 (2017: £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 the Company is unable to realise investments and other assets in order to settle financial 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 aims to match the liabilities for these benefits with assets whose values are based on the Retail Price Index. There are limits on the acceptable level of mismatches and these are monitored regularly for continued appropriateness.

(e) Capital management

The Company operates a single fund in respect of its long-term insurance business which is non-participating. The table shows the capital on a regulatory basis available to meet the regulatory Solvency II capital requirements of the long-term insurance business.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

(e) Capital management (continued)

Available capital resources	2018 £000	2017 £000
UK GAAP shareholders' funds	452,855	554,288
Adjustments onto regulatory basis:		
Deduct: Deferred acquisition costs	(72,802)	(73,934)
Deferred tax adjustment	(26,821)	(24,087)
Foreseeable dividend	-	(35,000)
Intangible assets	(27,541)	(24,565)
Other adjustments to asset values	(21,961)	(18,647)
Other adjustments to liability values	280,323	259,227
Available Own Funds	584,053	637,282
Solvency Capital Requirement (unaudited)	427,227	451,724
Ratio of eligible own funds to SCR (unaudited)	137%	141%

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 continues to use a PRA approved internal model to calculate the regulatory solvency capital requirement (the SCR is therefore not subject to audit).

Below is a reconciliation of the movements in the total amount of available capital for long-term insurance business:

Movement in Own Funds (unaudited)	2018 £000	2017 £000
1 January	637,282	702,065
Investment returns, unwind of Technical Provisions (including transitional measure on technical provisions and market movements)	1,335	51,324
New Business	39,806	24,471
Underwriting experience	(14,152)	(12,438)
Effect of changes in assumptions and SCR calibrations on OF	4,441	27,059
Transitional measure on technical provisions	-	(93,819)
Regulatory dividends	(80,000)	(50,000)
Other	(4,659)	(11,380)
31 December	584,053	637,282

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(e) Capital management (continued)

There have been no changes in management policy, regulatory requirements or external developments which have impacted the available capital. For further detail on the effect of changes of assumptions on the reserves see note 23.

Objectives

The Company's Capital strategy is to maintain an appropriate quantity and quality of capital consistent with its overall business strategy and prevailing regulatory requirements to provide the shareholder with an appropriate return for the level of risk. The Company maintains a Capital Management Framework, which is used to ensure that the company retains sufficient capital to meet its obligations as they fall due. The framework also sets out the capital contingency plan in the event that capital risk appetite and limits are breached.

In addition to the regulatory view, the Company also calculates an internal Economic Capital measure (unaudited) which represents the economic view of the capital required. This measure is used in business and investment decisions.

Regulatory requirements

The Company's objective is 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 Solvency II (a risk based Individual Capital Assessment). At 31 December 2018, the available Solvency II capital was 137% of the solvency capital requirement of £427.2million (2017: 141% of a capital requirement of £451.7million).

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:

- the reduction in asset values arising through credit spread movements and changes in credit ratings.
- higher loss ratios in the Company's group risk business would see long-term provisions rise;

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

Capital resources sensitivities (continued)

- longevity risk in relation to annuity business on dependants annuities in payment, if the longevity of annuitants improved more rapidly than the assumptions used for reserving; and
- termination rate risk in relation to income protection claims which would see long-term provisions rise if termination rates were lower than assumed.

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. It is the risk that actual claims and expenses experience varies from that assumed in product pricing including mispricing and reserving assumptions.

Concentration risk may arise from geographic regions where a single event could result in a large number of related claims. 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.

(g) Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, from external events or from business disruption. The Company also assesses Conduct Risk which is the risk of not ensuring good outcomes for customers, and, or that the conduct of staff and third parties is inappropriate.

The Company has a comprehensive risk management framework to mitigate Operational and Conduct risk, which includes processes to capture and investigate risk events, monitor the performance of the control environment, and assess the impact of emerging risks and headwinds. Performance of risks against the approved risk appetite statement is reported to the Board Risk Committee.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SEGMENTAL INFORMATION

(a) General Business Technical Account

All written premiums included in the general business account represent Accident & Health (Dental) insurance business, the results are analysed as follows:

	Accident & Health	Accident & Health
	2018	2017
	£000	£000
Premiums written, net of reinsurance	23,159	20,716
Earned premiums, net of reinsurance	22,544	19,289
Claims incurred, net of reinsurance	17,107	13,238
Net operating expenses	3,257	4,276

(b) Long-term Business Technical Account

The details of the written premiums included in long-term insurance business are shown below:

(i) Gross premiums written	2018	2017
	£000	£000
Direct insurance	429,679	416,358
Reinsurance inwards	2,882	3,144
Gross premiums written	432,561	419,502
(ii) Gross premiums written (Individual and Group)	2018	2017
	£000	£000
Gross direct insurance premiums written:		
Individual direct insurance	15,173	15,622
Group direct insurance	414,506	400,736
Total gross direct insurance premiums written	429,679	416,358

Gross direct insurance premiums written comprise regular, non-participating insurance contracts.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SEGMENTAL INFORMATION (continued)

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

(c) (i) Gross New Business Premium

	2018 £000	2017 £000
General Business (Dental)		
Sales to new customers:		
Direct insurance	2,570	2,910
Reinsurance inwards	-	-
Total	2,570	2,910
Incremental premiums:		
Direct insurance	2,111	1,954
Reinsurance inwards	-	-
Total	2,111	1,954
Gross new business premiums:		
Direct insurance	4,681	4,864
Reinsurance inwards	-	-
Total	4,681	4,864
 Long Term Business	 2018 £000	 2017 £000
Sales to new customers:		
Direct insurance	38,402	43,883
Reinsurance inwards	-	-
Total	38,402	43,883
Incremental premiums:		
Direct insurance	19,380	18,041
Reinsurance inwards	-	-
Total	19,380	18,041
Gross new business premiums:		
Direct insurance	57,782	61,924
Reinsurance inwards	-	-
Total	57,782	61,924

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SEGMENTAL INFORMATION (continued)

(c) (i) Gross New Business Premium by product	2018	2017
	£000	£000

Gross new business direct insurance premiums

Individual Premiums	1,120	1,119
Premiums under Group Contracts (General Business)	56,662	60,805
Premiums under Group Contracts (Long Term Business)	4,681	4,864
Total gross new business direct insurance premiums	62,463	66,788

(c) (ii) New Business Premiums Net of Reinsurance

2018	2017
£000	£000

Sales to new customers:

Gross direct insurance

- Long Term Business	38,402	43,883
- General Business	2,570	2,910

Less Ceded:

- Long Term Business	(3,349)	(3,652)
- General Business	-	-

Total

37,623	43,141
---------------	---------------

Incremental premiums:

Gross direct insurance

- Long Term Business	19,380	18,041
- General Business	2,111	1,954

Less Ceded:

- Long Term Business	(1,143)	(977)
- General Business	-	-

Total

20,348	19,018
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Gross direct insurance

- Long Term Business	57,782	61,924
- General Business	4,681	4,864

Less Ceded:

- Long Term Business	(4,492)	(4,629)
- General Business	-	-

Total net new business

57,971	62,159
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UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SEGMENTAL INFORMATION (continued)

(d) 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.

(e) Reinsurance balance

The reinsurance balance amounted to a debit to the long-term business technical account at 31 December 2018 of £885,000 (2017: £8,186,000).

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2018 £000	2017 £000
Balance on technical account		
General business before tax	2,180	1,775
Long-term business before tax	11,870	77,941
Shareholders' other income and charges	1,040	1,336
Profit on ordinary activities before tax	15,090	81,052

Profit on ordinary activities before tax is stated after:

	2018 £000	2017 £000
Depreciation charge - buildings (note 16)	152	398
Depreciation charge - tangible assets (note 20)	831	647
Amortisation charge - intangible assets (note 15)	2,795	2,440
Foreign Exchange Loss	(112)	(2)
Operating leases - equipment leases	-	435
Operating leases - onerous property leases	-	(3)
Operating leases - other property leases	1,055	1,267
Auditors' remuneration for:		
Audit of the Company's financial statements	452	409
Audit-related services	240	250

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. NET OPERATING EXPENSES

	General Business		Long-term business	
	2018	2017	2018	2017
	£000	£000	£000	£000
Acquisition costs	1,737	3,845	43,644	39,338
Change in deferred acquisition costs	-	-	1,132	1,773
Administrative expenses	1,520	431	46,243	51,489
	3,257	4,276	91,019	92,600
MNP Profit participation	-	-	130	1,178
Net operating expenses	3,257	4,276	91,149	93,778

The total gross commission accounted for during the year in respect of direct business, excluding payments to employees, was £26,985,000 (2017: £25,455,000). The amount of exchange differences recognised in the income statement other than in respect of financial instruments measured at fair value through profit or loss was immaterial for both 2018 and 2017.

7. INVESTMENT RETURN

	Technical account		Non-technical account		Total	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Interest income from financial assets at fair value through profit and loss	85,370	88,457	-	-	85,370	88,457
Interest income from financial assets not at fair value through profit and loss	66	10	12	1	78	11
Income from land and buildings	-	-	1,155	1,344	1,155	1,344
Gains on the realisation of investments	10,410	9,211	-	-	10,410	9,211
Total investment income	95,846	97,678	1,167	1,345	97,013	99,023

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

7. INVESTMENT RETURN (continued)

Investment Expenses & Charges

	Technical account		Non-technical account		Total	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Investment management charges	2,832	4,357	-	-	2,832	4,357
Interest payable	(2)	2	-	0	(2)	2
Interest payable on finance leases	-	-	-	18	-	18
Losses on the realisation of investments	-	-	-	-	-	-
Total expenses & charges	2,830	4,359	-	18	2,830	4,377

Net Investment Income including charges and unrealised gains/(losses)

Technical account	2018 £000	2017 £000
Investment income	95,846	97,678
Investment expense and charges	(2,830)	(4,359)
Movement in unrealised investment gains/(losses)	(103,077)	(25,609)
Net investment return	(10,061)	67,710

Non-technical account	2018 £000	2017 £000
Investment income	1,167	1,345
Investment expense and charges	-	(18)
Movement in unrealised investment gains/(losses)	-	407
Net investment return	1,167	1,734

Technical & Non-Technical Accounts	2018 £000	2017 £000
Investment income	97,013	99,023
Investment expense and charges	(2,830)	(4,377)
Movement in unrealised investment gains/(losses)	(103,077)	(25,202)
Total net investment return	(8,894)	69,444

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. INVESTMENT RETURN (continued)

All net investment gains and losses reported in 2017 and 2018 arose on financial assets at fair value through profit or loss, designated as such upon initial recognition.

8. OTHER INCOME

	2018 £000	2017 £000
Other technical income, net of reinsurance		
Rental Income	30	-
Sundry Income	20	95
	<u>50</u>	<u>95</u>

	2018 £000	2017 £000
Non-technical account		
Rental Income	30	-
Sundry Income	8	-
	<u>38</u>	<u>-</u>

9. OTHER CHARGES

	Note	2018 £000	2017 £000
Non-Technical account			
Depreciation on buildings	16	152	398
Miscellaneous expenses		13	-
		<u>165</u>	<u>398</u>

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. DIRECTORS' EMOLUMENTS & PENSIONS

	2018 £000	2017 £000
Aggregate emoluments in respect of qualifying service	817	776
Aggregate amounts receivable under long-term incentive plans	353	208
Aggregate amounts paid under money purchase schemes	<u>6</u>	<u>13</u>
	2018 No.	2017 No.
Number of directors who received shares in respect of qualifying services	2	2
Number of directors who exercised share options	-	-
Number of directors accruing benefits under money purchase schemes	1	1
Number of directors accruing benefits under defined benefits schemes	<u>-</u>	<u>-</u>
In respect of highest paid director:	2018 £000	2017 £000
Aggregate emoluments	786	641
Accrued pension at the end of the year	-	-
Accrued lump sum at the end of the year	<u>-</u>	<u>-</u>

Remuneration for the directors is disclosed below.

The highest paid director received shares to the value of £350,400 (2017: £203,400) in the ultimate parent company, Unum Group, during the year. Shares were receivable by that director under the Group's long-term incentive plan. The aggregate amount of compensation paid to directors or past directors for loss of office amounted to £nil (2017: £nil).

Where an individual serves more than one company in the Group, the individual's total remuneration and valuation of shares received are allocated across the relevant companies and the appropriate proportion is disclosed in each company's financial statements. The allocation is based on an estimation of the amount of time the Directors spend on each company. 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.

Non-Executive Directors received no other benefits or remuneration other than the reimbursement of all reasonable and properly documented travel, hotel and other incidental expenses incurred in the performance of their duties and any taxes and social costs arising thereon and the benefit of officers' liability insurance. The value of these expenses, with regard to Unum Ltd in 2018, was £8,763.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. 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 relate to the recharge from the employing company UEHC. The total amount recharged from UEHC to Unum Ltd, in respect of equity-settled share based payments in 2018 was £946,000 (2017: £530,000).

12. 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 that perform administrative, management and other services on behalf of the Company. These costs are reported under the relevant headings in the income statement

13. TAXATION

(a) Analysis of tax charge

	2018 £000	2017 £000
Current tax		
UK corporation tax on profits of the period at 19.00% (2017: 19.25%)	1,281	13,347
Adjustment in respect of previous periods	(105)	(443)
Total current tax charge	<u>1,176</u>	<u>12,904</u>
Deferred tax		
Origination and reversal of timing differences	113	80
Adjustment in respect of previous periods	82	(115)
Total deferred tax charge	<u>195</u>	<u>(35)</u>
Total tax charge on technical account	<u><u>1,371</u></u>	<u><u>12,869</u></u>

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

13. TAXATION (continued)

(b) Factors affecting the total tax charge

The total tax charge assessed for the period differs from the standard rate of corporation tax of 19% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Income statement		
Profit on ordinary activities before tax:	15,090	81,053
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax of 19.00% (2017: 19.25%)	2,867	15,603
Which was affected by:		
Non-taxable income on investments	(1,454)	(2,121)
Expenses not deductible in current year	30	4
Effect of timing differences recorded at lower tax rate	(49)	(59)
Adjustments to tax in respect of previous years	(23)	(558)
Total tax charge for the year	1,371	12,869

(c) Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2018 £000	2017 £000
Excess of tax value over book value of tangible and intangible assets	719	221
Deferred acquisition costs	157	372
Other temporary items	355	443
Deferred tax	1,231	1,036

An analysis of the movement in deferred tax is as follows:

	2018 £000	2017 £000
Balance at 1 January	1,036	1,071
Deferred tax charge to income statement	195	(35)
Deferred Tax Liability	1,231	1,036

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. TAXATION (continued)

(c) Deferred Tax (continued)

As at 31 December 2018, the Company had an unrecognised deferred tax asset of £40,000 in relation to the capital loss upon disposal of the Bristol office. No deferred tax asset has been recognised as there is no certainty of any future capital gain, arising elsewhere in the business, against which the loss could be offset. This deferred tax asset was also unrecognised at 31 December 2017.

The net movement in the deferred tax balance through 2019 is not expected to be material as the reversal of transitional adjustments in respect to changes in the taxation of life companies, is largely expected to be offset by movements in other timing differences.

d) Factors affecting current and future tax charges

The UK corporation tax rate will be reduced from 19% to 17% from 1 April 2020. This change was enacted through UK Parliament on 15 September 2016.

UK deferred tax has been provided for in the financial statements at the enacted rates of 19% and 17% depending on the rate which the timing difference creating deferred tax assets and liabilities are expected to unwind in the future. The impact of these changes in future periods will depend on the level of taxable profits in those periods.

The current market value of the Company's land and buildings is less than the original cost plus any relevant subsequent additions, resulting in a potential deferred tax asset of £120,000. However, since there is no certainty of any future capital gains elsewhere in the business against which the loss could be offset, no such deferred tax asset has been recognised.

14. DIVIDENDS

	2018	2017
	£000	£000
Declared and paid during the year:		
Equity dividend on ordinary shares:		
Final 2016 dividend on class B shares: nil (2017: 1041.67p)	-	35,000
Final 2017 dividend on class A shares: 405.09p (2017: nil)	35,000	-
Interim & final 2018 dividend on class A shares: 925.93p (2017: 173.61p)	80,000	15,000
Dividends paid	115,000	50,000

In 2018 dividends were declared and paid on class A shares only. (2017: Class A and B shares).

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

15. INTANGIBLE ASSETS

	Computer Software 2018 £000	Computer Software 2017 £000
Cost		
At 1 January	50,599	41,818
Additions	<u>5,771</u>	<u>8,781</u>
At 31 December	<u>56,370</u>	<u>50,599</u>
Accumulated Amortisation		
At 1 January	26,034	23,594
Charge for the year	<u>2,795</u>	<u>2,440</u>
At 31 December	<u>28,829</u>	<u>26,034</u>
Net book value at 31 December	<u>27,541</u>	<u>24,565</u>

Additions relate to software capitalised in accordance with internal recognition criteria following work from external contractors.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. LAND AND BUILDINGS

	Freehold land & buildings		Leasehold land & buildings		Total land & buildings	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Valuation/cost						
At 1 January	13,080	11,379	-	3,451	13,080	14,830
Opening adjustment	-	(83)	-	73	-	(10)
Additions	1,437	69	-	-	1,437	69
Disposals	-	-	-	(3,524)	-	(3,524)
Revaluation of buildings	-	1,715	-	-	-	1,715
At 31 December	14,517	13,080	-	-	14,517	13,080
Depreciation						
At 1 January	-	692	-	707	-	1,399
Opening adjustment	-	10	-	(10)	-	-
Charge for the year	152	317	-	81	152	398
Reversal of accumulated depreciation on disposal	-	-	-	(778)	-	(778)
Impairment	-	-	-	-	-	-
Reversal/ accumulated depreciation on revaluation	152	(1,019)	-	-	152	(1,019)
	304	-	-	-	304	-
Net book value						
At 1 January	13,080	10,687	-	2,744	13,080	13,431
At 31 December	14,213	13,080	-	-	14,213	13,080

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 2017. All freehold land and buildings were valued as at 31 December 2017 at open market value by Montagu Evans, a firm of independent Chartered Surveyors. This valuation assumes vacant possession of the premises but the expectation it would continue to be used as office with ancillary residential accommodation. The valuation of freehold land and buildings has been reviewed by the directors and confirmed with Montagu Evans, a firm of independent Chartered Surveyors. Had the revalued property been carried under the cost model, the carrying amount would be £7,909,000.

Land and buildings relating to the Bristol leasehold property were carried at depreciated cost until the date of disposal on 22 August 2017.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS

	Carrying value		Cost	
	2018	2017	2018	2017
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Designated upon initial recognition	2,356,515	2,499,064	1,995,717	2,035,245
Other financial investments	818	-	848	-
Derivative financial investments	9,554	4	9,532	-
Total financial assets	2,366,887	2,499,068	2,006,097	2,035,245
Included in balance sheet as follows:				
Assets not held to cover inflation linked liabilities:				
Debt securities and other fixed income securities	1,712,705	1,855,212	1,580,219	1,619,817
Other financial investments	818	-	848	-
Derivative financial instruments	9,554	4	9,532	-
	1,723,077	1,855,216	1,590,599	1,619,817
Assets held to cover inflation linked liabilities:				
Variable yield securities	643,810	643,852	415,498	415,428
Total financial assets	2,366,887	2,499,068	2,006,097	2,035,245

Included in the carrying value of financial instruments above are amounts in respect of listed investments as follows:

	2018	2017
	£000	£000
Listed investments (including accrued interest)	2,310,392	2,509,904

The change in fair value attributable to credit risk was a £59million loss in the period (2017: £30million profit).

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There are no convertible debt instruments held at fair value through profit and loss.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit and loss.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (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 provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (continued)

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 2018, we have applied valuation approaches and techniques on a consistent basis to similar assets and liabilities and consistent with those approaches and techniques used at year end 2017.

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. 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.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (continued)

Fair Value Measurements (continued)

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 2018, 0.2 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 would not have been adjusted, and the assets would be 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 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (continued)

Fair Value Measurements (continued)

At 31 December 2018, 99.8 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

- Approximately 89.4 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 10.4 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.

We report our investments in private equity partnerships at our share of the partnerships' net asset value per share or its equivalent (NAV) as a practical expedient for fair value.

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For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (continued)

Fair Value Measurements (continued)

The categorisation of fair value measurements by input level as at 31 December 2018 and 31 December 2017 is as follows:

	Amounts in £000			
	Quoted prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
31 December 2018				
Assets not held to cover inflation linked liabilities:	-	-	-	-
Debt securities and other fixed income securities	4,832	1,621,639	86,234	1,712,705
Assets held to cover inflation linked liabilities:	-	-	-	-
Variable yield securities	-	643,810	-	643,810
	4,832	2,265,449	86,234	2,356,515
Other financial investments	-	-	818	818
Derivatives	-	22	9,532	9,554
Total financial assets	4,832	2,265,471	96,584	2,366,887
31 December 2017				
Assets not held to cover inflation linked liabilities:				
Variable yield securities	-	-	-	-
Debt securities and other fixed income securities	76,612	1,756,125	22,475	1,855,212
Assets held to cover inflation linked liabilities:				
Variable yield securities	-	643,852	-	643,852
	76,612	2,399,977	22,475	2,499,064
Derivatives	-	4	-	4
Total financial assets	76,612	2,399,981	22,475	2,499,068

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For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (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:

Level 3 analysis

	Year ended 31 December 2018				
	Amounts in £000				
	Beginning of period	Profits/ (losses) recognised in the income statement	Net purchases and sales	Net transfers	End of period
Debt securities and other fixed income securities	22,475	(4,091)	15,000	52,850	86,234
Other financial investments	-	-	818	-	818
Derivatives	-	-	-	9,532	9,532
Total financial assets	22,475	(4,091)	15,818	62,382	96,584

Level 3 analysis

	Year ended 31 December 2017				
	Amounts in £000				
	Beginning of period	Profits/ (losses) recognised in the income statement	Net purchases and sales	Net transfers	End of period
Debt securities and other fixed income securities	90,090	(368)	(11,800)	(55,447)	22,475
Total financial assets	90,090	(368)	(11,800)	(55,447)	22,475

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For the year ended 31 December 2018

17. INVESTMENTS: FINANCIAL INSTRUMENTS (continued)

Fair Value Measurements (continued)

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.

The following table presents additional information about our private equity partnerships as of 31 December 2018, including commitments for additional investments. Due to the nature of this investment type, additional funds may or may not be called by the fund managers. The unfunded commitment below represents the future potential liability converted to GBP at the closing GBP/US \$ spot rate at 31 December 2018. This investment is included under 'other financial investments' elsewhere in these notes.

Investment Category	Fair Value £000	Redemption Term/Notice	Unfunded Commitments £000
Real Assets (a)	817.8	Not redeemable	3,072.0
Private Credit (b)	-	Not redeemable	3,920.5
Total Partnerships	817.8		6,992.5

(a) **Real Assets** - The limited partnerships described in this category employ various strategies, which include investing in the equity and/or debt financing of physical assets, including infrastructure (energy, power, water/wastewater, communications), transportation (including airports, ports, toll roads, aircraft, railcars) and real estate in North America, Europe, South America, and Asia.

(b) **Private Credit** - The limited partnerships described in this category employ various investment strategies, generally providing direct lending or other forms of debt financing including first-lien, second-lien, mezzanine, and subordinated loans. The limited partnerships have credit exposure to corporates, physical assets, and/or financial assets within a variety of industries (including manufacturing, healthcare, energy, business services, technology, materials, and retail) in North America and, to a lesser extent, outside of North America.

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For the year ended 31 December 2018

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	2018 £000	2017 £000
Due in less than one year:		
Amounts owed by group undertakings	728	1,666
Sundry debtors	865	749
	<u>1,593</u>	<u>2,415</u>

19. PROVISIONS FOR OTHER RISKS

	Deferred tax £000	Onerous lease £000	Total £000
At 1 January 2018	1,036	-	1,036
Charge for the year	195	-	195
At 31 December 2018	<u>1,231</u>	<u>-</u>	<u>1,231</u>
	£000	£000	£000
At 1 January 2017	1,071	214	1,285
Charge for the year	(35)	-	(35)
Decrease during the year in the discounted amount	-	(53)	(53)
Utilised in the year - rent and other expenses	-	(164)	(164)
Unwind discount	-	3	3
At 31 December 2017	<u>1,036</u>	<u>-</u>	<u>1,036</u>

Please refer to note 13 for an analysis of the deferred tax included in the statement of financial position.

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For the year ended 31 December 2018

20. TANGIBLE ASSETS

	Fixtures Fittings & Equipment £000	Computer Hardware £000	Total £000
Cost			
At 1 January 2018	4,319	984	5,303
Additions	702	-	702
Disposals	-	-	-
At 31 December 2018	<u>5,021</u>	<u>984</u>	<u>6,005</u>
Accumulated depreciation			
At 1 January 2018	1,380	747	2,127
Disposals	-	-	-
Charge for the year	747	84	831
Impairment	-	-	-
At 31 December 2018	<u>2,127</u>	<u>831</u>	<u>2,958</u>
Net book value at 31 December 2018	<u>2,894</u>	<u>153</u>	<u>3,047</u>

	Fixtures Fittings & Equipment £000	Computer Hardware £000	Total £000
Cost			
At 1 January 2017	3,182	984	4,166
Additions	1,137	-	1,137
Disposals	-	-	-
At 31 December 2017	<u>4,319</u>	<u>984</u>	<u>5,303</u>
Accumulated depreciation			
At 1 January 2017	832	648	1,480
Disposals	-	-	-
Charge for the year	548	99	647
Impairment	-	-	-
At 31 December 2017	<u>1,380</u>	<u>747</u>	<u>2,127</u>
Net book value at 31 December 2017	<u>2,939</u>	<u>237</u>	<u>3,176</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. DEFERRED ACQUISITION COSTS

	2018 £000	2017 £000
Deferred acquisition costs at 1 January	73,934	75,707
Deferred in the year	11,148	31,554
Amortisation	(12,280)	(33,327)
Deferred acquisition costs at 31 December	<u>72,802</u>	<u>73,934</u>

22. PROVISION FOR UNEARNED PREMIUMS

General business	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2018	1,427	-	1,427
Movement for the period	615	-	615
At 31 December 2018	<u>2,042</u>	<u>-</u>	<u>2,042</u>

Long-Term business	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2018	91,574	(9,090)	82,484
Movement for the period	2,956	789	3,745
At 31 December 2018	<u>94,530</u>	<u>(8,301)</u>	<u>86,229</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TECHNICAL PROVISIONS

Technical provisions relate 99.87% to the 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 may result in a negative long-term provision. This has been calculated for each policy by deducting the present value of the gross premiums receivable from the present value of the benefits plus expenses using a gross premium cash flow method of valuation. The insurance contract value of £37.9m represents the excess of gross premiums receivable over the future expected claims and expenses. The related claims reserves for the Individual Income Protection business total £33.6m, and are included in Claims Outstanding (see note 24). As this product incurs significant upfront costs, and its expenses cannot be deferred, related expenses also decrease over time.

For Group Income Protection contracts the long-term business provision is made up of an allowance for current claims outstanding.

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.

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.

No disclosures are made of the assumptions relating to the dental technical provisions as these provisions are not considered material and represent 0.03% of the total technical provisions.

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:

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TECHNICAL PROVISIONS (continued)

b) Principal Assumptions (continued)

Class of Business	Interest Rate (%)		Mortality / Morbidity	
	2018	2017	2018	2017
Individual Income Protection long term business provision	1.557	1.520	Inception rates: CMIR7 Termination rates: CMIR12	Inception rates: CMIR7 Termination rates: CMIR12
Individual & Group Income Protection non-linked claims in payment	1.724	1.690	Termination rates: CMIR12	Termination rates: CMIR12
Individual & Group Income Protection linked claims in payment	-1.480	-1.724	Termination rates: CMIR12	Termination rates: CMIR12
Non-linked Dependants' Annuities in payment	1.574	1.640	70% for Females of WA00 CMI 2017 F[2%] and 125% for Males of WA00 CMI 2017 M[2%]	70% WA00 for Females and 125% WA00 for Males
Linked Dependants' Annuities in payment	-1.480	-1.724	70% for Females of WA00 CMI 2017 F[2%] and 125% for Males of WA00 CMI 2017 M[2%]	70% WA00 for Females and 125% WA00 for Males

The inception rates used in 2018 and 2017 were a proportion of CMIR7 that varied by type of contract, deferred period, sex, smoker status and occupational class.

The termination rates used in 2018 and 2017 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 CMI 2017 model using core initial improvements and core projection assumptions and a long term rate of 2% for females and males (2017: commencing 2001 mortality was assumed to improve at the rate suggested by the CMI 2016 model using core initial improvements and core projection assumptions and a long term rate of 2% for females and males).

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 2017.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TECHNICAL PROVISIONS (continued)

b) Principal Assumptions (continued)

Valuation discount rate assumptions are set with regard to the current gross redemption yields on the supporting bonds and the level of current gilt yields. The non-gilt bond yields were reduced for default and credit rating transition risk by 50% (2017: 40%) for fixed interest and 50% (2017: 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 cost inflation of 4.00% (2017: 4.00%).

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 (2017: same). The termination rates combine decrements due to recovery, death and the excess value of reserve releases from income protection claims in payment that agree to cease over the cash lump sums paid in exchange, known as settlements.

Interest Rates – The changes are as in the table shown in section (b). The interest rates increased 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 increased with slightly higher longer duration gilt yields.

Inception Rates – The rates assumed for our Individual Income Protection business were generally slightly lower.

Termination Rates – The rates assumed for Group Income Protection business were slightly higher at shorter durations of sickness but decreased at longer durations of sickness. The rates assumed for Individual Income Protection business decreased slightly at shorter durations of sickness and decreased more 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.

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

The assumed IBNR delays for ceased claims reinstating were unchanged on Group Income Protection but decreased on Individual Income Protection.

The assumed IBNR delays for declined claims reopening were unchanged on Group Income Protection but increased on Individual Income Protection.

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NOTES TO THE FINANCIAL STATEMENTS

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23. TECHNICAL PROVISIONS (continued)

c) Changes in significant assumptions or bases of preparation

Incurred But Not Reported (IBNR) Delay Tables

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

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

Dependants Mortality – There were no changes in our assumptions other than those detailed in section (b).

Lapses – There were small changes to the lapse assumptions for Individual Income Protection.

d) Movements in Technical Provisions

	Gross £000	Reinsurers' Share £000	Net £000
General Business			
At 1 January 2018	1,784	-	1,784
Change in provision for unearned premiums (note 22)	615	-	615
Change in provision for claims (note 24)	291		291
At 31 December 2018	2,690	-	2,690
	Gross £000	Reinsurers' Share £000	Net £000
Long-Term Business			
At 1 January 2018	2,224,415	(185,643)	2,038,772
Change in provision for unearned premiums (note 22)	2,956	789	3,745
Change in provision for claims (note 24)	3,867	6,771	10,638
Change in long-term business provision	(3,255)	241	(3,014)
Change in technical provisions for index-linked liabilities	(7,432)	4,378	(3,054)
At 31 December 2018	2,220,551	(173,464)	2,047,087
Total at 31 December 2018	2,223,241	(173,464)	2,049,777

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

d) Movements in Technical Provisions (continued)

	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2018			
Technical provision for non-linked liabilities	1,383,161	(111,034)	1,272,127
Technical provision for linked liabilities	840,080	(62,430)	777,650
	2,223,241	(173,464)	2,049,777
	Gross £000	Reinsurers' Share £000	Net £000
General Business			
At 1 January 2017			
Change in the provision for unearned premium	1,427	-	1,427
Change in provision for claims	(546)	-	(546)
Novation	903	-	903
At 31 December 2017	1,784	-	1,784
	Gross £000	Reinsurers' Share £000	Net £000
Long-Term Business			
At 1 January 2017	2,231,327	(199,890)	2,031,437
Change in provision for unearned premium	2,832	(1,394)	1,438
Change in provision for claims	12,882	8,361	21,243
Change in long-term business provision	4,479	(30)	4,449
Change in technical provisions for index-linked liabilities	(27,105)	7,310	(19,795)
At 31 December 2017	2,224,415	(185,643)	2,038,772
Total at 31 December 2017	2,226,199	(185,643)	2,040,556

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

(d) Movement in Technical Provisions (continued)

	Gross £000	Reinsurers' Share £000	Net £000
At 31 December 2017			
Technical provision for non-linked liabilities	1,378,687	(118,836)	1,259,851
Technical provision for linked liabilities	847,512	(66,807)	780,705
	2,226,199	(185,643)	2,040,556

(e) Analysis of movement in technical provisions (by product line, net of reinsurance)

	Health £000	Life £000	General £000	Total £000
1 Jan 2018	1,505,739	533,033	1,784	2,040,556
Interest rate	(15,534)	(27,584)	-	(43,118)
Assumption Review	3,722	3,034	-	6,756
Other	32,875	11,802	906	45,583
31 Dec 2018	1,526,802	520,285	2,690	2,049,777
1 Jan 2017	1,451,002	580,435	-	2,031,437
Interest rate	2,935	(9,456)	-	(6,521)
Assumption Review	8,693	(33,950)	-	(25,257)
Other *	43,109	(3,996)	1,784	40,897
31 Dec 2017	1,505,739	533,033	1,784	2,040,556

The Company is winding down ceded business, reinsurance balances are therefore not material on a total basis, and not shown separately in the note above.

*Other contains movements to technical provisions driven by data movements on claims and policies.

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For the year ended 31 December 2018

23. TECHNICAL PROVISIONS (continued)

(f) Sensitivity of provision to changes in significant assumptions or bases of preparation

The table below shows the impacts on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the company.

	Impact on pre-tax profit net of reinsurance	Impact on equity net of reinsurance	Impact on pre-tax profit net of reinsurance	Impact on equity net of reinsurance
	2018	2018	2017	2017
	£000	£000	£000	£000
Economic sensitivity				
Long-term insurance				
50 bps increase in nominal interest rates on fixed interest bonds and 25 bps increase on real interest rates for index linked bonds	(892)	(722)	(10,951)	(8,871)
50 bps decrease in nominal interest rates on fixed interest bonds and 25 bps decrease on real interest rates for index linked bonds	(3,596)	(2,913)	11,584	9,383
1% increase in long term inflation expectations	(2,569)	(2,081)	(3,761)	(3,047)
Non-economic sensitivity				
Long-term insurance				
1% decrease in income protection termination rates	(5,249)	(4,252)	(5,524)	(4,474)
1% decrease in annuitant mortality	(1,650)	(1,336)	(1,632)	(1,322)
1% increase in income protection loss ratios	(1,152)	(933)	(1,260)	(1,020)
1% increase in group risk mortality loss ratios	(81)	(65)	(288)	(233)
Default of largest external reinsurer	(74,734)	(60,535)	(79,466)	(64,367)

We match our liabilities with investments of appropriate nature and term and therefore limit our exposure to nominal and real yield movements. However, it should be noted that yield movements impact a number of items on the balance sheet, with some of these movements offsetting others. The overall sensitivity is therefore likely to change from reporting period to reporting period.

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23. TECHNICAL PROVISIONS (continued)

(f) Sensitivity analysis of pre-tax profit and equity net of reinsurance (continued)

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 £55m (2017: £55 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.

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.

UNUM Limited

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23. TECHNICAL PROVISIONS (continued)

(f) Sensitivity analysis of pre-tax profit and equity net of reinsurance (continued)

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts.

The company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items of the company's experience may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order.

The interest rate sensitivity assumes a 50 basis point change in the gross redemption yield on fixed interest securities together with a 25 basis point change in the real yields on variable securities driven by a movement in the underlying risk free yields. For the UK long term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations.

The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business, which has also been stressed.

No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment. Interest rate and inflation expectation have historically shown positive correlation and have therefore been presented next to each other.

As RPI-linked liabilities are backed by RPI-linked bonds the inflation stress only considers the adverse impact on technical provisions of future expense inflation increasing by 1% p.a. The income protection termination rate stress represents a decrease in morbidity rates on Income Protection claims in payment. The annuitant mortality stress is a 1% reduction in the mortality rates for annuitants with no change to the mortality improvement rates. The income protection loss ratio stress represents an increase in inception rates and loss ratios on Group Income Protection contracts. The group risk mortality stress represents an increase in inception rates and loss ratios on Group Life and Group Dependents contracts. For the sensitivity to the default of the company's largest external reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the external reinsurer and represents the impact of the default of largest external reinsurer at an entity level and assumes no recoveries are made.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TECHNICAL PROVISIONS (continued)

(g) Maturity analysis of technical provisions

The table below analyses the maturity of the company's insurance contract liabilities on a contractual undiscounted cash flow basis:

	Up to a year	1-2 years	2-5 years	5-10 years	> 10 years	Total
	£000	£000	£000	£000	£000	£000
At 31 December 2018						
Provision for unearned premiums - technical provision	88,271	-	-	-	-	88,271
LT business provision - net	(13,540)	(10,530)	(18,906)	(8,525)	6,816	(44,685)
Claims outstanding - net	171,091	127,659	292,520	316,477	516,700	1,424,448
Technical provisions for ILL insurance contracts net	62,507	55,210	139,573	185,333	699,141	1,141,764

	Up to a year	1-2 years	2-5 years	5-10 years	> 10 years	Total
	£000	£000	£000	£000	£000	£000
At 31 December 2017						
Provision for unearned premiums - technical provision	83,911	-	-	-	-	83,911
LT business provision - net	(14,170)	(10,882)	(18,904)	(7,316)	10,354	(40,918)
Claims outstanding - net	162,543	124,768	290,077	314,439	513,428	1,405,255
Technical provisions for ILL insurance contracts net	60,309	53,117	133,272	178,804	689,052	1,114,554

24. CLAIMS OUTSTANDING

General Business	Gross	Reinsurers' Share	Net
	£000	£000	£000
At 1 January 2018	357	-	357
Movement for the period	291	-	291
At 31 December 2018	648	-	648

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. CLAIMS OUTSTANDING (continued)

Long-term Business	Gross £000	Reinsurers' Share £000	Net £000
At 1 January 2018	1,319,956	(107,751)	1,212,205
Movement for the period	3,867	6,771	10,638
At 31 December 2018	<u>1,323,823</u>	<u>(100,980)</u>	<u>1,222,843</u>
 Total at 31 December 2018	 <u>1,324,471</u>	 <u>(100,980)</u>	 <u>1,223,491</u>

25. CALLED UP SHARE CAPITAL

	2018 £000	2017 £000
Authorised, allotted, called up and fully paid		
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
At 31 December	<u>12,000</u>	<u>12,000</u>

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

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.

The Company's standard payment term for supplier invoices is 30 days from date of invoice. Unum aims to pay all invoices within 30 days from receipt and, in 2018, the average time taken to pay suppliers, as reported under section 3 of the Small Business, Enterprise and Employment Act 2015, was 22 days.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. FINANCIAL LIABILITIES (continued)

Derivative financial instruments

Included within financial liabilities at 31 December 2018 are fair value gains of £7,071,000, which have an equivalent notional amount of £332,665,000 (2017: £4,468,000, notional value: £ 278,880,000) on derivative financial instruments in relation to cross currency swaps used to match the Company's debt securities and other fixed income securities currency risk. Fair value movements are recorded through profit or loss in the year. There was no purchase cost. Derivative financial instruments were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These liabilities were classified as Level 2 in terms of the fair value measurements hierarchy commented on in note 17 – Financial Instruments. All derivative financial instruments mature after five years. At 31 December 2018 and 2017 no assets had been pledged as collateral to counterparties in support of the derivatives.

	2018 £000	2017 £000
Amounts due within one year		
Corporation tax payable	-	8,522
Taxation and social security	1,437	1,196
Amounts due under finance leases	-	
Other Creditors	4,767	3,962
Amounts owed to Group undertakings	10,081	10,738
At 31 December 2018	16,284	24,418

27. FINANCIAL COMMITMENTS

At 31 December 2018 the Company had total commitments as follows under operating leases:

	2018		2017	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Expiring not later than one year	1,096	215	1,055	381
Expiring later than one year and not later than five years	4,037	628	4,139	31
Expiring later than five years	5,078	-	6,032	-
	10,211	843	11,226	412

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. FINANCIAL COMMITMENTS (continued)

Other Commitments

Unum Limited provides a professional indemnity insurance guarantee to its fellow subsidiaries, Unum Select Limited and National Dental Plan Limited, in respect of their Insurance Mediation activity, as required by the Insurance Distribution Directive. The aggregate annual amount covered under the guarantee for all claims is a maximum of €3.3m, for each company, with the likelihood of a claim being remote.

The Company has provided a guarantee to Unum European Holding Company Ltd (UEHCL) with regard to that company's current and future liabilities and obligations to the Unum Pension Scheme (a final salary plan providing defined benefits to certain current and former employees of UEHCL which is closed to future service accrual).

28. SHARES IN SUBSIDIARIES

Company	Class of Share Capital	2018		2017	
		Issued / Allotted	% owned	Issued / Allotted	% owned
Claims Services International Limited	Ordinary	£2	50	£2	50

The Company is registered as a private limited company in England and Wales (registered office: Milton Court, Dorking, Surrey, RH4 3LZ). 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.

29. 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 Unum Group. Copies of the consolidated financial statements of Unum Group can be obtained from Unum Group, 1 Fountain Square, Chattanooga, Tennessee, 37402, USA.

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption in FRS 102 under section 33.1A not to disclose transactions with the immediate and ultimate parent companies or any of its wholly owned subsidiaries.

As summary of balances owing to or from a group undertaking is included in the table below:

Amount owing to :	Unum Group						Total
	(US)	UEHCL	CSIL	UGUK	USL	NDP	
	£000	£000	£000	£000	£000	£000	£000
	(1,431)	(7,081)	(244)	(9)	(227)	(1,089)	(10,081)

Amount owing from :	UPFC	CAL	Total
	£000	£000	
	6	722	728

UEHCL = Unum European Holding Co Ltd, CSIL = Claims Services International Ltd, UGUK = Unum Group UK Branch, USL = Unum Select Ltd, NDP = National Dental Plan Ltd, UPFC = UnumProvident Finance Co Ltd, CAL = Claims Assistance (UK) Ltd.

Amounts owing to the company are included in other debtors (see note 18) whilst amounts owed to other group undertakings is included in other creditors (see note 26).

UNUM Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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
City Tower, 11th Floor,
40 Basinghall Street,
London, EC2V 5DE
Tel: 020 7841 5900

Midlands

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

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

WEBSITE

www.unum.co.uk