

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2021

PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY

NAIC GROUP CODE 0565
NAIC COMPANY CODE 68195

This discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for Provident Life and Accident Insurance Company (the Company). Information presented in this discussion supplements the financial statements and notes thereto, exhibits, and schedules in the 2021 annual statement.

OPERATIONS

The Company, domiciled in Tennessee, is a wholly-owned subsidiary of Unum Group, a Delaware general business corporation that acts as a holding company for a number of insurance and non-insurance subsidiaries.

Prior to September 2021, The Paul Revere Life Insurance Company (Paul Revere Life), a wholly-owned insurance subsidiary of Unum Group incorporated in Massachusetts, and Unum Life Insurance Company of America (Unum America), a wholly-owned insurance subsidiary of Unum Group incorporated in Maine, had direct ownership in the Company of 10.1 percent and 4.0 percent, respectively, with the remaining 85.9 percent of direct ownership held by Unum Group. During September 2021, Paul Revere Life and Unum America paid dividends to Unum Group in the form of their respective shares of the Company's common stock. As a result of these dividends, Paul Revere Life and Unum America no longer have ownership of the Company, and all outstanding shares of the Company are owned by Unum Group.

The Company's primary business is the sale of individual disability insurance. The products are marketed primarily to employers and multi-life employee groups by the Company's sales force, working in conjunction with independent brokers and consultants. The Company also sells voluntary benefits products at the workplace through payroll deduction, which include whole life and accident and health coverage for disability, and are offered on an individual basis. Accident, hospital indemnity, cancer and critical illness voluntary benefits products previously sold by the Company are now being marketed through one of the Company's affiliates, with the exception of a small amount of new business with existing customers.

The Company also services its closed block of business which consists of group and individual long-term care insurance and individual disability insurance policies that were designed to be distributed to individuals in a non-workplace setting and that were written prior to the changes in product offerings, pricing, distribution, and underwriting of individual disability insurance that occurred during the period from 1994 to 1998. There are no new sales of these products other than update features contractually allowable on existing policies. In December 2020 and March 2021, the Company completed two phases of a reinsurance transaction whereby it ceded a significant portion of this closed block individual disability business to a third party reinsurer. See "Significant Events" below for further discussion.

SIGNIFICANT EVENTS

Closed Block Individual Disability Reinsurance Transaction

In December 2020, the Company entered into and completed the first phase of a reinsurance transaction with Commonwealth Annuity and Life Insurance Company (Commonwealth) under which the Company ceded closed block individual disability income business. The agreement is on a coinsurance basis that provides 100 percent quota share reinsurance on specified blocks of ceded business as of July 1, 2020 with initial reserves ceded of $1,991.4 million for which the Company paid a cash ceding commission of $479.0 million. In addition, the Company transferred fixed maturity securities, cash, and accrued investment income totaling $2,390.4 million less $319.6 million of interest maintenance reserves which was recorded as ceded premiums in the Summary of Operations.

In March 2021, the Company completed the second phase of the reinsurance transaction with Commonwealth, pursuant to which the Company and Commonwealth amended and restated the reinsurance agreement to reinsure, on a coinsurance basis, effective as of January 1, 2021, a substantial portion of the remaining closed block individual disability business that was not ceded in December 2020, primarily business previously assumed by the Company. In connection with the March 2021 transaction, the Company ceded initial reserves of $85.5 million for which the Company received a cash ceding commission of $18.9 million and recorded a deferred gain, net of tax of $9.5 million which was recorded in surplus. In addition, the Company transferred fixed maturity securities, cash, and accrued investment income totaling $119.4 million less $27.2 million of interest maintenance reserves which was recorded as ceded premiums in the Summary of Operations.

Reserves ceded to Commonwealth were $1,820.9 million and $1,905.9 million as of December 31, 2021 and 2020, respectively.

Northwind Reinsurance Company (Northwind Re) Recapture

In December 2020, prior to entering into the Commonwealth reinsurance agreement, the Company terminated its closed block individual disability reinsurance agreement with Northwind Re, an affiliated captive reinsurance subsidiary domiciled in the United States. The effective date of the termination was June 30, 2020 and resulted in a loss of $4.9 million.

Group Premium Annuity Reserve Change in Valuation Basis

During 2021 and 2020, the Company revalued group single premium annuity reserves utilizing updated valuation assumptions. The changes increased annuity reserves by $20.2 million and $14.1 million, respectively, with a corresponding decrease to surplus.

Long-Term Care Premium Deficiency Reserve Changes

During 2021 and 2020, the Company revalued its long-term care premium deficiency reserves utilizing updated assumptions and guidance from the Tennessee Department of Commerce and Insurance. The changes resulted in a premium deficiency reserve decrease of $65.7 million and an increase of $81.6 million in 2021 and 2020, respectively. The changes were primarily driven by updates to the Company's discount rate assumptions.

Coronavirus Disease 2019 (COVID-19)

On March 11, 2020, the World Health Organization identified the spread of COVID-19 as a pandemic. COVID-19 continues to cause significant disruption to the global economy and has unfavorably impacted the Company as well as the overall insurance industry. Due to the volatile and unprecedented nature of these events, the Company still cannot fully estimate the ultimate impact of the COVID-19 pandemic. The Company continues to closely monitor pandemic trends that have and may continue to have adverse impacts on the Company's business.

Results of Operations

The Company has identified activity that is inconsistent with historical experience that is due to COVID-19 and the related environment. The Company continued to see increased claims in its voluntary life products due to higher mortality, particularly among the working age population during the second half of 2021, as well as a continuation of elevated claims incidence in certain of its disability products. With respect to its long-term care product line, the Company continued to experienced elevated claimant mortality. The Company continues to see some pressure on its overall sales resulting from the impacts of COVID-19. Though the Company experienced improvements in sales activity during 2021 in certain of its product lines, if it continues to experience disruptions, its premium income may continue to be impacted.

Financial Condition

The Company continues to monitor capital market activity on a regular basis and to the extent that there is increased volatility and ratings downgrades related to the issuers of the Company's bonds, the Company could experience an increase in defaults. However, the Company remains confident in the overall strength and credit quality of its investment portfolio.

Liquidity and Capital Resources

The Company has strengthened its liquidity position through actions such as maintaining a higher level of short-term investments and maintaining a high level of collateral posted to the regional Federal Home Loan Bank (FHLB). As a result, the Company believes it has the appropriate liquidity and access to capital to avoid significant disruption to its operations. The Company has not yet experienced a significant impact to its liquidity as a result of the collection of premiums and submitted claims activity; however, the Company continually monitors the developments of these items. As of December 31, 2021, the Company has borrowed $116.4 million of funds through its membership with the regional FHLB for the purpose of investing in either short-term investments or fixed maturity securities and has additional borrowing capacity of approximately $224.3 million that can be utilized for liquidity if the need arises. To the extent that the Company begins to experience a significant impact to its liquidity, it would likely sell highly liquid invested assets and/or borrow funds through its membership with the regional FHLB to meet operational cash flow requirements.

Business Operations

The Company has not experienced a significant disruption to its operational processes as it has been able to successfully implement its business continuation plans. The Company also has not experienced significant disruption to its financial reporting systems or internal control over financial reporting and disclosure controls and procedures as a result of COVID-19.

CRITICAL ACCOUNTING ESTIMATES

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance (the Department). The Department recognizes only statutory accounting practices prescribed or permitted by the state of Tennessee for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Tennessee insurance law. Statutory Accounting Principles (SAP) prescribed in the NAIC Accounting Practices and Procedures Manual have been adopted by the Department as a component of prescribed practices for Tennessee domiciled life insurers. The Department has not adopted any accounting practices that differ materially from SAP.

The preparation of financial statements in conformity with SAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, particularly when considering the risks and uncertainties associated with COVID-19, which could impact the amounts reported and disclosed in the Company’s financial statements. The accounting estimates deemed to be most

critical to the Company's financial position and results of operations are those related to evaluation of other-than-temporary impairments (OTTI) of bonds and determining the liability for aggregate reserves for life and accident and health policies.

Bonds and OTTI

Bonds are generally carried at amortized cost with the discount or premium amortized using the interest method unless they have an NAIC designation of 6, in which case they are carried at the lower of amortized cost or fair value. Loan-backed and structured securities are stated at either amortized cost or the lower of amortized cost or fair value. Amortization of these securities considers the estimated timing and amount of prepayments of the underlying loans at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates and are consistent with the current interest rate and economic environment. Actual prepayment experience is periodically reviewed with significant changes in estimated cash flows from the original purchase assumptions accounted for using the retrospective method.

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

If the Company determines that the decline in value of an investment is other-than-temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period to the extent of the decline in value. For those investments with an unrealized loss on which the Company has not recorded an impairment write-down, the Company believes that the decline in fair value below amortized cost is temporary.

Reserves for Life Policies and Contracts and Accident and Health Policies

Reserves for future policy and contract benefits on non interest-sensitive life and accident and health products have been provided on the net level premium or preliminary term method. Reserves for future policy and contract benefits for whole life policies issued beginning in 2020 are calculated on the Principles Based Reserves (PBR) basis as defined in the Valuation Manual under the revised Standard Valuation Law, which the NAIC has adopted. The Company obtained approval from the Department for the permitted practice to adopt APF 2020-09 (subsequently revised by APF 2020-11) effective on January 1, 2020. The permitted practice provides an exemption from PBR for life insurance policies that arise from the exercise of guarantees or options (including conversion options) on existing policies. There were seven such ordinary life conversion policies issued through 2021 with a de minimis amount of corresponding inforce premium. For accident and health products that require reserves for future benefits, the reserves are generally calculated using the two-year preliminary term method, other than long-term care reserves which use the one-year method. The reserves are calculated based upon assumptions as to interest, mortality, morbidity, and lapses, where appropriate, that are prescribed or permitted by insurance regulatory authorities. The assumptions vary by plan, year of issue, and policy duration.

For life insurance policies, reserves for the excess of valuation net premiums over corresponding gross premiums are computed according to the valuation standards required by the Department. Reserves for future policy and contract benefits on single premium annuities have been provided on a net single premium method. The reserves are calculated based upon assumptions as to interest, mortality, and retirement that are prescribed or permitted by insurance regulatory authorities. The assumptions vary by year of issue.

Reserves for interest-sensitive products are calculated as the greater of the net surrender value and the Commissioners Reserve Valuation Method reserve defined in the universal life model regulation. The net surrender value is calculated as the cash value less the surrender charge. The reserves are calculated based upon assumptions as to interest and mortality that are prescribed or permitted by insurance regulatory authorities.

Disabled life reserves for future policy and contract benefits on disability policies are calculated based upon assumptions as to interest and claim termination rates that were appropriate at the date of claim incurral. Claim termination rate assumptions were deemed to be appropriate to reflect actual Company experience. The assumptions vary by year of claim incurral.

Additional premiums are charged for policies issued on substandard lives according to underwriting classification. The corresponding reserves held on such policies are calculated using the same interest and mortality rate as standard policies plus 50 percent of the gross extra premiums.

The assets for each product line are selected according to the specific investment strategy for the product line to produce asset cash flows that follow similar timing and amount patterns to those of the anticipated liability payments.

The Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. The extra reserve on annual premium policies subject to an extra premium is one-half the extra annual gross premium. The extra reserve for single premium policies subject to an extra premium is one-half the extra gross single premium.

Tabular interest, tabular less actual reserves released, and tabular cost have been determined by formula. Tabular interest on funds not involving life contingencies is calculated as one-hundredth of the product of such valuation rate of interest times the mean of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

The Company considers anticipated investment income in its review of reserves for potential premium deficiencies.

Reserves for future policy and contract benefits, in aggregate, meet the minimum valuation standards requirements of the Department.

FINANCIAL POSITION

	December 31			
	2021		2020	
	(in millions of dollars)			
Admitted Assets				
Cash and Invested Assets				
Bonds	$ 4,726.4	76.0 %	$ 4,540.3	73.6 %
Preferred Stocks	0.2	—	0.2	—
Common Stocks	17.0	0.3	18.8	0.3
Mortgage Loans	560.0	9.0	485.6	7.9
Real Estate	103.4	1.7	102.7	1.7
Contract Loans	167.9	2.7	169.5	2.7
Cash and Cash Equivalents	37.4	0.6	83.7	1.4
Derivative Financial Instruments	8.2	0.1	6.7	0.1
Securities Lending Reinvested Collateral Assets	9.8	0.2	0.1	—
Other Invested Assets and Receivables	86.9	1.4	74.4	1.1
Total Cash and Invested Assets	5,717.2		5,482.0	
Other Assets				
Receivables Under Reinsurance Contracts	24.3	0.4	28.7	0.5
Federal Income Tax Recoverable	17.6	0.3	211.4	3.4
Net Deferred Tax Asset	87.3	1.4	81.9	1.3
Deferred and Uncollected Premiums	74.2	1.2	73.2	1.2
Investment Income Due and Accrued	74.9	1.2	76.1	1.2
Corporate Owned Life Insurance	210.3	3.4	207.1	3.4
Other Assets	8.4	0.1	11.8	0.2
Total Admitted Assets	$ 6,214.2	100.0 %	$ 6,172.2	100.0 %

Admitted Assets

Investment activities are an integral part of the Company's business, and most of the Company's assets are income-producing investments. Invested assets are segmented for management purposes into portfolios that support the various product lines. Generally, the investment strategy for the portfolios is to match the effective asset cash flows and durations with related expected liability cash flows and durations to consistently meet the liability funding requirements of the Company's businesses. The Company seeks to earn investment income while assuming credit risk in a prudent and selective manner, subject to constraints of quality, liquidity, diversification, and regulatory considerations.

The Company is exposed to interest rate risk as a result of holding fixed rate investments, primarily bonds. The fair value of the Company's bonds may be adversely affected by changes in interest rates. A rise in interest rates may decrease the net unrealized gain related to these bonds, but may improve the Company's ability to earn higher rates of return on new purchases of bonds. Conversely, a decline in interest rates may increase the net unrealized gain, but new bonds may be purchased at lower rates of return. Although changes in fair value of bonds due to changes in interest rates may occur, these changes will not cause an economic gain or loss unless the Company sells the bonds or determines that a bond is other than temporarily impaired. The Company actively manages its asset and liability cash flow match and asset and liability duration match to limit interest rate risk. The Company models and tests asset and liability portfolios to improve interest rate risk management and net yields. Testing the asset and liability portfolios under various interest rate and economic scenarios allows management to choose the most appropriate investment strategy as well as to limit the risk of disadvantageous outcomes.

The Company emphasizes quality and liquidity in its investment portfolio. At December 31, 2021 and 2020, the top two classes of securities made up approximately 94.0 percent and 92.9 percent of the bond portfolio as shown in Schedule D, Part 1A. The average credit quality of the Company's long-term bond portfolio was BBB+ at both December 31, 2021 and 2020. The amortized cost of the

Company’s below-investment-grade bonds was $274.9 and $319.9 million at December 31, 2021 and 2020, respectively. Below-investment-grade securities are inherently more risky than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but the Company does not anticipate any liquidity problems resulting from its investments in below-investment-grade bonds, nor does the Company expect these bonds to adversely affect its ability to hold other investments to maturity.

In connection with phase one and phase two of the Commonwealth reinsurance transaction, the Company transferred bonds reported on Schedule D with a fair value of $1,950.6 million and $139.6 million, respectively, and an amortized cost of $1,551.1 million and $105.2 million, respectively. Related to phase one of the Commonwealth reinsurance transaction, the Company also transferred a surplus note reported on Schedule BA with a fair value and amortized cost of $16.4 million and $11.9 million, respectively. Also related to phase one and phase two of the Commonwealth reinsurance transaction, the Company transferred accrued investment income totaling $17.8 million and $1.5 million, respectively, as well as $319.6 million and $27.2 million, respectively, of interest maintenance reserves which were recorded as ceded premiums in the Summary of Operations. See "Significant Events" for further discussion of the Commonwealth reinsurance transaction.

The net unrealized gain in the bond and preferred stock portfolio as of December 31, 2021 was $791.7 million compared to $1,035.3 million as of December 31, 2020. These net unrealized gains principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities.

At December 31, 2021, the Company had no exposure to subprime mortgages, collateralized debt obligations in its asset-backed or mortgage-backed securities portfolios, or “Alt-A” loans within its mortgage-backed securities portfolio. In addition, the Company does not hold investments in high-yield financing or highly leveraged transactions.

Bonds were higher at December 31, 2021 compared to the prior year primarily driven by purchases utilizing cash from operations and the proceeds from the sale of previously held bonds. This increase was partially offset by the transfer of bonds in connection with the second phase of the Commonwealth reinsurance transaction that took place in March 2021. See Schedule D, Part 3 and Part 4, in the Company's 2021 annual statement for further detail regarding bond activity.

Mortgage loans were higher at December 31, 2021 compared to the prior year due primarily to $137.5 million of loans acquired partially offset by $63.1 million of full and partial repayments. See Schedule B, Part 2 and Part 3, in the Company's 2021 annual statement for further detail regarding mortgage loan activity.

Cash and cash equivalents were lower at December 31, 2021 relative to the prior year due primarily to higher cash paid for investments compared to the prior year, dividends paid of $70.5 million, and net repayments of $89.4 million related to the FHLB, partially offset by higher cash from operations. See discussion of cash flows in "Liquidity and Capital Resources" for additional information.

The Company has a securities lending program whereby it pledges securities that are included within bonds at the statement value. The amount of cash collateral received from securities is reinvested into cash and cash equivalents and is recorded within the securities lending reinvested collateral assets line item. At December 31, 2021 and 2020, the amount of collateral that had been reinvested was $9.8 million and $0.1 million, respectively. See Note 5 of the "Notes to Financial Statements" and Schedule DL in the Company's 2021 annual statement for further discussion.

Other invested assets and receivables were higher at December 31, 2021 relative to the prior year due primarily to $16.4 million in net additions and valuation increases to other invested assets, partially offset by the continued expected amortization of the cost of low-income housing tax credit partnerships. Also contributing to the increase was the establishment of a receivable for securities sold near the end of the period. See Schedule BA, Part 1, Part 2 and Part 3, in the Company's 2021 annual statement for further detail regarding other invested asset activity.

The decrease in federal income tax recoverable relative to the prior year is primarily driven by the settlement of the tax benefits generated by the first phase of the Commonwealth reinsurance transaction.

	December 31			
	2021		2020	
	(in millions of dollars)			
Liabilities and Capital and Surplus				
Life Reserves	$ 2,229.6	42.5 %	$ 2,213.7	40.5 %
Accident and Health Reserves	2,469.6	47.1	2,612.9	47.8
Deposit-type Contracts	121.9	2.3	211.9	3.9
Policy and Contract Claims	53.9	1.0	52.1	1.0
Experience Rating Refunds	0.9	—	0.9	—
Other Reserves Held for Policyholders	28.1	0.5	28.1	0.5
Amounts Payable to Reinsurers	9.4	0.2	21.6	0.4
Interest Maintenance Reserve	30.6	0.6	33.8	0.6
Insurance Expenses Due or Accrued	45.8	0.9	46.0	0.8
Asset Valuation Reserve	78.2	1.6	75.0	1.4
Payable to Parent and Affiliates	48.8	0.9	51.4	0.9
Derivative Financial Instruments	17.2	0.3	24.6	0.4
Payable for Securities Lending	9.8	0.2	0.1	—
Unfunded Commitments	4.0	0.1	5.6	0.1
Other Liabilities	95.1	1.8	89.3	1.7
Total Liabilities	5,242.9	100.0 %	5,467.0	100.0 %
Total Capital and Surplus	971.3		705.2	
Total Liabilities and Capital and Surplus	$ 6,214.2		$ 6,172.2	

Liabilities

At December 31, 2021, accident and health reserves were comprised of $2,403.2 million for individual accident and health policies and $66.4 million for group accident and health policies, which are primarily disability and long-term care insurance. Aggregate reserves for group and individual life policies and contracts, which includes annuities, were $667.7 million and $1,561.9 million, respectively. Reserves for individual accident and health were lower at December 31, 2021 compared to the prior year due primarily to initially ceded reserves of $85.5 million related to the second phase of the Commonwealth reinsurance transaction and the premium deficiency reserve decrease for the long-term care product line. Asset adequacy analyses have been performed and provide reasonable assurance as of December 31, 2021 that assets are sufficient to fund liabilities.

At December 31, 2021 deposit-type contracts decreased compared to the prior year due primarily to a lower level of outstanding funding agreements with the FHLB.

Amounts payable to reinsurers decreased at December 31, 2021 relative to the prior year due to the settlement of payable balances that were established pursuant to phase one of the Commonwealth reinsurance transaction.

The Company uses derivatives to hedge interest rate, foreign currency, and credit risks, to synthetically replicate assets, and to improve the matching of its assets and liabilities. See Schedule DB and Note 8 of the "Notes to Financial Statements" in the Company's 2021 annual statement for further discussion.

The cash collateral received from the Company's securities lending program is reported as payable for securities lending and will be satisfied when the Company returns cash to the counterparty and the borrowed security is returned to the Company. At December 31, 2021 and 2020, the aggregate fair value of cash collateral received from securities lending transactions was $9.8 million and $0.1 million, respectively. See Note 5 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion.

Unfunded commitments represent the legally binding unfunded commitments to low income housing tax credit partnerships and for transferable state tax credits. See Note 14 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion.

Capital and Surplus

Capital and surplus increased $266.1 million in 2021, primarily due to net income of $340.3 million, partially offset by the payment of dividends to parent and affiliates of $70.5 million.

Capital and surplus increased $46.4 million in 2020, primarily due to capital contributions from Unum Group of $329.0 million and

lower dividends paid than in 2019, partially offset by a net loss of $177.5 million.

RESULTS FROM OPERATIONS

	Year Ended December 31	
	2021	2020
	(in millions of dollars)	
Revenue		
Premium Income	$ 644.8	$ (1,318.1)
Net Investment Income	272.5	385.0
Commissions and Expense Allowances on Reinsurance Ceded	112.1	(366.9)
Reserve Adjustments on Reinsurance Ceded	21.2	(137.2)
Amortization of Interest Maintenance Reserve and Other Income	11.3	11.6
Total Revenue	1,061.9	(1,425.6)
Benefits and Expenses		
Death Benefits	97.8	79.9
Annuity Benefits	66.4	67.7
Accident and Health Benefits	274.7	248.9
Surrender Benefits and Withdrawals for Life Contracts	66.4	63.1
Change in Reserves for Life and Accident and Health Policies	(147.6)	(1,908.6)
Commissions	136.2	148.9
General Expenses	140.5	146.1
Insurance Taxes, Licenses, and Fees	24.4	27.2
Loss on Recapture of Reinsurance Treaty	—	4.9
Loss from Ceded Modified Coinsurance Agreements	0.4	144.4
Other	6.2	(1.7)
Total Benefits and Expenses	665.4	(979.2)
Net Gain (Loss) from Operations before Federal Income Tax (Benefit) and Net Realized Capital Gain (Loss)	396.5	(446.4)
Federal Income Tax Expense (Benefit)	55.2	(262.2)
Net Gain (Loss) from Operations before Net Realized Capital Gain (Loss)	341.3	(184.2)
Net Realized Capital Gain (Loss)	(1.0)	6.7
Net Income (Loss)	$ 340.3	$ (177.5)

Premium income increased during 2021 compared to 2020 due primarily to the lower level of assets transferred in 2021 related to the Commonwealth reinsurance transaction. Excluding the impacts of the transfer of assets related to phase one and phase two of the Commonwealth transaction of $2,070.8 million and $92.2 million, respectively, premium income decreased relative to prior year due primarily to lower premium income from the voluntary benefits product line, particularly related to disability products. See "Significant Events" for further discussion on the Commonwealth reinsurance transaction.

Net investment income was lower in 2021 compared to 2020 due to a decrease in the level of invested assets as a result of the Commonwealth reinsurance transaction and a decline in yield on invested assets, partially offset by higher miscellaneous investment income.

Commissions and expense allowances on reinsurance ceded increased compared to 2020 due to the ceding commissions related to the Commonwealth reinsurance transaction. The Company received a ceding commission of $18.9 million in 2021, partially offset by $9.5 million of deferred gain resulting from phase two of the transaction and paid a ceding commission of $479.0 million in 2020 related to phase one of the transaction. Excluding the impacts of both phases of the Commonwealth transaction, commissions and expense allowances on reinsurance ceded decreased compared to prior year primarily due to a lower level of ceded individual disability - closed block business as a result of the business recaptured from Northwind Re which was not subsequently ceded during either phase of the Commonwealth reinsurance transaction. See "Significant Events" for further discussion.

Reserve adjustments on reinsurance ceded primarily reflect modified coinsurance reserve changes on the individual disability - recently issued business ceded to Canada Life. The year-over-year change in the reserve adjustment on reinsurance ceded is primarily due to the termination of the Company's closed block individual disability modified coinsurance reinsurance agreement with Northwind Re which occurred in December 2020.

The increase in death benefits was primarily driven by higher incidence in the life product lines, resulting from the impacts of COVID-19.

The increase in accident and health benefits was primarily driven by the recapture of closed block individual disability business from

Northwind Re which was not subsequently ceded during the Commonwealth reinsurance transaction.

Included in the change in reserves for life and accident and health policies are the reserves ceded to Commonwealth pursuant to both phases of the Commonwealth reinsurance transaction. During 2021 and 2020, the reserves ceded to Commonwealth were $85.5 million and $1,991.4 million, respectively.

The benefit ratio, after excluding the effects of both phases of the Commonwealth reinsurance transaction and after including the reserve adjustments on reinsurance ceded and the reserve adjustments on assumed modified coinsurance, was 57.3 percent in 2021 compared to 78.9 percent in 2020. The lower benefit ratio is primarily due to a decrease in long-term care premium deficiency reserves and favorable claims experience in the individual disability - recently issued business product line, partially offset by unfavorable experience in the voluntary benefits life and disability product lines.

Loss from ceded modified coinsurance agreements represents transfers to reinsurers for net investment income on the investments held by the Company which support the ceded modified coinsurance reserves. The decrease in 2021 compared to the prior year is due primarily to the impact of the Northwind Re recapture in 2020. The Company also reported a loss in 2020 from the Northwind Re recapture of $4.9 million.

The federal income tax expense in 2021 compared to the federal income tax benefit in 2020 was driven by tax benefits generated from the first phase of the Commonwealth reinsurance transaction which occurred in December 2020.

Net realized capital loss includes no amount of other-than-temporary impairment losses on bonds for 2021. Net realized capital gain includes $2.6 million of other-than-temporary impairment losses on bonds for 2020.

LIQUIDITY and CAPITAL RESOURCES

The Company’s liquidity requirements are met primarily through premium and investment income, as well as maturities and sales of invested assets. Cash is applied to the payment of policy benefits, costs of acquiring new business (principally commissions), operating expenses, purchases of new investments, and payment of dividends.

The Company has established an investment strategy that it believes will provide for adequate cash flows from operations. The Company attempts to match its asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of the business. However, deterioration in the credit market may delay the ability to sell positions in certain fixed maturity securities in a timely manner and adversely impact the price received for such securities, which may negatively impact cash flows. Furthermore, if the Company experiences defaults on securities it will negatively impact capital, which could reduce its capacity to pay dividends. The Company’s bond portfolio at December 31, 2021 consisted of 65.1 percent publicly traded issues and 34.9 percent privately traded issues that are generally marketable in the secondary markets. The size and liquidity of the bond portfolio provide a solid source of liquidity for the Company. Management believes the Company’s sources of liquidity are more than adequate to meet its anticipated needs.

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

Dividends and Risk-based Capital

The maximum amount of dividends which can be paid to shareholders by Tennessee domiciled insurance companies without prior approval by the Department is subject to restrictions relating to the greater of 10 percent of an insurer's surplus as regards policyholders as of the preceding year end or the net gain from operations, excluding realized capital gains and losses, of the preceding year. See Note 13 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion.

The Company is subject to certain risk-based capital requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life and health insurance company is to be determined based on the various risk factors related to it. The risk-based capital ratios, calculated using the NAIC Company Action Level formula, were 532 percent and 360 percent as of December 31, 2021 and 2020, respectively.

Cash Flows

	Year Ended December 31	
	2021	2020
	(in millions of dollars)	
Operations		
Premiums Collected	$ 751.4	$ 349.4
Net Investment Income	280.6	391.1
Miscellaneous Income	134.5	(388.0)
Benefits and Loss Related Payments	(528.4)	(607.7)
Commissions, Expenses Paid, and Other Deductions	(303.3)	(485.2)
Federal Income Tax Recovered (Paid)	130.3	(54.2)
Net Cash Provided (Used) by Operations	465.1	(794.6)
Investment Activities		
Proceeds from Investments Sold, Matured, or Repaid	407.2	700.3
Cost of Investments Acquired	(780.2)	(278.7)
Net Decrease (Increase) in Contract Loans	1.6	(5.0)
Net Cash Provided (Used) by Investment Activities	(371.4)	416.6
Financing and Miscellaneous Activities		
Capital Contributions	—	329.0
Borrowed Funds	—	(9.3)
Dividends to Stockholders	(70.5)	(88.1)
Net Deposits (Withdrawals) on Deposit-type Contracts	(90.0)	205.8
Other Sources	20.5	14.1
Net Cash Provided (Used) by Financing and Miscellaneous Activities	(140.0)	451.5
Net Increase (Decrease) in Cash and Cash Equivalents	$ (46.3)	$ 73.5

Net cash from operations increased compared to the prior year primarily due to an increase in premiums collected and miscellaneous income. Premiums collected and miscellaneous income increased in 2021 as a result of the transfer of cash in lieu of investments of $399.6 million and the ceding commission paid of $479.0 million, respectively, related to the first phase of the Commonwealth reinsurance transaction in 2020. Also contributing to the year-over-year increase in miscellaneous income is a ceding commission received by the Company of $18.9 million related to the second phase of the Commonwealth reinsurance transaction, which is reflected in miscellaneous income for 2021. See "Significant Events" for further discussion.

The decrease in cash flows from investment activities is due primarily to higher acquisitions of bonds and mortgage loans in addition to lower proceeds from bond sales.

The decrease in cash from financing and miscellaneous activities is due primarily to no capital contributions being made to the Company in 2021 compared to $329.0 million of capital contributions in 2020. Also contributing to the decrease are net repayments of $89.4 million related to the FHLB, compared to net borrowings of $205.7 million in the prior year.

Ratings

AM Best, Fitch Ratings (Fitch), Moody's Investors Service (Moody's), and Standard & Poor's Ratings Services (S&P) are among the third parties that assign a financial strength rating to the Company, which competes based in part on the financial strength ratings provided by rating agencies. A downgrade of financial strength ratings can be expected to adversely affect the Company and could potentially, among other things, adversely affect relationships with distributors of the Company’s products and services and retention of its sales force, negatively impact persistency and new sales, and generally adversely affect the Company’s ability to compete.

The Company was assigned a financial strength rating of “A” by AM Best and S&P, "A-" by Fitch, and “A3” by Moody’s. On April 8, 2021, Fitch affirmed its financial strength rating for the Company and revised its outlook to stable from negative. On June 10, 2021, AM Best affirmed its financial strength rating for the Company and revised its outlook for the Company to stable from negative. On November 8, 2021, Moody's affirmed their financial strength rating of the Company and revised their outlook to stable from negative. The outlook changes reflect improvements related to the economic conditions resulting from COVID-19 on Unum Group's operating results and investment portfolio. There have been no other changes in any of the rating agencies' outlook statements or ratings during 2021 or in 2022 prior to the date of this filing.

Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term. The rating agencies provide specific criteria and, depending on the Company's performance relative to the criteria, will determine future negative or positive rating agency actions.

Off-Balance Sheet Arrangements

The Company leases office space under various noncancelable operating leases under terms that expire through 2023 with minimum aggregate rental commitments of $1.6 million as of December 31, 2021. See Note 15 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion.

At December 31, 2021, the Company had commitments to provide $71.7 million in additional capital contributions to certain private equity partnerships which are due upon satisfaction of contractual notice from the partnerships. These commitments are not legally binding and may or may not be funded. See Note 14A of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion of the partnership commitments.

The Company had $304.2 million notional amount of foreign currency interest rate swaps, $11.6 million notional amount of credit default swaps, and $293.9 million notional amount of credit spread total return swaps outstanding at December 31, 2021. See Notes 8 and 16 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion of the Company’s derivative instruments.

At December 31, 2021, the Company had $20.0 million of off-balance sheet securities lending agreements which were collateralized by securities that the Company was neither permitted to sell nor control. See Notes 5E and 17 of the “Notes to Financial Statements” in the Company’s 2021 annual statement for further discussion.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained within this management discussion and analysis, may be considered forward-looking statements and contain words and phrases such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "plans," "assumes," "intends," "projects," "goals," "objectives," or similar expressions. Forward-looking statements are those not based on historical information, but rather relate to the Company’s outlook, future operations, strategies, financial results, or other developments. Forward-looking statements speak only as of the date made. The Company undertakes no obligation to update these statements. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond the Company’s control and may cause actual results to differ materially from those contemplated by the forward-looking statements.

OUTLOOK

The Company's near-term results will be influenced by pandemic trends, specifically the working population mortality levels along with the level and severity of infection rates. As the pandemic impacts lessen, the Company anticipates seeing growth in earnings given the underlying strength of its business. Excluding the impacts of the Commonwealth reinsurance transaction on 2021, the Company expects full year premium income to remain largely consistent in 2022. While the Company expects its claim experience to improve as impacts from COVID-19 lessen, it may also continue to experience claims volatility, particularly in its voluntary benefits disability and life products.

The low interest rate environment continues to place pressure on the Company by impacting net investment income yields as well as potentially discount rates on its insurance liabilities. The Company's net investment income may continue to be impacted by fluctuations in miscellaneous investment income. As part of the Company's discipline in pricing and reserving, it continuously monitors emerging claim trends and interest rates. The Company will continue to take appropriate pricing actions on new business and renewals that are reflective of the current environment. The Company continuously monitors key indicators to assess its risks and adjust its business plans accordingly.