

Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2020

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 001-11294

Unum Group

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-1598430

(I.R.S. Employer Identification No.)

1 Fountain Square
Chattanooga, Tennessee

(Address of principal executive offices)

37402

(Zip Code)

(423) 294-1011

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.10 par value	UNM	New York Stock Exchange
6.250% Junior Subordinated Notes due 2058	UNMA	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large Accelerated Filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

203,662,044 shares of the registrant's common stock were outstanding as of October 26, 2020.

TABLE OF CONTENTS

	<u>Page</u>
Cautionary Statement Regarding Forward-Looking Statements	1
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited):	2
Consolidated Balance Sheets at September 30, 2020 and December 31, 2019	2
Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019	4
Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019	5
Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019	6
Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	67
Item 3. Quantitative and Qualitative Disclosures About Market Risk	109
Item 4. Controls and Procedures	109
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	110
Item 1A. Risk Factors	110
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	111
Item 6. Exhibits	112
Signatures	113

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a "safe harbor" to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this quarterly report on Form 10-Q (including certain statements in the consolidated financial statements and related notes and Management's Discussion and Analysis), or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking statements within the meaning of the Act. Forward-looking statements are those not based on historical information, but rather relate to our outlook, future operations, strategies, financial results, or other developments. Forward-looking statements speak only as of the date made. We undertake no obligation to update these statements, even if made available on our website or otherwise. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, a practice which is known as "incorporation by reference." You can find many of these statements by looking for words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "plans," "assumes," "intends," "projects," "goals," "objectives," or similar expressions in this document or in documents incorporated herein.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond our control. We caution readers that the following factors, in addition to other factors mentioned from time to time, may cause actual results to differ materially from those contemplated by the forward-looking statements:

- The impact of the COVID-19 pandemic on our business, financial position, results of operations, liquidity and capital resources, and overall business operations.
- Sustained periods of low interest rates.
- Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality and morbidity rates, and policy benefit offsets.
- Unfavorable economic or business conditions, both domestic and foreign, that may result in decreases in sales, premiums, or persistency, as well as unfavorable claims activity.
- Changes in, or interpretations or enforcement of, laws and regulations.
- A cyber attack or other security breach could result in the unauthorized acquisition of confidential data.
- The failure of our business recovery and incident management processes to resume our business operations in the event of a natural catastrophe, cyber attack, or other event.
- Investment results, including, but not limited to, changes in interest rates, defaults, changes in credit spreads, impairments, and the lack of appropriate investments in the market which can be acquired to match our liabilities.
- Increased competition from other insurers and financial services companies due to industry consolidation, new entrants to our markets, or other factors.
- Changes in our financial strength and credit ratings.
- Our ability to develop digital capabilities or execute on our technology systems upgrades or replacements.
- Actual experience in the broad array of our products that deviates from our assumptions used in pricing, underwriting, and reserving.
- Availability of reinsurance in the market and the ability of our reinsurers to meet their obligations to us.
- Ability to generate sufficient internal liquidity and/or obtain external financing.
- Damage to our reputation due to, among other factors, regulatory investigations, legal proceedings, external events, and/or inadequate or failed internal controls and procedures.
- Effectiveness of our risk management program.
- Contingencies and the level and results of litigation.
- Ineffectiveness of our derivatives hedging programs due to changes in the economic environment, counterparty risk, ratings downgrades, capital market volatility, changes in interest rates, and/or regulation.
- Fluctuation in foreign currency exchange rates.
- Recoverability and/or realization of the carrying value of our intangible assets, long-lived assets, and deferred tax assets.

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of this quarterly report on Form 10-Q.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Unum Group and Subsidiaries

	September 30 2020	December 31 2019
(in millions of dollars)		
(Unaudited)		
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost of \$41,239.4; \$41,079.3; allowance for credit losses of \$12.5; \$—)	\$ 49,270.2	\$ 47,443.7
Mortgage Loans (net of allowance for credit losses of \$14.6; \$—)	2,406.5	2,397.0
Policy Loans	3,669.1	3,779.5
Other Long-term Investments	931.0	844.2
Short-term Investments	2,086.7	1,294.5
Total Investments	58,363.5	55,758.9
Other Assets		
Cash and Bank Deposits	103.8	84.1
Accounts and Premiums Receivable (net of allowance for credit losses of \$41.1; \$10.3)	1,577.9	1,602.9
Reinsurance Recoverable (net of allowance for credit losses of \$1.8; \$—)	4,895.9	4,780.7
Accrued Investment Income	676.9	693.0
Deferred Acquisition Costs	2,291.2	2,324.0
Goodwill	350.6	351.7
Property and Equipment	508.8	534.1
Other Assets	847.4	884.0
Total Assets	\$ 69,616.0	\$ 67,013.4

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - Continued

Unum Group and Subsidiaries

	September 30 2020	December 31 2019
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	\$ 1,801.6	\$ 1,745.5
Reserves for Future Policy and Contract Benefits	48,844.3	47,780.1
Unearned Premiums	404.3	363.9
Other Policyholders' Funds	1,626.6	1,599.7
Income Tax Payable	395.1	256.7
Deferred Income Tax	210.5	95.4
Short-term Debt	—	399.7
Long-term Debt	3,378.6	2,926.9
Payables for Collateral on Investments	64.5	24.0
Other Liabilities	1,998.3	1,856.5
Total Liabilities	58,723.8	57,048.4
Commitments and Contingent Liabilities - Note 11		
Stockholders' Equity		
Common Stock, \$0.10 par		
Authorized: 725,000,000 shares		
Issued: 306,465,302 and 305,813,326 shares	30.7	30.6
Additional Paid-in Capital	2,371.3	2,348.1
Accumulated Other Comprehensive Income	477.6	37.3
Retained Earnings	11,192.3	10,728.7
Treasury Stock - at cost: 102,876,514 shares	(3,179.7)	(3,179.7)
Total Stockholders' Equity	10,892.2	9,965.0
Total Liabilities and Stockholders' Equity	\$ 69,616.0	\$ 67,013.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
(in millions of dollars, except share data)				
Revenue				
Premium Income	\$ 2,318.1	\$ 2,331.2	\$ 7,058.2	\$ 7,013.0
Net Investment Income	613.2	599.4	1,767.2	1,819.0
Net Realized Investment Gain (Loss)	4.4	(26.2)	(105.8)	(32.4)
Other Income	60.6	55.6	169.0	164.7
Total Revenue	2,996.3	2,960.0	8,888.6	8,964.3
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,888.6	1,871.5	5,626.2	5,614.9
Commissions	258.3	277.9	810.5	852.4
Interest and Debt Expense	49.4	46.1	142.6	130.8
Cost Related to Early Retirement of Debt	—	25.2	—	25.2
Deferral of Acquisition Costs	(134.9)	(160.6)	(446.8)	(504.6)
Amortization of Deferred Acquisition Costs	149.7	146.3	466.6	468.5
Compensation Expense	253.3	226.5	726.0	676.9
Other Expenses	232.3	227.7	724.2	695.5
Total Benefits and Expenses	2,696.7	2,660.6	8,049.3	7,959.6
Income Before Income Tax	299.6	299.4	839.3	1,004.7
Income Tax Expense				
Current	45.1	42.3	173.3	170.6
Deferred	23.4	15.1	8.4	30.0
Total Income Tax Expense	68.5	57.4	181.7	200.6
Net Income	\$ 231.1	\$ 242.0	\$ 657.6	\$ 804.1
Net Income Per Common Share				
Basic	\$ 1.13	\$ 1.16	\$ 3.23	\$ 3.81
Assuming Dilution	\$ 1.13	\$ 1.16	\$ 3.23	\$ 3.81

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Net Income	\$ 231.1	\$ 242.0	\$ 657.6	\$ 804.1
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense of \$126.6; \$209.5; \$344.0; \$815.6)	481.4	800.4	1,322.4	3,093.2
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax benefit of \$89.9; \$172.6; \$219.7; \$619.3)	(340.0)	(665.2)	(833.8)	(2,358.7)
Change in Net Gain on Hedges (net of tax benefit of \$6.7; \$3.7; \$7.2; \$12.3)	(27.5)	(13.7)	(29.1)	(46.3)
Change in Foreign Currency Translation Adjustment (net of tax expense (benefit) of \$(1.9); \$0.8; \$(1.1); \$1.2)	34.5	(37.6)	(32.1)	(40.0)
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense of \$0.4; \$0.8; \$3.4; \$2.8)	2.0	5.4	12.9	12.8
Total Other Comprehensive Income	150.4	89.3	440.3	661.0
Comprehensive Income	\$ 381.5	\$ 331.3	\$ 1,097.9	\$ 1,465.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended September		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Common Stock				
Balance at Beginning of Period	\$ 30.6	\$ 30.6	\$ 30.6	\$ 30.5
Common Stock Activity	0.1	—	0.1	0.1
Balance at End of Period	30.7	30.6	30.7	30.6
Additional Paid-in Capital				
Balance at Beginning of Period	2,364.1	2,335.6	2,348.1	2,321.7
Common Stock Activity	7.2	6.7	23.2	20.6
Balance at End of Period	2,371.3	2,342.3	2,371.3	2,342.3
Accumulated Other Comprehensive Income (Loss)				
Balance at Beginning of Period	327.2	(242.5)	37.3	(814.2)
Other Comprehensive Income	150.4	89.3	440.3	661.0
Balance at End of Period	477.6	(153.2)	477.6	(153.2)
Retained Earnings				
Balance at Beginning of Period	11,019.2	10,308.9	10,728.7	9,863.1
Adjustment to Adopt Accounting Standard Update - Note 2	—	—	(18.9)	(3.4)
Balance at Beginning of Period, as Adjusted	11,019.2	10,308.9	10,709.8	9,859.7
Net Income	231.1	242.0	657.6	804.1
Dividends to Stockholders (per common share: \$0.285; \$0.285; \$0.855; \$0.805)	(58.0)	(59.4)	(175.1)	(172.3)
Balance at End of Period	11,192.3	10,491.5	11,192.3	10,491.5
Treasury Stock				
Balance at Beginning of Period	(3,179.7)	(2,979.5)	(3,179.7)	(2,779.3)
Purchases of Treasury Stock	—	(100.1)	—	(300.3)
Balance at End of Period	(3,179.7)	(3,079.6)	(3,179.7)	(3,079.6)
Total Stockholders' Equity at End of Period	\$ 10,892.2	\$ 9,631.6	\$ 10,892.2	\$ 9,631.6

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Nine Months Ended September 30	
	2020	2019
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	\$ 657.6	\$ 804.1
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	163.2	7.1
Change in Deferred Acquisition Costs	19.8	(36.1)
Change in Insurance Reserves and Liabilities	129.2	302.6
Change in Income Taxes	162.0	215.3
Change in Other Accrued Liabilities	(1.5)	(29.9)
Non-cash Components of Net Investment Income	(111.3)	(178.9)
Net Realized Investment Loss	105.8	32.4
Depreciation	85.6	82.6
Other, Net	68.4	57.6
Net Cash Provided by Operating Activities	1,278.8	1,256.8
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturity Securities	499.7	862.5
Proceeds from Maturities of Fixed Maturity Securities	1,594.2	1,392.3
Proceeds from Sales and Maturities of Other Investments	163.9	272.0
Purchases of Fixed Maturity Securities	(2,229.5)	(2,866.9)
Purchases of Other Investments	(289.6)	(354.9)
Net Purchases of Short-term Investments	(769.8)	(306.2)
Net Increase (Decrease) in Payables for Collateral on Investments	40.5	(97.5)
Net Purchases of Property and Equipment	(99.5)	(107.5)
Other, Net	—	0.3
Net Cash Used by Investing Activities	(1,090.1)	(1,205.9)
Cash Flows from Financing Activities		
Short-term Debt Repayment	(400.0)	—
Issuance of Long-term Debt	494.1	841.9
Long-term Debt Repayment	(45.0)	(381.5)
Cost Related to Early Retirement of Debt	—	(24.1)
Issuance of Common Stock	3.3	4.7
Repurchase of Common Stock	—	(297.2)
Dividends Paid to Stockholders	(173.8)	(170.3)
Other, Net	(47.6)	(41.4)
Net Cash Used by Financing Activities	(169.0)	(67.9)
Net Increase (Decrease) in Cash and Bank Deposits	19.7	(17.0)
Cash and Bank Deposits at Beginning of Year	84.1	94.0
Cash and Bank Deposits at End of Period	\$ 103.8	\$ 77.0

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

September 30, 2020

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2019.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of full year performance, particularly when considering the risks and uncertainties associated with the coronavirus disease 2019 (COVID-19) and the impacts it may have on our financial position, results of operations, liquidity and capital resources, and overall business operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 2 - Accounting Developments

Accounting Updates Adopted in 2020:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 350 "Intangibles - Goodwill and Other"	This update eliminated the requirement to calculate the implied fair value of goodwill (the second step in the current two-step test) to measure a goodwill impairment charge. Instead, entities should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of the carrying amount over the fair value, with the loss not to exceed the total amount of goodwill allocated to that reporting unit. This guidance was applied in the period of adoption.	January 1, 2020	The adoption of this update did not have an effect on our financial position or results of operations.
ASC 820 "Fair Value Measurement"	This update amended the fair value measurement guidance by removing or clarifying certain existing disclosure requirements, while also adding new disclosure requirements. Specifically, this update removed certain disclosures related to Level 1 and Level 2 transfers and removed the discussion regarding valuation processes of Level 3 fair value measurements. The update modified guidance related to investments in certain entities that calculate net asset value to explicitly require disclosure regarding timing of liquidation of the investee's assets and timing of redemption restrictions. The update added disclosures around the changes in unrealized gains and losses in other comprehensive income for recurring Level 3 investments held at the end of the reporting period and adds disclosures regarding certain unobservable inputs on Level 3 fair value measurements. The guidance was applied both retrospectively and prospectively, depending on the specific requirement of the update.	December 31, 2018 for the removal and modification of certain disclosures and January 1, 2020 for the addition of certain disclosures.	The adoption of this update modified our disclosures but did not have an impact on our financial position or results of operations.
ASC 326 "Financial Instruments - Credit Losses"	This update amended the guidance on the impairment of financial instruments. The update added an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses and will generally result in earlier recognition of allowances for losses. The current expected credit loss model applies to financial instruments such as mortgage loans, fixed maturity securities classified as held-to-maturity, and certain receivables. The update also modified the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit losses are recognized as an allowance rather than as a reduction in the amortized cost of the security. The reversal of previously recognized credit losses on available-for-sale fixed maturity securities is allowed under specified circumstances. Additional disclosures are also required, including information used to develop the allowance for losses. The guidance was applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. For available-for-sale fixed maturity securities, the update was applied prospectively. Other-than-temporary impairment losses recognized on available-for-sale fixed maturity securities prior to adoption of the update cannot be reversed. This guidance was applied in the period of adoption.	January 1, 2020	See the summary table below for the financial statement impacts of this adoption on our financial statement line items at January 1, 2020, as well as the required update to our significant accounting policies. In addition, see Note 4 of the "Notes to Consolidated Financial Statements" contained herein in this Item 1 for the additional disclosures required by the update.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 2 - Accounting Developments - Continued

Summary of Financial Statement Impacts of Accounting Updates Adopted in 2020:

	Balance at December 31, 2019	Balance at January 1, 2020	Effect of Change
	(in millions of dollars)		
Adjustments due to ASC 326			
Consolidated Balance Sheets			
Assets			
Mortgage Loans	\$ 2,397.0	\$ 2,388.7	\$ (8.3)
Reinsurance Recoverable	4,780.7	4,778.9	(1.8)
Accounts and Premiums Receivable	1,602.9	1,589.4	(13.5)
Liabilities			
Deferred Income Tax	95.4	90.4	(5.0)
Other Liabilities	1,856.5	1,856.8	0.3
Stockholders' Equity			
Retained Earnings	10,728.7	10,709.8	(18.9)

In accordance with the January 1, 2020 implementation of updates to Accounting Standards Codification (ASC) 326 "Financial Instruments - Credit Losses", we have added the following discussion regarding our accounting policies on the allowance for current expected credit losses to our significant accounting policies.

Allowance for Current Expected Credit Losses: We establish an allowance for current expected credit losses on certain of our financial assets, which is deducted from the amortized cost of applicable investments and the gross amount of applicable receivables, to present the net amount we expect to collect on these financial assets. The allowance is forward-looking in nature and is calculated based on considerations regarding both historical events and future expectations. Periodic changes in the allowance are recorded through earnings.

The allowance on our premiums receivable is primarily determined using an aging analysis as well as historical lapse and delinquency rates by line of business, adjusted for key factors that may impact our future expectation of premium receipts such as changes in customer demographics, business practices, economic conditions, and product offerings. We write off premiums receivable amounts when determined to be uncollectible, which is based on various factors, including the aging of premiums receivable past the due date and specific communication with customers. At January 1, 2020 and September 30, 2020, the allowance for expected credit losses on premium receivables was \$23.8 million and \$41.1 million, respectively, on gross premium receivables of \$543.0 million and \$597.6 million, respectively. The allowance at January 1, 2020 includes amounts that were previously established at December 31, 2019. The allowance decreased \$6.4 million during the three months ended September 30, 2020, primarily due to a decline in the premium receivable balance, an improvement in the age of premiums due to be collected, and premium due write-offs. The allowance increased \$17.3 million during the nine months ended September 30, 2020, primarily due to an increase in the premium due balance and the uncertainty of collectability resulting from the impacts of COVID-19, partially offset by premium due write-offs. The primary factors considered in establishing the additional allowance were the recent increase in unemployment levels, state-level requirements regarding billing and administration accommodations, and the general uncertainty around the financial condition of some of our customers.

The allowance for our reinsurance recoverable balance is determined using a probability of default approach which incorporates key inputs and assumptions regarding historical insurer liquidation rates, counterparty credit ratings, and collateral received. Liquidation rates are derived from rating agency studies covering domestic insurers and are based on historical liquidation trends according to their respective credit ratings. When calculating our allowance, we apply these liquidation rates to the net amount of our credit exposure, which considers collateral arrangements such as letters of credit. We evaluate the factors used to determine our allowance on a quarterly basis to consider material changes in our assumptions and make adjustments

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 2 - Accounting Developments - Continued

accordingly. At both January 1, 2020 and September 30, 2020, the allowance for expected credit losses on reinsurance recoverables was \$1.8 million.

See Note 4 for discussion on the allowance for current expected credit losses regarding our commercial mortgage loans and the allowance for credit losses for our available-for-sale fixed maturity securities.

Summary of Financial Statement Impacts of Accounting Updates adopted in 2019:

Effective January 1, 2019, we adopted an update under ASC 842 that changed the accounting and disclosure requirements for leases, requiring lessees to report most leases on their balance sheets, regardless of whether the lease is classified as a finance lease or an operating lease. For lessees, the initial lease liability is equal to the present value of lease payments, and a corresponding asset, adjusted for certain items, is also recorded. Expense recognition for lessees remained similar to previous accounting requirements for capital and operating leases. For lessors, the guidance modified the classification criteria and the accounting for sales-type and direct financing leases. The guidance was applied using a modified retrospective approach through a cumulative-effect reduction to retained earnings of \$3.4 million at the beginning of the period of adoption. In addition, the package of practical expedients available to leases that commenced prior to the date of adoption was applied.

Accounting Updates Outstanding:

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 715 "Compensation - Retirement Benefits"	This update amends the defined benefit pension and other postretirement benefit guidance by removing or clarifying certain existing disclosure requirements, while also adding new disclosure requirements. Specifically, this update removes the requirement to disclose the effects of a one-percentage point change in the assumed healthcare cost trend and the requirement to disclose amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost of the next year. This update adds a requirement to describe the reasons for significant gains and losses related to changes in the benefit obligation for the period. The update also clarifies that the projected benefit obligation (PBO) and accumulated benefit obligation (ABO) and fair value of plan assets are to be disclosed for plans with PBOs or ABOs in excess of plan assets. The guidance is to be applied retrospectively and early adoption is permitted.	December 31, 2020	The adoption of this update will modify our disclosures but will not have an impact on our financial position or results of operations.
ASC 740 "Income Taxes"	The amendments in this update simplify the accounting for income taxes by removing certain exceptions in the guidance related to the following: 1. losses in continuing operations when there is income in other items, 2. foreign subsidiaries becoming equity method investments and vice versa, and 3. year-to-date interim period losses exceeding anticipated loss for the year. The amendments also simplify the accounting for income taxes related to the following: 1. franchise taxes partially based on income, 2. step up in the tax basis of goodwill, 3. allocation of tax expense to entities not subject to tax, 4. enacted changes in tax law or rates in interim periods, and 5. employee stock ownership programs and investments in qualified affordable housing projects accounted for using the equity method.	January 1, 2021	The adoption of this update will not have a material effect on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 2 - Accounting Developments - Continued

ASC	Description	Date of Adoption	Effect on Financial Statements
ASC 944 "Financial Services - Insurance"	<p>This update significantly amends the accounting and disclosure requirements for long-duration insurance contracts. These changes include a requirement to review, and if necessary, update cash flow assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually, with changes recognized in earnings. In addition, an entity will be required to update the discount rate assumption at each reporting date using a yield that is reflective of an upper-medium grade fixed-income instrument, with changes recognized in other comprehensive income. These changes result in the elimination of the provision for risk of adverse deviation and premium deficiency (or loss recognition) testing. The update also requires that an entity measure all market risk benefits associated with deposit contracts at fair value, with changes recognized in earnings except for the portion attributable to a change in the instrument-specific credit risk, which is to be recognized in other comprehensive income. This update also simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are no longer subject to an impairment test. Significant additional disclosures will also be required, which include disaggregated rollforwards of certain liability balances and the disclosure of qualitative and quantitative information about expected cash flows, estimates, and assumptions. The application of this guidance will vary based upon the specific requirements of the update but will generally result in either a modified retrospective or full retrospective approach with changes applied as of the beginning of the earliest period presented. Early adoption is permitted.</p> <p>* The Financial Accounting Standards Board (FASB) has affirmed a proposal to defer the effective date to January 1, 2023 and is expected to issue a final amendment later in 2020.</p>	January 1, 2022*	We are currently evaluating the impact of the update and expect that the adoption may have a material impact on our financial position and results of operations. The update will also significantly expand our disclosures.
ASC 848 "Reference Rate Reform"	<p>The amendments in this update provide optional guidance, for a limited period of time, to ease the potential burden in accounting for and recognizing the effects of reference rate reform on financial reporting. The guidance allows for various practical expedients and exceptions when applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. Specifically, the guidance provides certain practical expedients for contract modifications, fair value hedges, and cash flow hedges and also provides certain exceptions related to changes in the critical terms of a hedging relationship. The guidance also allows for a one-time election to sell or transfer debt securities that were both classified as held-to-maturity prior to January 1, 2020 and reference a rate affected by the reform.</p>	Adoption is permitted as of the beginning of the interim period that includes March 12, 2020 (the issuance date of the update), or any date thereafter, through December 31, 2022, at which point the guidance will sunset.	We have not yet determined the impact on our financial position or results of operations if we elect to adopt this guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, which are classified as available-for-sale securities, derivative financial instruments, and unrestricted equity securities at fair value in our consolidated balance sheets. 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.

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

We classify financial instruments in accordance with a fair value hierarchy consisting of three levels based on the observability of valuation inputs:

- Level 1 - the highest category of the fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 - 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.
- Level 3 - the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

Valuation Methodologies of Financial Instruments Measured at Fair Value

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

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 it is a bid or market quote. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2020, 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 2019.

Fixed Maturity and Equity Securities

We use observable and unobservable inputs in measuring the fair value of our fixed maturity and equity securities. For securities categorized as Level 1, fair values equal active Trade Reporting and Compliance Engine (TRACE) pricing or unadjusted broker market maker prices. For securities categorized as Level 2 or Level 3, inputs that may be used in valuing each class of securities at any given time period are disclosed below. Actual inputs used to determine fair values will vary for each reporting period depending on the availability of inputs which may, at times, be affected by the lack of market liquidity.

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
United States Government and Government Agencies and Authorities		
Valuation Method	Primarily the market approach	Not applicable
Valuation Techniques / Inputs	Prices obtained from external pricing services	
States, Municipalities, and Political Subdivisions		
Valuation Method	Primarily the market approach	Primarily the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services Relevant reports issued by analysts and rating agencies Audited financial statements	Analysis of similar bonds, adjusted for comparability
Foreign Governments		
Valuation Method	Primarily the market approach	Primarily the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services Non-binding broker quotes Call provisions	Analysis of similar bonds, adjusted for comparability
Public Utilities		
Valuation Method	Primarily the market and income approaches	Primarily the market and income approaches
Valuation Techniques / Inputs	Prices obtained from external pricing services	Change in benchmark reference

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Public Utilities - Continued		
	Non-binding broker quotes	Analysis of similar bonds, adjusted for comparability
	Benchmark yields	Discount for size - illiquidity
	Transactional data for new issuances and secondary trades	Volatility of credit
	Security cash flows and structures	Lack of marketability
	Recent issuance / supply	
	Audited financial statements	
	Security and issuer level spreads	
	Security creditor ratings/maturity/capital structure/optionality	
	Public covenants	
	Comparative bond analysis	
	Relevant reports issued by analysts and rating agencies	
Mortgage/Asset-Backed Securities		
Valuation Method	Principally the market and income approaches	Principally the market approach
Valuation Techniques / Inputs	Prices obtained from external pricing services	Analysis of similar bonds, adjusted for comparability
	Non-binding broker quotes	Prices obtained from external pricing services
	Security cash flows and structures	
	Underlying collateral	
	Prepayment speeds/loan performance/delinquencies	
	Relevant reports issued by analysts and rating agencies	
	Audited financial statements	
All Other Corporate Bonds		
Valuation Method	Principally the market and income approaches	Principally the market and income approaches
Valuation Techniques / Inputs	Prices obtained from external pricing services	Change in benchmark reference
	Non-binding broker quotes	Discount for size - illiquidity
	Benchmark yields	Volatility of credit
	Transactional data for new issuances and secondary trades	Lack of marketability
	Security cash flows and structures	Prices obtained from external pricing services
	Recent issuance / supply	
	Security and issuer level spreads	
	Security creditor ratings/maturity/capital structure/optionality	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
All Other Corporate Bonds - Continued		
	Public covenants	
	Comparative bond analysis	
	Relevant reports issued by analysts and rating agencies	
	Audited financial statements	
Redeemable Preferred Stocks		
Valuation Method	Primarily the market approach	Primarily the market approach
Valuation Techniques / Inputs	Non-binding broker quotes	Financial statement analysis
	Benchmark yields	
	Comparative bond analysis	
	Call provisions	
	Relevant reports issued by analysts and rating agencies	
	Audited financial statements	
Perpetual Preferred and Equity Securities		
Valuation Method	Primarily the market approach	Primarily the market and income approaches
Valuation Techniques / Inputs	Prices obtained from external pricing services	Financial statement analysis
	Non-binding broker quotes	

The management of our investment portfolio includes establishing pricing policy and reviewing the reasonableness of sources and inputs used in developing pricing. We review all prices that vary between multiple pricing vendors by a threshold that is outside a normal market range for the asset type. 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 prices that did not change from the prior month to ensure that these prices are within our expectations. 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.

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

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.

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.

At September 30, 2020, approximately 18.5 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1.

The remaining 81.5 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below:

- 68.4 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2.
- 8.8 percent of our fixed maturity securities were valued based on one or more non-binding broker quotes, if validated by observable market data. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.
- 4.3 percent of our fixed maturity securities were valued based on prices of comparable securities, internal models, or pricing services or other non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data.

Derivatives

Fair values for derivatives other than embedded derivatives in modified coinsurance arrangements are based on market quotes or pricing models and represent the net amount of cash we would have paid or received if the contracts had been settled or closed as of the last day of the period. We analyze credit default swap spreads relative to the average credit spread embedded within the 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.

Fair values for our embedded derivative in a modified coinsurance arrangement are estimated using internal pricing models and represent the hypothetical value of the duration mismatch of assets and liabilities, interest rate risk, and third party credit risk embedded in the modified coinsurance arrangement.

We consider transactions in inactive markets to be less representative of fair value. We use all available observable inputs when measuring fair value, but when significant unobservable inputs are used, we classify these assets or liabilities as Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Private Equity Partnerships

Our private equity partnerships represent funds that are primarily invested in private credit, private equity, and real assets, as described below. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. There is generally not a public market for these investments.

The following tables present additional information about our private equity partnerships, including commitments for additional investments which may or may not be funded:

Investment Category	September 30, 2020		
	Fair Value (in millions of dollars)	Redemption Term / Redemption Notice	Unfunded Commitments (in millions of dollars)
Private Credit (a)	\$ 221.0	Not redeemable	\$ 193.3
	40.1	Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	—
Total Private Credit	261.1		193.3
Private Equity (b)	198.5	Not redeemable	204.6
	2.1	Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	37.8
Total Private Equity	200.6		242.4
Real Assets (c)	171.8	Not redeemable	186.6
	55.1	Quarterly / 90 days notice	—
Total Real Assets	226.9		186.6
Total Partnerships	\$ 688.6		\$ 622.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Investment Category	December 31, 2019		
	Fair Value (in millions of dollars)	Redemption Term / Redemption Notice	Unfunded Commitments (in millions of dollars)
Private Credit	(a) \$ 223.6	Not redeemable	\$ 152.6
		Initial 2 year lock on each new investment / Quarterly after 2 year lock with 90 days notice	0.1
Total Private Credit	263.2		152.7
Private Equity	(b) 149.3	Not redeemable	166.8
Real Assets	(c) 173.8	Not redeemable	130.6
		Quarterly / 90 days notice	25.0
Total Real Assets	204.2		155.6
Total Partnerships	\$ 616.7		\$ 475.1

- (a) **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. As of September 30, 2020, the estimated remaining life of the investments that do not allow for redemptions is approximately 40 percent in the next 3 years, 41 percent during the period from 3 to 5 years, 16 percent during the period from 5 to 10 years, and 3 percent during the period from 10 to 15 years.
- (b) **Private Equity** - The limited partnerships described in this category employ various strategies generally investing in controlling or minority control equity positions directly in companies and/or assets across various industries (including manufacturing, healthcare, energy, business services, technology, materials, and retail), primarily in private markets within North America and, to a lesser extent, outside of North America. As of September 30, 2020, the estimated remaining life of the investments that do not allow for redemptions is approximately 22 percent in the next 3 years, 37 percent during the period from 3 to 5 years, 40 percent during the period from 5 to 10 years, and 1 percent during the period from 10 to 15 years.
- (c) **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. As of September 30, 2020, the estimated remaining life of the investments that do not allow for redemptions is approximately 12 percent in the next 3 years, 23 percent during period from 3 to 5 years and 65 percent during the period from 5 to 10 years.

We record changes in our share of net asset value of the partnerships in net investment income. We receive financial information related to our investments in partnerships generally on a one-quarter lag in accordance with our accounting policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

The following tables present information about financial instruments measured at fair value on a recurring basis by fair value level, based on the observability of the inputs used:

	September 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total
	(in millions of dollars)				
Assets					
Fixed Maturity Securities					
United States Government and Government Agencies and Authorities	\$ —	\$ 1,249.9	\$ —	\$ —	\$ 1,249.9
States, Municipalities, and Political Subdivisions	18.5	3,897.1	14.4	—	3,930.0
Foreign Governments	—	1,093.4	21.7	—	1,115.1
Public Utilities	550.0	7,104.2	361.8	—	8,016.0
Mortgage/Asset-Backed Securities	—	1,344.3	87.8	—	1,432.1
All Other Corporate Bonds	8,556.3	24,260.9	700.4	—	33,517.6
Redeemable Preferred Stocks	—	9.5	—	—	9.5
Total Fixed Maturity Securities	9,124.8	38,959.3	1,186.1	—	49,270.2
Other Long-term Investments					
Derivatives					
Forwards	—	0.1	—	—	0.1
Foreign Exchange Contracts	—	38.0	—	—	38.0
Credit Default Swaps	—	0.2	—	—	0.2
Total Derivatives	—	38.3	—	—	38.3
Perpetual Preferred and Equity Securities	19.3	0.2	4.6	—	24.1
Private Equity Partnerships	—	—	—	688.6	688.6
Total Other Long-term Investments	19.3	38.5	4.6	688.6	751.0
Total Financial Instrument Assets Carried at Fair Value	\$ 9,144.1	\$ 38,997.8	\$ 1,190.7	\$ 688.6	\$ 50,021.2
Liabilities					
Other Liabilities					
Derivatives					
Foreign Exchange Contracts	\$ —	\$ 34.0	\$ —	\$ —	\$ 34.0
Embedded Derivative in Modified Coinsurance Arrangement	—	—	53.7	—	53.7
Total Derivatives	—	34.0	53.7	—	87.7
Total Financial Instrument Liabilities Carried at Fair Value	\$ —	\$ 34.0	\$ 53.7	\$ —	\$ 87.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total
	(in millions of dollars)				
Assets					
Fixed Maturity Securities					
United States Government and Government Agencies and Authorities	\$ 412.8	\$ 988.9	\$ —	\$ —	\$ 1,401.7
States, Municipalities, and Political Subdivisions	—	3,321.6	41.8	—	3,363.4
Foreign Governments	—	995.9	21.8	—	1,017.7
Public Utilities	171.1	7,546.5	14.6	—	7,732.2
Mortgage/Asset-Backed Securities	—	1,444.6	34.1	—	1,478.7
All Other Corporate Bonds	4,114.4	27,695.5	600.5	—	32,410.4
Redeemable Preferred Stocks	—	39.6	—	—	39.6
Total Fixed Maturity Securities	4,698.3	42,032.6	712.8	—	47,443.7
Other Long-term Investments					
Derivatives					
Foreign Exchange Contracts	—	27.0	—	—	27.0
Credit Default Swaps	—	0.5	—	—	0.5
Total Derivatives	—	27.5	—	—	27.5
Perpetual Preferred and Equity Securities	—	28.0	4.6	—	32.6
Private Equity Partnerships	—	—	—	616.7	616.7
Total Other Long-term Investments	—	55.5	4.6	616.7	676.8
Total Financial Instrument Assets Carried at Fair Value	\$ 4,698.3	\$ 42,088.1	\$ 717.4	\$ 616.7	\$ 48,120.5
Liabilities					
Other Liabilities					
Derivatives					
Interest Rate Swaps	\$ —	\$ 0.6	\$ —	\$ —	\$ 0.6
Foreign Exchange Contracts	—	34.0	—	—	34.0
Embedded Derivative in Modified Coinsurance Arrangement	—	—	22.8	—	22.8
Total Derivatives	—	34.6	22.8	—	57.4
Total Financial Instrument Liabilities Carried at Fair Value	\$ —	\$ 34.6	\$ 22.8	\$ —	\$ 57.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

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

	Three Months Ended September 30, 2020									
	Fair Value Beginning of Period	Total Realized and Unrealized Investment Gains (Losses) in		Purchases	Sales	Level 3 Transfers		Fair Value End of Period	Change in Unrealized Gain (Loss) on Securities Held at the End of Period included in	
		Earnings	OCI ¹			Into	Out of		OCI ¹	Earnings
	(in millions of dollars)									
Fixed Maturity Securities										
States, Municipalities, and Political Subdivisions	\$ 13.8	\$ —	\$ 0.6	\$ —	\$ —	\$ —	\$ —	\$ 14.4	\$ 0.1	\$ —
Foreign Governments	22.0	—	(0.3)	—	—	—	—	21.7	(0.2)	—
Public Utilities	309.2	—	2.8	—	—	128.1	(78.3)	361.8	2.9	—
Mortgage/Asset- Backed Securities	174.3	—	(1.0)	—	—	—	(85.5)	87.8	(0.9)	—
All Other Corporate Bonds	546.5	—	11.4	60.0	(1.0)	208.3	(124.8)	700.4	10.2	—
Total Fixed Maturity Securities	1,065.8	—	13.5	60.0	(1.0)	336.4	(288.6)	1,186.1	12.1	—
Equity Securities	4.5	0.1	—	—	—	—	—	4.6	—	0.1
Embedded Derivative in Modified Coinsurance Arrangement	(67.8)	14.1	—	—	—	—	—	(53.7)	—	14.1

¹ Other Comprehensive Income (Loss)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

	Three Months Ended September 30, 2019							
	Fair Value Beginning of Period	Total Realized and Unrealized Investment Gains (Losses) in		Purchases	Sales	Level 3 Transfers		Fair Value End of Period
		Earnings	OCI			Into	Out of	
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ —	\$ —	\$ —	\$ 13.1	\$ —	\$ —	\$ —	\$ 13.1
Foreign Governments	31.9	—	—	—	—	—	—	31.9
Public Utilities	189.1	—	3.6	—	—	84.2	(180.7)	96.2
Mortgage/Asset-Backed Securities	—	—	(0.8)	—	—	62.0	—	61.2
All Other Corporate Bonds	1,014.1	—	2.7	19.8	(1.4)	76.5	(690.0)	421.7
Redeemable Preferred Stocks	—	—	—	—	—	—	—	—
Total Fixed Maturity Securities	1,235.1	—	5.5	32.9	(1.4)	222.7	(870.7)	624.1
Equity Securities	4.6	—	—	—	—	—	—	4.6
Embedded Derivative in Modified Coinsurance Arrangement	(26.4)	(11.1)	—	—	—	—	—	(37.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Nine Months Ended September 30, 2020											
	Fair Value Beginning of Year	Total Realized and Unrealized Investment Gains (Losses) in		Purchases	Sales	Level 3 Transfers		Fair Value End of Period	Change in Unrealized Gain (Loss) on Securities Held at the End of Period included in		
		Earnings	OCI			Into	Out of		OCI	Earnings	
(in millions of dollars)											
Fixed Maturity Securities											
States, Municipalities, and Political Subdivisions	\$ 41.8	\$ —	\$ 1.1	\$ —	\$ —	\$ —	\$ (28.5)	\$ 14.4	\$ 1.4	\$ —	
Foreign Governments	21.8	—	(0.1)	—	—	—	—	21.7	(0.1)	—	
Public Utilities	14.6	—	7.0	—	—	340.2	—	361.8	7.1	—	
Mortgage/Asset- Backed Securities	34.1	—	(1.8)	—	(7.0)	62.7	(0.2)	87.8	(1.8)	—	
All Other Corporate Bonds	600.5	—	7.3	105.0	(29.1)	183.0	(166.3)	700.4	11.3	—	
Total Fixed Maturity Securities	712.8	—	13.5	105.0	(36.1)	585.9	(195.0)	1,186.1	17.9	—	
Equity Securities	4.6	—	—	—	—	—	—	4.6	—	—	
Embedded Derivative in Modified Coinsurance Arrangement	(22.8)	(30.9)	—	—	—	—	—	(53.7)	—	(30.9)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

	Nine Months Ended September 30, 2019							
	Fair Value Beginning of Year	Total Realized and Unrealized Investment Gains (Losses) in		Purchases	Sales	Level 3 Transfers		Fair Value End of Period
		Earnings	OCI			Into	Out of	
	(in millions of dollars)							
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	\$ —	\$ —	\$ —	\$ 13.1	\$ —	\$ —	\$ —	\$ 13.1
Foreign Governments	31.4	—	0.5	—	—	—	—	31.9
Public Utilities	84.7	—	0.8	—	—	87.5	(76.8)	96.2
Mortgage/Asset-Backed Securities	—	—	(1.2)	—	—	62.4	—	61.2
All Other Corporate Bonds	1,495.8	—	15.5	35.2	(48.6)	146.5	(1,222.7)	421.7
Redeemable Preferred Stocks	21.1	—	—	—	—	—	(21.1)	—
Total Fixed Maturity Securities	1,633.0	—	15.6	48.3	(48.6)	296.4	(1,320.6)	624.1
Equity Securities	4.6	—	—	—	—	—	—	4.6
Embedded Derivative in Modified Coinsurance Arrangement	(31.1)	(6.4)	—	—	—	—	—	(37.5)

Realized and unrealized 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 level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for greater transparency, as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

The table below provides quantitative information regarding the significant unobservable inputs used in Level 3 fair value measurements derived from internal models. Unobservable inputs for fixed maturity securities are weighted by the fair value of the securities. Certain securities classified as Level 3 are excluded from the table below due to limitations in our ability to obtain the underlying inputs used by external pricing sources.

September 30, 2020				
	Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
(in millions of dollars)				
Fixed Maturity Securities				
Public Utilities	\$ 111.6	Market Approach	Lack of Marketability	(a) 0.12% - 1.27% / 0.76%
All Other Corporate Bonds - Private	45.9	Market Approach	Volatility of Credit	(b) 0.50% - 15.42% / 2.43%
Equity Securities - Private	4.6	Market Approach	Market Convention	(c) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(53.7)	Discounted Cash Flows	Projected Liability Cash Flows Weighted Spread of Swap Curve	(d) Actuarial Assumptions 1.3%

December 31, 2019				
	Fair Value	Valuation Method	Unobservable Input	Range/Weighted Average
(in millions of dollars)				
Fixed Maturity Securities				
All Other Corporate Bonds - Private	\$ 119.2	Market Approach	Lack of Marketability Volatility of Credit Market Convention	(a) 4.56% - 4.56% / 4.56% (b) 0.35% - 17.68% / 2.2% (c) Priced at Par
Equity Securities - Private	4.6	Market Approach	Market Convention	(c) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(22.8)	Discounted Cash Flows	Projected Liability Cash Flows Weighted Spread of Swap Curve	(d) Actuarial Assumptions 0.8%

- (a) Represents basis point adjustments to apply a discount due to the illiquidity of an investment
- (b) Represents basis point adjustments for credit-specific factors
- (c) Represents a decision to price based on par value, cost, or owner's equity when limited data is available
- (d) Represents various actuarial assumptions required to derive the liability cash flows. Fair value of embedded derivative is most often driven by the change in the weighted average credit spread to the swap curve for the assets backing the hypothetical loan.

Isolated increases in unobservable inputs other than market convention will result in a lower fair value measurement, whereas isolated decreases will result in a higher fair value measurement. The unobservable input for market convention is not sensitive to input movements. The projected liability cash flows used in the fair value measurement of our Level 3 embedded derivative are based on expected claim payments. If claim payments increase, the projected liability cash flows will increase, resulting in a decrease in the fair value of the embedded derivative. Decreases in projected liability cash flows will result in an increase in the fair value of the embedded derivative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

The methods and assumptions used to estimate fair values of financial instruments not carried at fair value are discussed as follows:

Mortgage Loans: Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations.

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. Carrying amounts for ceded policy loans, which equal \$3,669.1 million and \$3,490.6 million as of September 30, 2020 and December 31, 2019, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties.

Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Our shares of FHLB common stock are carried at cost, which approximates fair value.

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

Federal Home Loan Bank (FHLB) Funding Agreements: Funding agreements with the FHLB represent cash advances used for the purpose of investing in fixed maturity securities. Carrying amounts approximate fair value.

Unfunded Commitments to Investment Partnerships: Unfunded equity commitments represent amounts that we have committed to fund certain investment partnerships. These commitments are legally binding, subject to the partnerships meeting specified conditions. Carrying amounts of these financial instruments approximate fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

	September 30, 2020				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
(in millions of dollars)					
Assets					
Mortgage Loans	\$ —	\$ 2,623.3	\$ —	\$ 2,623.3	\$ 2,406.5
Policy Loans	—	—	3,819.2	3,819.2	3,669.1
Other Long-term Investments					
Miscellaneous Long-term Investments	—	21.7	36.6	58.3	58.3
Total Financial Instrument Assets Not Carried at Fair Value	<u>\$ —</u>	<u>\$ 2,645.0</u>	<u>\$ 3,855.8</u>	<u>\$ 6,500.8</u>	<u>\$ 6,133.9</u>
Liabilities					
Long-term Debt	\$ 2,561.0	\$ 1,203.5	\$ —	\$ 3,764.5	\$ 3,378.6
Payable for Collateral on Federal Home Loan Bank (FHLB) Funding Agreements	—	30.2	—	30.2	30.2
Other Liabilities					
Unfunded Commitments	—	1.8	—	1.8	1.8
Total Financial Instrument Liabilities Not Carried at Fair Value	<u>\$ 2,561.0</u>	<u>\$ 1,235.5</u>	<u>\$ —</u>	<u>\$ 3,796.5</u>	<u>\$ 3,410.6</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2019					Carrying Value
	Estimated Fair Value				Total	
	Level 1	Level 2	Level 3			
(in millions of dollars)						
Assets						
Mortgage Loans	\$ —	\$ 2,556.3	\$ —	\$ 2,556.3	\$ 2,397.0	
Policy Loans	—	—	3,911.4	3,911.4	3,779.5	
Other Long-term Investments						
Miscellaneous Long-term Investments	—	18.5	58.4	76.9	76.9	
Total Financial Instrument Assets Not Carried at Fair Value	\$ —	\$ 2,574.8	\$ 3,969.8	\$ 6,544.6	\$ 6,253.4	
Liabilities						
Long-term Debt	\$ 1,712.8	\$ 1,526.2	\$ —	\$ 3,239.0	\$ 2,926.9	
Other Liabilities						
Unfunded Commitments	—	1.9	—	1.9	1.9	
Total Financial Instrument Liabilities Not Carried at Fair Value	\$ 1,712.8	\$ 1,528.1	\$ —	\$ 3,240.9	\$ 2,928.8	

The carrying values of financial instruments such as short-term investments, cash and bank deposits, accounts and premiums receivable, accrued investment income, securities lending agreements, and short-term debt approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the above chart.

Fair values for insurance contracts other than investment contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in our overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments

Fixed Maturity Securities

At September 30, 2020 and December 31, 2019, all fixed maturity securities were classified as available-for-sale. The amortized cost and fair values of securities by security type are shown as follows:

	September 30, 2020				
	Amortized	ACL ⁽¹⁾	Gross	Gross	Fair
	Cost		Unrealized	Unrealized	Value
(in millions of dollars)					
United States Government and Government Agencies and Authorities	\$ 1,032.0	\$ —	\$ 217.9	\$ —	\$ 1,249.9
States, Municipalities, and Political Subdivisions	3,321.6	—	612.0	3.6	3,930.0
Foreign Governments	860.9	—	255.6	1.4	1,115.1
Public Utilities	6,359.9	—	1,662.7	6.6	8,016.0
Mortgage/Asset-Backed Securities	1,317.1	—	115.2	0.2	1,432.1
All Other Corporate Bonds	28,338.3	12.5	5,313.7	134.4	33,517.6
Redeemable Preferred Stocks	9.6	—	—	0.1	9.5
Total Fixed Maturity Securities	\$ 41,239.4	\$ 12.5	\$ 8,177.1	\$ 146.3	\$ 49,270.2

	December 31, 2019				
	Amortized	ACL ⁽¹⁾	Gross	Gross	Fair
	Cost		Unrealized	Unrealized	Value
(in millions of dollars)					
United States Government and Government Agencies and Authorities	\$ 1,246.1	\$ 156.0	\$ 0.4	\$ —	\$ 1,401.7
States, Municipalities, and Political Subdivisions	2,863.1	507.6	7.3	—	3,363.4
Foreign Governments	843.5	175.2	1.0	—	1,017.7
Public Utilities	6,436.7	1,303.7	8.2	—	7,732.2
Mortgage/Asset-Backed Securities	1,377.8	101.3	0.4	—	1,478.7
All Other Corporate Bonds	28,273.1	4,211.2	73.9	—	32,410.4
Redeemable Preferred Stocks	39.0	0.6	—	—	39.6
Total Fixed Maturity Securities	\$ 41,079.3	\$ 6,455.6	\$ 91.2	\$ —	\$ 47,443.7

⁽¹⁾ Allowance for Credit Losses

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

The following charts indicate the length of time our fixed maturity securities have been in a gross unrealized loss position.

	September 30, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
States, Municipalities, and Political Subdivisions	\$ 0.1	\$ —	\$ 275.0	\$ 3.6
Foreign Governments	—	—	29.1	1.4
Public Utilities	24.2	2.2	108.5	4.4
Mortgage/Asset-Backed Securities	0.1	—	21.4	0.2
All Other Corporate Bonds	186.2	50.5	1,435.1	83.9
Redeemable Preferred Stocks	—	—	9.5	0.1
Total Fixed Maturity Securities	\$ 210.6	\$ 52.7	\$ 1,878.6	\$ 93.6

	December 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in millions of dollars)			
United States Government and Government Agencies and Authorities	\$ 110.2	\$ 0.4	\$ —	\$ —
States, Municipalities, and Political Subdivisions	331.0	7.3	0.3	—
Foreign Governments	69.4	1.0	—	—
Public Utilities	168.3	2.6	37.0	5.6
Mortgage/Asset-Backed Securities	47.0	0.4	3.1	—
All Other Corporate Bonds	579.1	29.1	379.8	44.8
Total Fixed Maturity Securities	\$ 1,305.0	\$ 40.8	\$ 420.2	\$ 50.4

The following is a distribution of the maturity dates for fixed maturity securities. The maturity dates have not been adjusted for possible calls or prepayments.

	September 30, 2020				
	Amortized Cost, Net of ACL	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
	(in millions of dollars)				
1 year or less	\$ 1,037.7	\$ 17.8	\$ 1,014.5	\$ 2.1	\$ 38.9
Over 1 year through 5 years	6,811.8	629.0	6,994.9	52.9	393.0
Over 5 years through 10 years	12,880.8	2,189.8	14,384.6	45.7	640.3
Over 10 years	19,192.0	5,225.3	23,376.4	45.4	995.5
	39,922.3	8,061.9	45,770.4	146.1	2,067.7
Mortgage/Asset-Backed Securities	1,317.1	115.2	1,410.6	0.2	21.5
Total Fixed Maturity Securities	\$ 41,239.4	\$ 8,177.1	\$ 47,181.0	\$ 146.3	\$ 2,089.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

	December 31, 2019				
	Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
		Gross Gain	Fair Value	Gross Loss	Fair Value
(in millions of dollars)					
1 year or less	\$ 821.5	\$ 14.5	\$ 832.6	\$ 0.2	\$ 3.2
Over 1 year through 5 years	6,286.2	456.5	6,423.4	41.7	277.6
Over 5 years through 10 years	13,570.8	1,688.3	14,881.3	14.6	363.2
Over 10 years	19,023.0	4,195.0	22,152.6	34.3	1,031.1
	39,701.5	6,354.3	44,289.9	90.8	1,675.1
Mortgage/Asset-Backed Securities	1,377.8	101.3	1,428.6	0.4	50.1
Total Fixed Maturity Securities	\$ 41,079.3	\$ 6,455.6	\$ 45,718.5	\$ 91.2	\$ 1,725.2

The following chart depicts an analysis of our fixed maturity security portfolio between investment-grade and below-investment-grade categories as of September 30, 2020:

	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	
			Amount	Percent of Total Gross Unrealized Loss
Investment-Grade	\$ 45,668.1	\$ 7,987.3	\$ 32.7	22.4 %
Below-Investment-Grade	3,602.1	189.8	113.6	77.6 %
Total Fixed Maturity Securities	\$ 49,270.2	\$ 8,177.1	\$ 146.3	100.0 %

The unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities. Below-investment-grade fixed maturity securities are generally more likely to develop credit concerns than investment-grade securities. At September 30, 2020, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded a credit loss will recover in value. We have the ability and intent to continue to hold these securities to recovery of amortized cost and believe that no credit losses have occurred.

As of September 30, 2020, we held 87 individual investment-grade fixed maturity securities and 61 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 4 investment-grade fixed maturity securities and 15 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

In determining when a decline in fair value below amortized cost of a fixed maturity security represents a credit loss, we evaluate the following factors:

- Whether we expect to recover the entire amortized cost basis of the security
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis
- Whether the security is current as to principal and interest payments
- The significance of the decline in value
- Current and future business prospects and trends of earnings
- The valuation of the security's underlying collateral
- Relevant industry conditions and trends relative to their historical cycles

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

- Market conditions
- Rating agency and governmental actions
- Bid and offering prices and the level of trading activity
- Adverse changes in estimated cash flows for securitized investments
- Changes in fair value subsequent to the balance sheet date
- Any other key measures for the related security

While determining whether a credit loss exists is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of credit losses on a timely basis for investments determined to have a credit loss. We calculate the allowance for credit losses of fixed maturity securities based on the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. When estimating future cash flows, we analyze the strength of the issuer's balance sheet, its debt obligations and near-term funding arrangements, 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. As of September 30, 2020, with respect to the fixed maturity securities for which the allowance for credit losses was recognized, we do not intend to sell these securities, and it is not more likely than not that we will be required to sell these securities before recovery of our estimated value.

The following table presents a rollforward of the allowance for credit losses on available-for-sale fixed maturity securities, all of which are classified as "all other corporate bonds" in the preceding tables, at September 30, 2020:

	Three Months Ended	Nine Months Ended
	(in millions of dollars)	
Balance, beginning of period	\$ 29.8	\$ —
Credit losses on securities for which credit losses were not previously recorded	—	55.6
Change in allowance due to change in intent to hold securities to maturity	(16.9)	(37.7)
Change in allowance on securities with allowance recorded in previous period	(0.4)	(5.4)
Balance, end of period	<u>\$ 12.5</u>	<u>\$ 12.5</u>

At September 30, 2020, we had commitments of \$185.3 million to fund private placement fixed maturity securities, the amount of which may or may not be funded.

Variable Interest Entities

We invest in variable interests issued by variable interest entities. These investments include tax credit partnerships, private equity partnerships, and special purpose entities. For those variable interests that are not consolidated in our financial statements, we are not the primary beneficiary because we have neither the power to direct the activities that are most significant to economic performance nor the responsibility to absorb a majority of the expected losses. The determination of whether we are the primary beneficiary is performed at the time of our initial investment and at the date of each subsequent reporting period.

As of September 30, 2020, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$725.2 million, comprised of \$36.6 million of tax credit partnerships and \$688.6 million of private equity partnerships. At December 31, 2019, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was \$675.1 million, comprised of \$58.4 million of tax credit partnerships and \$616.7 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

The Company invests in tax credit partnerships primarily for the receipt of income tax credits and tax benefits derived from passive losses on the investments. Amounts recognized in the consolidated statements of income are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Income Tax Credits	\$ 8.3	\$ 9.5	\$ 24.9	\$ 28.3
Amortization, Net of Tax	(5.4)	(6.1)	(16.4)	(19.0)
Income Tax Benefit	\$ 2.9	\$ 3.4	\$ 8.5	\$ 9.3

Contractually, we are a limited partner in these tax credit partnerships, and our maximum exposure to loss is limited to the carrying value of our investment, which includes \$1.8 million of unfunded unconditional commitments at September 30, 2020. See Note 3 for commitments to fund private equity partnerships.

Mortgage Loans

Our mortgage loan portfolio is well diversified by both geographic region and property type to reduce risk of concentration. All of our mortgage loans are collateralized by commercial real estate. When issuing a new loan, our general policy is not to exceed a loan-to-value ratio, or the ratio of the loan balance to the estimated fair value of the underlying collateral, of 75 percent. We update the loan-to-value ratios at least every three years for each loan, and properties undergo a general inspection at least every two years. Our general policy for newly issued loans is to have a debt service coverage ratio greater than 1.25 times on a normalized 25 year amortization period. We update our debt service coverage ratios annually.

We adopted new accounting guidance that requires us to estimate an allowance for expected credit losses effective January 1, 2020. We carry our mortgage loans at amortized cost less the allowance for expected credit losses. The amortized cost of our mortgage loans was \$2,421.1 million and \$2,397.0 million at September 30, 2020 and December 31, 2019, respectively. The allowance for expected credit losses was \$14.6 million at September 30, 2020. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. We report accrued interest income for our mortgage loans as accrued investment income on our consolidated balance sheets, and the amount of the accrued income was \$8.1 million and \$8.3 million at September 30, 2020 and December 31, 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

The carrying amount of mortgage loans by property type and geographic region are presented below.

Property Type	September 30, 2020		December 31, 2019	
	(in millions of dollars)			
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Apartment	\$ 635.6	26.4 %	\$ 608.8	25.4 %
Industrial	602.7	25.1	623.6	26.0
Office	522.8	21.7	549.3	22.9
Retail	598.6	24.9	567.5	23.7
Other	46.8	1.9	47.8	2.0
Total	\$ 2,406.5	100.0 %	\$ 2,397.0	100.0 %
Region				
New England	\$ 40.5	1.7 %	\$ 28.9	1.2 %
Mid-Atlantic	204.4	8.5	184.5	7.7
East North Central	341.8	14.2	329.2	13.7
West North Central	201.6	8.4	215.4	9.0
South Atlantic	509.6	21.2	509.2	21.2
East South Central	110.9	4.6	114.3	4.8
West South Central	259.0	10.8	246.6	10.3
Mountain	252.6	10.5	268.2	11.2
Pacific	486.1	20.1	500.7	20.9
Total	\$ 2,406.5	100.0 %	\$ 2,397.0	100.0 %

The risk in our mortgage loan portfolio is primarily related to vacancy rates. Events or developments, such as economic conditions that impact the ability of the borrowers to ensure occupancy of the property, may have a negative effect on our mortgage loan portfolio, particularly to the extent that our portfolio is concentrated in an affected region or property type. An increase in vacancies increases the probability of default, which would negatively affect our expected losses in our mortgage loan portfolio.

We evaluate each of our mortgage loans individually for impairment and assign an internal credit quality rating based on a comprehensive rating system used to evaluate the credit risk of the loan. The factors we use to derive our internal credit ratings may include the following:

- Loan-to-value ratio
- Debt service coverage ratio based on current operating income
- Property location, including regional economics, trends and demographics
- Age, condition, and construction quality of property
- Current and historical occupancy of property
- Lease terms relative to market
- Tenant size and financial strength
- Borrower's financial strength
- Borrower's equity in transaction
- Additional collateral, if any

Although all available and applicable factors are considered in our analysis, loan-to-value and debt service coverage ratios are the most critical factors in determining whether we will initially issue the loan and also in assigning values and determining impairment. We assign an overall rating to each loan using an internal rating scale of AA (highest quality) to B (lowest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

quality). We review and adjust, as needed, our internal credit quality ratings on an annual basis. This review process is performed more frequently for mortgage loans deemed to have a higher risk of delinquency.

We estimate an allowance for credit losses that we expect to incur over the life of our mortgage loans using a probability of default method. For each loan, we estimate the probability that the loan will default before its maturity (probability of default) and the amount of the loss if the loan defaults (loss given default). These two factors result in an expected loss percentage that is applied to the amortized cost of each loan to determine the expected credit loss. As we are the original underwriter of the mortgage loans, the amortized cost generally equals the principal amount of the loan. We measure losses on defaults of our mortgage loans as the excess amortized cost of the mortgage loan over the fair value of the underlying collateral in the event that we foreclose on the loan or over the expected future cash flows of the loan if we retain the mortgage loan until payoff. We do not purchase mortgage loans with existing credit impairments.

In estimating the probability of default, we consider historical experience, current market conditions, and reasonable and supportable forecasts about the future market conditions. We utilize our historical loan experience in combination with a large third-party industry database for a period of time that aligns with the average life of our loans based on the maturity dates of the loans and prepayment experience. Our model utilizes an industry database of the historical loss experience based on our actual portfolio characteristics such as loan-to-value, debt service coverage, collateral type, geography, and late payment history. In addition, because we actively manage our portfolio, we may extend the term of a loan in certain situations and will accordingly extend the maturity date in the estimate of probability of default. In estimating the loss given default, we primarily consider the type and value of collateral and secondarily the expected liquidation costs and time to recovery.

The primary market factors that we consider in our forecast of future market conditions are gross domestic product, unemployment rates, interest rates, inflation, commercial real estate values, household formation, and retail sales. We also forecast certain loan specific factors such as growth in the fair value and net operating income of collateral by property type. We include our estimate of these factors over a two-year period and for the remainder of the loans' estimated lives, adjusted for estimated prepayments. Past the two-year forecast period, we revert to the historical assumptions ratably by the end of the fifth year of the loan after which we utilize only historical assumptions.

We utilize various scenarios to estimate our allowance for expected losses ranging from a base case scenario that reflects normal market conditions to a severe case scenario that reflects adverse market conditions. We will adjust our allowance each period to utilize the scenario or weighting of the scenarios that best reflects our view of current market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

The following tables present information about mortgage loans by the applicable credit quality indicators:

	September 30, 2020		December 31, 2019	
	(in millions of dollars)			
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Internal Rating				
A	\$ 466.3	19.4 %	\$ 485.6	20.3 %
BBB	1,894.4	78.7	1,911.4	79.7
BB	29.4	1.2	—	—
B	16.4	0.7	—	—
Total	\$ 2,406.5	100.0 %	\$ 2,397.0	100.0 %
Loan-to-Value Ratio				
<= 65%	\$ 1,250.1	51.9 %	\$ 1,215.1	50.7 %
> 65% <= 75%	1,053.7	43.8	1,053.0	43.9
> 75% <= 85%	45.5	1.9	91.4	3.8
> 85%	57.2	2.4	37.5	1.6
Total	\$ 2,406.5	100.0 %	\$ 2,397.0	100.0 %

The following table presents the amortized cost of our mortgage loans by year of origination and credit quality indicators at September 30, 2020:

	Prior to 2016	2016	2017	2018	2019	2020	Total
	(in millions of dollars)						
Internal Rating							
A	\$ 233.0	\$ 104.5	\$ 52.7	\$ 60.3	\$ 17.1	\$ —	\$ 467.6
BBB	515.2	290.1	281.5	333.5	353.5	133.7	1,907.5
BB	29.6	—	—	—	—	—	29.6
B	16.4	—	—	—	—	—	16.4
Total Amortized Cost	794.2	394.6	334.2	393.8	370.6	133.7	2,421.1
Allowance for credit losses	(2.8)	(2.6)	(1.8)	(3.1)	(3.1)	(1.2)	(14.6)
Carrying Amount	\$ 791.4	\$ 392.0	\$ 332.4	\$ 390.7	\$ 367.5	\$ 132.5	\$ 2,406.5
Loan-to-Value Ratio							
<=65%	\$ 652.1	\$ 245.4	\$ 146.8	\$ 78.1	\$ 83.3	\$ 48.5	\$ 1,254.2
>65%<=75%	65.2	121.8	187.4	315.7	287.3	85.2	1,062.6
>75%<=85%	18.9	27.4	—	—	—	—	46.3
>85%	58.0	—	—	—	—	—	58.0
Total Amortized Cost	794.2	394.6	334.2	393.8	370.6	133.7	2,421.1
Allowance for credit losses	(2.8)	(2.6)	(1.8)	(3.1)	(3.1)	(1.2)	(14.6)
Carrying Amount	\$ 791.4	\$ 392.0	\$ 332.4	\$ 390.7	\$ 367.5	\$ 132.5	\$ 2,406.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

The following table presents a roll-forward of allowance for expected credit losses by loan-to-value ratio:

	Three Months Ended September 30, 2020				
	Beginning of Period	Current Period Provisions	Write-Offs	Recoveries	End of Period
	(in millions of dollars)				
Loan-to-Value Ratio					
<=65%	\$ 3.9	\$ —	\$ —	\$ —	\$ 3.9
>65<=75%	7.9	1.2	—	—	9.1
>75<=85%	1.0	(0.3)	—	—	0.7
>85%	0.4	0.5	—	—	0.9
Total	<u>\$ 13.2</u>	<u>\$ 1.4</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14.6</u>

	Nine Months Ended September 30, 2020				
	Beginning of Year	Current Period Provisions	Write-Offs	Recoveries	End of Period
	(in millions of dollars)				
Loan-to-Value Ratio					
<=65%	\$ 2.8	\$ 1.1	\$ —	\$ —	\$ 3.9
>65<=75%	4.6	4.5	—	—	9.1
>75<=85%	0.5	0.2	—	—	0.7
>85%	0.4	0.5	—	—	0.9
Total	<u>\$ 8.3</u>	<u>\$ 6.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14.6</u>

The increase in our estimate of expected losses during the third quarter and first nine months of 2020 is primarily due to the expected impact of COVID-19, specifically impacts to underlying commercial real estate values, and reflects market conditions at September 30, 2020.

There were no troubled debt restructurings during the three and nine months ended September 30, 2020 and 2019. At September 30, 2020 and December 31, 2019, we held no mortgage loans that were greater than 90 days past due regarding principal and/or interest payments.

We had no loan foreclosures for the three and nine months ended September 30, 2020 and 2019.

For the three and nine months ended September 30, 2020, we had no impaired mortgage loans. Our average investment in impaired mortgage loans was zero and \$0.8 million for the three and nine months ended September 30, 2019, respectively. We did not recognize any interest income on mortgage loans subsequent to impairment during the three and nine months ended September 30, 2020 or 2019.

At September 30, 2020, we had \$26.9 million of commitments to fund commercial mortgage loans. Consistent with how we determine the estimate of current expected credit losses for our funded mortgage loans each period, we estimate expected credit losses for loans that have not been funded but we are committed to fund at the end of each period. At September 30, 2020, we had \$0.2 million of expected credit losses related to unfunded commitments on our consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued
Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. We may receive cash and/or securities as collateral under these agreements. Cash received as collateral is typically reinvested in short-term investments. If securities are received as collateral, we are not permitted to sell or re-post them.

We had no outstanding securities lending agreements at September 30, 2020. As of December 31, 2019, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was \$176.4 million, for which we received collateral in the form of securities of \$186.5 million. We had no outstanding repurchase agreements at September 30, 2020 or December 31, 2019.

Certain of our U.S. insurance subsidiaries are members of regional FHLBs. Membership, which requires that we purchase a minimum amount of FHLB common stock on which we receive dividends, provides access to low-cost funding. Advances received from the FHLB are used for the purchase of short-term investments or fixed maturity securities. Additional common stock purchases may be required, based on the amount of funds we borrow from the FHLBs. The carrying value of common stock owned, collateral posted, and advances received are as follows:

	September 30, 2020		December 31, 2019	
	(in millions of dollars)			
Carrying Value of FHLB Common Stock	\$	21.7	\$	18.5
Advances from FHLB	\$	30.2	\$	—
Carrying Value of Collateral Posted to FHLB				
Fixed Maturity Securities	\$	970.4	\$	182.1
Commercial Mortgage Loans		1,099.7		164.4
Total Carrying Value of Collateral Posted to FHLB	\$	2,070.1	\$	346.5

Offsetting of Financial Instruments

We enter into master netting agreements with each of our derivatives counterparties. These agreements provide for conditional rights of set-off upon the occurrence of an early termination event. An early termination event is considered a default, and it allows the non-defaulting party to offset its contracts in a loss position against any gain positions or payments due to the defaulting party. Under our agreements, default type events are defined as failure to pay or deliver as contractually agreed, misrepresentation, bankruptcy, or merger without assumption. See Note 5 for further discussion of collateral related to our derivative contracts.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity securities. A right of set-off exists that allows us to keep and apply collateral received in the event of default by the counterparty. Default within a securities lending agreement would typically occur if the counterparty failed to return the securities borrowed from us as contractually agreed. In addition, if we default by not returning collateral received, the counterparty has a right of set-off against our securities or any other amounts due to us.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued

Shown below are our financial instruments that either meet the accounting requirements that allow them to be offset in our balance sheets or that are subject to an enforceable master netting arrangement or similar agreement. Our accounting policy is to not offset these financial instruments in our balance sheets. Net amounts disclosed below have been reduced by the amount of collateral pledged to or received from our counterparties.

	September 30, 2020					
	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Gross Amount Not Offset in Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral	
(in millions of dollars)						
Financial Assets:						
Derivatives	\$ 38.3	\$ —	\$ 38.3	\$ (4.2)	\$ (34.1)	\$ —
Financial Liabilities:						
Derivatives	\$ 34.0	\$ —	\$ 34.0	\$ (33.4)	\$ —	\$ 0.6

	December 31, 2019					
	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Gross Amount Not Offset in Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral	
(in millions of dollars)						
Financial Assets:						
Derivatives	\$ 27.5	\$ —	\$ 27.5	\$ (4.0)	\$ (23.5)	\$ —
Securities Lending	176.4	—	176.4	(176.4)	—	—
Total	\$ 203.9	\$ —	\$ 203.9	\$ (180.4)	\$ (23.5)	\$ —
Financial Liabilities:						
Derivatives	\$ 34.6	\$ —	\$ 34.6	\$ (31.3)	\$ —	\$ 3.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued
Net Investment Income

Net investment income reported in our consolidated statements of income is presented below. Certain prior period amounts have been reclassified to conform to the current period presentation.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Fixed Maturity Securities	\$ 560.8	\$ 546.7	\$ 1,643.1	\$ 1,656.3
Derivatives	18.7	19.1	59.6	55.0
Mortgage Loans	26.1	25.4	83.1	77.0
Policy Loans	5.1	5.0	14.9	14.5
Other Long-term Investments				
Perpetual Preferred Securities ¹	(0.2)	0.1	(6.7)	4.8
Private Equity Partnerships ²	11.3	4.7	(9.6)	19.5
Other	0.4	0.2	5.3	2.8
Short-term Investments	1.3	8.7	10.1	22.4
Gross Investment Income	623.5	609.9	1,799.8	1,852.3
Less Investment Expenses	7.2	7.3	23.3	23.6
Less Investment Income on Participation Fund Account Assets	3.1	3.2	9.3	9.7
Net Investment Income	\$ 613.2	\$ 599.4	\$ 1,767.2	\$ 1,819.0

¹ The net unrealized gain (loss) recognized in net investment income for the three and nine months ended September 30, 2020 related to perpetual preferred securities still held at September 30, 2020 was \$(0.8) million and \$(8.7) million, respectively. The net unrealized gain (loss) recognized in net investment income for the three and nine months ended September 30, 2019 related to perpetual preferred securities still held at September 30, 2019 was \$0.3 million and \$3.3 million, respectively.

² The net unrealized gain (loss) recognized in net investment income for the three and nine months ended September 30, 2020 related to private equity partnerships still held at September 30, 2020 was \$8.5 million and \$(27.1) million, respectively. The net unrealized gain (loss) recognized in net investment income for the three and nine months ended September 30, 2019 related to private equity partnerships still held at September 30, 2019 was \$(1.1) million and \$2.6 million, respectively. See Note 3 for further discussion of private equity partnerships.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 4 - Investments - Continued
Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Fixed Maturity Securities				
Gross Gains on Sales	\$ 3.3	\$ 11.3	\$ 8.3	\$ 22.5
Gross Losses on Sales	(2.8)	(5.7)	(7.6)	(30.5)
Credit Losses	—	(20.8)	(59.3)	(20.8)
Mortgage Loans and Other Invested Assets				
Gross Gains on Sales	0.9	0.6	1.2	4.5
Gross Losses on Sales	(0.2)	—	(0.4)	(0.1)
Impairment Loss	(8.4)	—	(8.4)	—
Credit Losses	(1.6)	—	(6.2)	—
Embedded Derivative in Modified Coinsurance Arrangement	14.1	(11.1)	(30.9)	(6.4)
All Other Derivatives	(0.6)	(0.1)	(2.3)	(0.7)
Foreign Currency Transactions	(0.3)	(0.4)	(0.2)	(0.9)
Net Realized Investment Gain (Loss)	\$ 4.4	\$ (26.2)	\$ (105.8)	\$ (32.4)

Note 5 - Derivative Financial Instruments

Purpose of Derivatives

We are exposed to certain risks relating to our ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, risk related to matching duration for our assets and liabilities, foreign currency risk, and credit risk. Historically, we have utilized current and forward interest rate swaps, current and forward currency swaps, forward benchmark interest rate locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Transactions hedging interest rate risk are primarily associated with our individual and group long-term care and individual and group disability products. All other product portfolios are periodically reviewed to determine if hedging strategies would be appropriate for risk management purposes. We do not use derivative financial instruments for speculative purposes.

Derivatives designated as cash flow hedges and used to reduce our exposure to interest rate and duration risk are as follows:

- *Interest rate swaps* are used to hedge interest rate risks and to improve the matching of assets and liabilities. An interest rate swap is an agreement in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts. We use interest rate swaps to hedge the anticipated purchase of fixed maturity securities thereby protecting us from the potential adverse impact of declining interest rates on the associated policy reserves. We also use interest rate swaps to hedge the potential adverse impact of rising interest rates in anticipation of issuing fixed rate long-term debt.
- *Forward benchmark interest rate locks* are used to minimize interest rate risk associated with the anticipated purchase or disposal of fixed maturity securities or debt. A forward benchmark interest rate lock is a derivative contract without an initial investment where we and the counterparty agree to purchase or sell a specific benchmark interest rate fixed maturity bond at a future date at a pre-determined price.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

Derivatives designated as fair value hedges and used to reduce our exposure to interest rate and duration risk are as follows:

- *Interest rate swaps* are used to effectively convert certain of our fixed rate securities into floating rate securities which are used to fund our floating rate long-term debt. Under these swap agreements, we receive a variable rate of interest and pay a fixed rate of interest. Additionally, we use interest rate swaps to effectively convert certain fixed rate, long-term debt into floating rate long-term debt. Under these swap agreements, we receive a fixed rate of interest and pay a variable rate of interest.

Derivatives designated as either cash flow or fair value hedges and used to reduce our exposure to foreign currency risk are as follows:

- *Foreign currency interest rate swaps* are used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification. Under these swap agreements, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment.

Derivatives not designated as hedging instruments and used to reduce our exposure to foreign currency risk and credit losses on securities owned are as follows:

- *Foreign currency interest rate swaps* previously designated as hedges were used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification. These derivatives were effective hedges prior to novation to a new counterparty. In conjunction with the novation, these derivatives were de-designated as hedges. We agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. We hold offsetting swaps wherein we agree to pay fixed rate principal and interest payments in the functional currency of the operating segment in exchange for fixed rate foreign currency-denominated payments.
- *Credit default swaps* are used as economic hedges against credit risk but do not qualify for hedge accounting. A credit default swap is an agreement in which we agree with another party to pay, at specified intervals, a fixed-rate fee in exchange for insurance against a credit event on a specific investment. If a defined credit event occurs, our counterparty may either pay us a net cash settlement, or we may surrender the specific investment to them in exchange for cash equal to the full notional amount of the swap. Credit events typically include events such as bankruptcy, failure to pay, or certain types of debt restructuring.
- *Foreign currency forward* contracts are used to minimize foreign currency risk. A foreign currency forward is a derivative without an initial investment where we and the counterparty agree to exchange a specific amount of currencies, at a specific exchange rate, on a specific date. We use these forward contracts to hedge the currency risk arising from foreign-currency denominated securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives should generally offset the market risk associated with the hedged financial instrument or liability. To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Credit exposure on derivatives is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held. As of September 30, 2020, our credit exposure on derivatives was de minimis. At December 31, 2019, we had no credit exposure on derivatives. The table below summarizes the nature and amount of collateral received from and posted to our derivative counterparties.

	September 30, 2020	December 31, 2019
	(in millions of dollars)	
Carrying Value of Collateral Received from Counterparties		
Cash	\$ 34.3	\$ 24.0
Carrying Value of Collateral Posted to Counterparties		
Fixed Maturity Securities	\$ 30.4	\$ 28.6

See Note 4 for further discussion of our master netting agreements.

The majority of our derivative instruments contain provisions that require us to maintain specified issuer credit ratings and financial strength ratings. Should our ratings fall below these specified levels, we would be in violation of the provisions, and our derivatives counterparties could terminate our contracts and request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was \$34.0 million and \$34.6 million at September 30, 2020 and December 31, 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

Derivative Transactions

The table below summarizes, by notional amounts, the activity for each category of derivatives. The notional amounts represent the basis upon which our counterparty pay and receive amounts are calculated.

	Swaps				Total
	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable	Credit Default	Forwards	
	(in millions of dollars)				
Balance at June 30, 2019	\$ 558.8	\$ 250.0	\$ 10.9	\$ —	\$ 819.7
Additions	22.0	—	—	358.9	380.9
Terminations	13.5	—	—	256.0	269.5
Foreign Currency	—	—	(0.3)	—	(0.3)
Balance at September 30, 2019	<u>\$ 567.3</u>	<u>\$ 250.0</u>	<u>\$ 10.6</u>	<u>\$ 102.9</u>	<u>\$ 930.8</u>
Balance at December 31, 2018	\$ 538.2	\$ 250.0	\$ 11.0	\$ —	\$ 799.2
Additions	121.6	—	—	382.4	504.0
Terminations	92.5	—	—	279.1	371.6
Foreign Currency	—	—	(0.4)	(0.4)	(0.8)
Balance at September 30, 2019	<u>\$ 567.3</u>	<u>\$ 250.0</u>	<u>\$ 10.6</u>	<u>\$ 102.9</u>	<u>\$ 930.8</u>
Balance at June 30, 2020	\$ 663.1	\$ 250.0	\$ 10.7	\$ 7.6	\$ 931.4
Additions	40.4	—	—	2.7	43.1
Terminations	3.3	250.0	—	—	253.3
Foreign Currency	—	—	0.4	—	0.4
Balance at September 30, 2020	<u>\$ 700.2</u>	<u>\$ —</u>	<u>\$ 11.1</u>	<u>\$ 10.3</u>	<u>\$ 721.6</u>
Balance at December 31, 2019	\$ 611.1	\$ 250.0	\$ 11.4	\$ 8.9	\$ 881.4
Additions	92.4	—	—	2.7	95.1
Terminations	3.3	250.0	—	1.3	254.6
Foreign Currency	—	—	(0.3)	—	(0.3)
Balance at September 30, 2020	<u>\$ 700.2</u>	<u>\$ —</u>	<u>\$ 11.1</u>	<u>\$ 10.3</u>	<u>\$ 721.6</u>

Cash Flow Hedges

As of September 30, 2020 and December 31, 2019, we had \$210.2 million and \$213.5 million notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.

During the third quarter of 2019, we entered into a \$350.0 million notional forward benchmark interest rate lock in order to hedge the interest rate risk associated with the cash flows related to the tender offer and early redemption of certain of our debt securities. We terminated \$256.0 million notional of the interest rate lock in the third quarter of 2019 for the debt securities that were tendered and recognized a loss of \$0.6 million that was reported with the \$3.8 million tender premium in the third quarter of 2019 as a cost related to the early retirement of debt in our statement of income.

As of September 30, 2020, we expect to amortize approximately \$72.8 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

by this amortization are net investment income and interest and debt expense. Additional amounts that may be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of September 30, 2020, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2045.

Fair Value Hedges

As of September 30, 2020 and December 31, 2019, we had \$341.8 million and \$249.4 million notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities.

At December 31, 2019, we had \$250.0 million notional amount of receive fixed, pay variable interest rate swaps to hedge the changes in the fair value of certain fixed rate long-term debt which matured in the third quarter of 2020 along with the hedged debt. These swaps effectively converted the associated fixed rate long-term debt into floating rate debt and provided for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security.

The following table summarizes the carrying amount of hedged assets and liabilities and the related cumulative basis adjustments related to our fair value hedges:

	Carrying Amount of Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
(in millions of dollars)				
Fixed maturity securities:				
Receive fixed functional currency interest, pay fixed foreign currency interest	\$ 290.6	\$ 239.4	\$ 7.9	\$ 1.1
Long-term Debt	\$ —	\$ (249.2)	\$ —	\$ 0.6

For the three and nine months ended September 30, 2020, \$(10.2) million and \$14.1 million, respectively, of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. For the three and nine months ended September 30, 2019, \$(0.6) million and \$0.9 million, respectively, of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

Derivatives not Designated as Hedging Instruments

As of September 30, 2020 and December 31, 2019, we held \$148.2 million notional amount of receive fixed, pay fixed, foreign currency interest rate swaps. These derivatives are not designated as hedges, and as such, changes in fair value related to these derivatives are reported in earnings as a component of net realized investment gain or loss.

As of September 30, 2020 and December 31, 2019, we held \$11.1 million and \$11.4 million, respectively, notional amount of single name credit default swaps. We entered into these swaps in order to mitigate the credit risk associated with specific securities owned.

As of September 30, 2020 and December 31, 2019, we held \$10.3 million and \$8.9 million, respectively, notional amount of foreign currency forwards to mitigate the foreign currency risk associated with specific securities owned.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

We have an embedded derivative in a modified coinsurance arrangement for which we include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract. There are no credit-related counterparty triggers, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down.

Locations and Amounts of Derivative Financial Instruments

The following tables summarize the location and fair values of derivative financial instruments, as reported in our consolidated balance sheets.

		September 30, 2020			
		(in millions of dollars)			
		Derivative Assets		Derivative Liabilities	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Designated as Hedging Instruments					
Cash Flow Hedges					
Foreign Exchange Contracts	Other L-T Investments	\$	23.6	Other Liabilities	\$ 5.3
Fair Value Hedges					
Foreign Exchange Contracts	Other L-T Investments		14.4	Other Liabilities	4.6
Total Designated as Hedging Instruments			<u>\$ 38.0</u>		<u>\$ 9.9</u>
Not Designated as Hedging Instruments					
Credit Default Swaps	Other L-T Investments	\$	0.2	Other Liabilities	\$ —
Forwards	Other L-T Investments		0.1	Other Liabilities	—
Foreign Exchange Contracts	Other L-T Investments		—	Other Liabilities	24.1
Embedded Derivative in Modified Coinsurance Arrangement	Other L-T Investments		—	Other Liabilities	53.7
Total Not Designated as Hedging Instruments			<u>\$ 0.3</u>		<u>\$ 77.8</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

		December 31, 2019			
		Derivative Assets		Derivative Liabilities	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(in millions of dollars)					
Designated as Hedging Instruments					
Cash Flow Hedges					
Foreign Exchange Contracts	Other L-T Investments	\$	19.4	Other Liabilities	\$ 6.6
Fair Value Hedges					
Interest Rate Swaps	Other L-T Investments		—	Other Liabilities	0.6
Foreign Exchange Contracts	Other L-T Investments		7.6	Other Liabilities	5.0
Total Fair Value Hedges			7.6		5.6
Total Designated as Hedging Instruments			<u>\$ 27.0</u>		<u>\$ 12.2</u>
Not Designated as Hedging Instruments					
Credit Default Swaps	Other L-T Investments	\$	0.5	Other Liabilities	\$ —
Foreign Exchange Contracts	Other L-T Investments		—	Other Liabilities	22.4
Embedded Derivative in Modified Coinsurance Arrangement	Other L-T Investments		—	Other Liabilities	22.8
Total Not Designated as Hedging Instruments			<u>\$ 0.5</u>		<u>\$ 45.2</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

The following tables summarize the location of gains and losses of derivative financial instruments designated as hedging instruments, as reported in our consolidated statements of income.

	Three Months Ended September 30					
	2020			2019		
	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense
	(in millions of dollars)					
Total Income and Expense Presented in the Consolidated Statements of Income of Which Hedged Items are Recorded	\$ 613.2	\$ 4.4	\$ 49.4	\$ 599.4	\$ (26.2)	\$ 46.1
Gain (Loss) on Cash Flow Hedging Relationships						
Interest Rate Swaps:						
Hedged items	72.1	—	7.3	74.5	1.7	7.7
Derivatives Designated as Hedging Instruments	18.6	—	0.4	18.8	5.3	0.6
Foreign Exchange Contracts:						
Hedged items	2.4	(0.1)	—	3.3	(0.8)	—
Derivatives Designated as Hedging Instruments	0.8	0.1	—	(0.3)	0.7	—
Gain (Loss) on Fair Value Hedging Relationships						
Interest Rate Swaps:						
Hedged items	—	0.6	2.9	—	(0.6)	3.5
Derivatives Designated as Hedging Instruments	—	(0.6)	(0.6)	—	0.6	0.6
Foreign Exchange Contracts						
Hedged items	1.8	9.7	—	0.6	(4.8)	—
Derivatives Designated as Hedging Instruments	(0.1)	(9.7)	—	0.5	4.8	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

	Nine Months Ended September 30					
	2020			2019		
	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense	Net Investment Income	Net Realized Investment Gain (Loss)	Interest and Debt Expense
	(in millions of dollars)					
Total Income and Expense Presented in the Consolidated Statements of Income of Which Hedged Items are Recorded	\$ 1,767.2	\$ (105.8)	\$ 142.6	\$ 1,819.0	\$ (32.4)	\$ 130.8

Gain (Loss) on Cash Flow Hedging Relationships

Interest Rate Swaps:

Hedged items	218.1	0.1	21.9	222.0	(1.2)	23.1
Derivatives Designated as Hedging Instruments	57.5	0.4	1.7	54.4	9.3	1.8
Foreign Exchange Contracts:						
Hedged items	8.5	(0.1)	—	11.6	1.1	—
Derivatives Designated as Hedging Instruments	2.1	0.1	—	(0.9)	(1.0)	—

Gain (Loss) on Fair Value Hedging Relationships

Interest Rate Swaps:

Hedged items	—	(0.6)	10.1	—	(4.2)	10.7
Derivatives Designated as Hedging Instruments	—	0.6	(0.9)	—	4.2	2.1
Foreign Exchange Contracts						
Hedged items	5.0	6.8	—	1.5	(4.0)	—
Derivatives Designated as Hedging Instruments	2.0	(6.8)	—	1.2	4.0	—

The following table summarizes the location of gains and losses of derivative financial instruments designated as cash flow hedging instruments, as reported in our consolidated statements of comprehensive income (loss).

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives				
Interest Rate Swaps and Forwards	\$ —	\$ (0.1)	\$ —	\$ (0.2)
Foreign Exchange Contracts	(5.6)	6.7	6.0	(4.0)
Total	\$ (5.6)	\$ 6.6	\$ 6.0	\$ (4.2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 5 - Derivative Financial Instruments - Continued

The following table summarizes the location of gains and losses on our derivatives not designated as hedging instruments, as reported in our consolidated statements of income.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Net Realized Investment Gain (Loss)				
Credit Default Swaps	\$ (0.3)	\$ 0.2	\$ (0.4)	\$ (0.4)
Foreign Exchange Contracts	(0.3)	(0.2)	(1.9)	(0.3)
Embedded Derivative in Modified Coinsurance Arrangement	14.1	(11.1)	(30.9)	(6.4)
Total	<u>\$ 13.5</u>	<u>\$ (11.1)</u>	<u>\$ (33.2)</u>	<u>\$ (7.1)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 6 - Accumulated Other Comprehensive Income (Loss)

Components of our accumulated other comprehensive income (loss), after tax, and related changes are as follows:

	Net Unrealized Gain on Securities	Net Gain on Hedges	Foreign Currency Translation Adjustment	Unrecognized Pension and Postretirement Benefit Costs	Total
(in millions of dollars)					
Balance at June 30, 2020	\$ 963.1	\$ 186.2	\$ (348.2)	\$ (473.9)	\$ 327.2
Other Comprehensive Income (Loss) Before Reclassifications	141.3	(12.9)	34.5	(1.9)	161.0
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	0.1	(14.6)	—	3.9	(10.6)
Net Other Comprehensive Income (Loss)	141.4	(27.5)	34.5	2.0	150.4
Balance at September 30, 2020	<u>\$ 1,104.5</u>	<u>\$ 158.7</u>	<u>\$ (313.7)</u>	<u>\$ (471.9)</u>	<u>\$ 477.6</u>
Balance at June 30, 2019	\$ 286.9	\$ 218.0	\$ (307.6)	\$ (439.8)	\$ (242.5)
Other Comprehensive Income (Loss) Before Reclassifications	118.8	4.3	(37.6)	1.3	86.8
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	16.4	(18.0)	—	4.1	2.5
Net Other Comprehensive Income (Loss)	135.2	(13.7)	(37.6)	5.4	89.3
Balance at September 30, 2019	<u>\$ 422.1</u>	<u>\$ 204.3</u>	<u>\$ (345.2)</u>	<u>\$ (434.4)</u>	<u>\$ (153.2)</u>
Balance at December 31, 2019	\$ 615.9	\$ 187.8	\$ (281.6)	\$ (484.8)	\$ 37.3
Other Comprehensive Income (Loss) Before Reclassifications	441.7	15.5	(32.1)	1.4	426.5
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	46.9	(44.6)	—	11.5	13.8
Net Other Comprehensive Income (Loss)	488.6	(29.1)	(32.1)	12.9	440.3
Balance at September 30, 2020	<u>\$ 1,104.5</u>	<u>\$ 158.7</u>	<u>\$ (313.7)</u>	<u>\$ (471.9)</u>	<u>\$ 477.6</u>
Balance at December 31, 2018	\$ (312.4)	\$ 250.6	\$ (305.2)	\$ (447.2)	\$ (814.2)
Other Comprehensive Income (Loss) Before Reclassifications	704.8	0.5	(40.0)	1.5	666.8
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	29.7	(46.8)	—	11.3	(5.8)
Net Other Comprehensive Income (Loss)	734.5	(46.3)	(40.0)	12.8	661.0
Balance at September 30, 2019	<u>\$ 422.1</u>	<u>\$ 204.3</u>	<u>\$ (345.2)</u>	<u>\$ (434.4)</u>	<u>\$ (153.2)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 6 - Accumulated Other Comprehensive Income (Loss) - Continued

The net unrealized gain (loss) on securities consists of the following components:

	September 30 2020	June 30 2020	December 31 2019	Change at September 30, 2020	
				Three Months Ended	Nine Months Ended
(in millions of dollars)					
Fixed Maturity Securities	\$ 8,030.8	\$ 7,422.8	\$ 6,364.4	\$ 608.0	\$ 1,666.4
Deferred Acquisition Costs	(75.2)	(69.4)	(62.7)	(5.8)	(12.5)
Reserves for Future Policy and Contract Benefits	(6,971.3)	(6,459.8)	(5,803.1)	(511.5)	(1,168.2)
Reinsurance Recoverable	551.9	464.5	424.7	87.4	127.2
Income Tax	(431.7)	(395.0)	(307.4)	(36.7)	(124.3)
Total	\$ 1,104.5	\$ 963.1	\$ 615.9	\$ 141.4	\$ 488.6

	September 30 2019	June 30 2019	December 31 2018	Change at September 30, 2019	
				Three Months Ended	Nine Months Ended
(in millions of dollars)					
Fixed Maturity Securities	\$ 6,645.3	\$ 5,635.4	\$ 2,736.5	\$ 1,009.9	\$ 3,908.8
Deferred Acquisition Costs	(64.7)	(57.0)	(27.9)	(7.7)	(36.8)
Reserves for Future Policy and Contract Benefits	(6,334.2)	(5,455.7)	(3,220.3)	(878.5)	(3,113.9)
Reinsurance Recoverable	434.1	385.7	261.4	48.4	172.7
Income Tax	(258.4)	(221.5)	(62.1)	(36.9)	(196.3)
Total	\$ 422.1	\$ 286.9	\$ (312.4)	\$ 135.2	\$ 734.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 6 - Accumulated Other Comprehensive Income (Loss) - Continued

Amounts reclassified from accumulated other comprehensive income (loss) were recognized in our consolidated statements of income as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
(in millions of dollars)				
Net Unrealized Gain on Securities				
Net Realized Investment Loss				
Loss on Sales of Securities	\$ (0.1)	\$ —	\$ (0.1)	\$ (16.8)
Credit Losses on Fixed Maturity Securities	—	(20.8)	(59.3)	(20.8)
	(0.1)	(20.8)	(59.4)	(37.6)
Income Tax Expense (Benefit)	—	(4.4)	(12.5)	(7.9)
Total	\$ (0.1)	\$ (16.4)	\$ (46.9)	\$ (29.7)
Net Gain on Hedges				
Net Investment Income				
Gain on Interest Rate Swaps and Forwards	\$ 18.2	\$ 19.0	\$ 55.9	\$ 54.0
Gain (Loss) on Foreign Exchange Contracts	0.5	(0.1)	1.5	(0.3)
Net Realized Investment Gain (Loss)				
Gain on Interest Rate Swaps	—	4.4	0.4	8.8
Loss on Foreign Exchange Contracts	0.2	0.8	0.2	(1.0)
Interest and Debt Expense				
Loss on Interest Rate Swaps	(0.4)	(0.6)	(1.5)	(1.6)
Loss on Forward	—	(0.6)	—	(0.6)
	18.5	22.9	56.5	59.3
Income Tax Expense	3.9	4.9	11.9	12.5
Total	\$ 14.6	\$ 18.0	\$ 44.6	\$ 46.8
Unrecognized Pension and Postretirement Benefit Costs				
Other Expenses				
Amortization of Net Actuarial Loss	\$ (4.9)	\$ (4.6)	\$ (14.8)	\$ (13.9)
Amortization of Prior Service Credit	0.1	0.1	0.2	0.2
	(4.8)	(4.5)	(14.6)	(13.7)
Income Tax Expense (Benefit)	(0.9)	(0.4)	(3.1)	(2.4)
Total	\$ (3.9)	\$ (4.1)	\$ (11.5)	\$ (11.3)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 7 - Liability for Unpaid Claims and Claim Adjustment Expenses

Changes in the liability for unpaid claims and claim adjustment expenses are as follows:

	2020	2019
	(in millions of dollars)	
Balance at January 1	\$ 23,076.7	\$ 23,149.0
Less Reinsurance Recoverable	2,246.8	2,227.3
Net Balance at January 1	20,829.9	20,921.7
Incurred Related to		
Current Year	4,716.9	4,588.9
Prior Years		
Interest	774.0	793.9
All Other Incurred	(314.3)	(228.1)
Foreign Currency	(50.3)	(68.3)
Total Incurred	5,126.3	5,086.4
Paid Related to		
Current Year	(1,817.2)	(1,721.3)
Prior Years	(3,532.4)	(3,570.6)
Total Paid	(5,349.6)	(5,291.9)
Net Balance at September 30	20,606.6	20,716.2
Plus Reinsurance Recoverable	2,261.7	2,241.8
Balance at September 30	\$ 22,868.3	\$ 22,958.0

The majority of the net balances are related to disability claims with long-tail payouts on which interest earned on assets backing liabilities is an integral part of pricing and reserving. Interest accrued on prior year reserves has been calculated on the opening reserve balance less one-half of the period's claim payments relative to prior years at our average reserve discount rate for the respective periods.

"Incurred Related to Prior Years - All Other Incurred" shown in the preceding chart is primarily impacted by the level of claim resolutions in the period relative to the long-term expectations reflected in the reserves. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 7 - Liability for Unpaid Claims and Claim Adjustment Expenses - Continued

Reconciliation

A reconciliation of policy and contract benefits and reserves for future policy and contract benefits as reported in our consolidated balance sheets to the liability for unpaid claims and claim adjustment expenses is as follows:

	September 30	
	2020	2019
	(in millions of dollars)	
Policy and Contract Benefits	\$ 1,801.6	\$ 1,720.5
Reserves for Future Policy and Contract Benefits	48,844.3	48,060.8
Total	50,645.9	49,781.3
Less:		
Life Reserves for Future Policy and Contract Benefits	8,327.8	8,396.2
Accident and Health Active Life Reserves	12,478.5	12,092.9
Adjustment Related to Unrealized Investment Gains and Losses	6,971.3	6,334.2
Liability for Unpaid Claims and Claim Adjustment Expenses	\$ 22,868.3	\$ 22,958.0

The adjustment related to unrealized investment gains and losses reflects the changes that would be necessary to policyholder liabilities if the unrealized investment gains and losses related to the corresponding available-for-sale securities had been realized. Changes in this adjustment are reported as a component of other comprehensive income or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 8 - Segment Information

We have three principal operating business segments: Unum US, Unum International, and Colonial Life. Our other segments are Closed Block and Corporate.

Segment information is as follows:

Certain prior year amounts were reclassified to conform to current year presentation.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
(in millions of dollars)				
Premium Income				
Unum US				
Group Disability				
Group Long-term Disability	\$ 450.5	\$ 453.6	\$ 1,374.5	\$ 1,363.7
Group Short-term Disability	196.2	194.4	603.0	570.7
Group Life and Accidental Death & Dismemberment				
Group Life	406.3	415.0	1,235.4	1,249.4
Accidental Death & Dismemberment	39.7	41.5	123.1	124.2
Supplemental and Voluntary				
Individual Disability	117.7	109.2	340.3	328.4
Voluntary Benefits	212.2	226.2	666.6	689.2
Dental and Vision	60.8	62.0	190.9	182.7
	1,483.4	1,501.9	4,533.8	4,508.3
Unum International				
Unum UK				
Group Long-term Disability	92.2	84.8	272.0	262.3
Group Life	27.3	27.9	83.3	83.9
Supplemental	25.4	21.6	73.9	65.7
Unum Poland	20.5	18.0	57.9	53.0
	165.4	152.3	487.1	464.9
Colonial Life				
Accident, Sickness, and Disability	238.9	243.0	738.4	727.6
Life	91.9	86.7	282.5	262.6
Cancer and Critical Illness	89.1	90.2	272.3	269.9
	419.9	419.9	1,293.2	1,260.1
Closed Block				
Long-term Care	167.7	163.6	498.2	489.2
Individual Disability	80.0	91.4	240.1	283.9
All Other	1.7	2.1	5.8	6.6
	249.4	257.1	744.1	779.7
Total Premium Income	\$ 2,318.1	\$ 2,331.2	\$ 7,058.2	\$ 7,013.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 8 - Segment Information - Continued

	Unum US	Unum International	Colonial Life	Closed Block	Corporate	Total
(in millions of dollars)						
Three Months Ended September 30, 2020						
Premium Income	\$ 1,483.4	\$ 165.4	\$ 419.9	\$ 249.4	\$ —	\$ 2,318.1
Net Investment Income	190.7	26.3	43.7	351.2	1.3	613.2
Other Income	42.0	0.2	0.3	17.8	0.3	60.6
Adjusted Operating Revenue	\$ 1,716.1	\$ 191.9	\$ 463.9	\$ 618.4	\$ 1.6	\$ 2,991.9
Adjusted Operating Income (Loss)	\$ 188.2	\$ 21.4	\$ 92.2	\$ 70.8	\$ (54.1)	\$ 318.5
Three Months Ended September 30, 2019						
Premium Income	\$ 1,501.9	\$ 152.3	\$ 419.9	\$ 257.1	\$ —	\$ 2,331.2
Net Investment Income	184.2	24.3	36.9	347.3	6.7	599.4
Other Income	34.8	—	0.9	18.9	1.0	55.6
Adjusted Operating Revenue	\$ 1,720.9	\$ 176.6	\$ 457.7	\$ 623.3	\$ 7.7	\$ 2,986.2
Adjusted Operating Income (Loss)	\$ 261.4	\$ 24.2	\$ 87.2	\$ 26.9	\$ (48.9)	\$ 350.8
	Unum US	Unum International	Colonial Life	Closed Block	Corporate	Total
(in millions of dollars)						
Nine Months Ended September 30, 2020						
Premium Income	\$ 4,533.8	\$ 487.1	\$ 1,293.2	\$ 744.1	\$ —	\$ 7,058.2
Net Investment Income	547.2	79.1	118.2	1,013.6	9.1	1,767.2
Other Income	117.5	0.4	0.9	49.7	0.5	169.0
Adjusted Operating Revenue	\$ 5,198.5	\$ 566.6	\$ 1,412.3	\$ 1,807.4	\$ 9.6	\$ 8,994.4
Adjusted Operating Income (Loss)	\$ 681.9	\$ 55.9	\$ 264.2	\$ 137.2	\$ (158.1)	\$ 981.1
Nine Months Ended September 30, 2019						
Premium Income	\$ 4,508.3	\$ 464.9	\$ 1,260.1	\$ 779.7	\$ —	\$ 7,013.0
Net Investment Income	550.4	93.9	111.0	1,048.3	15.4	1,819.0
Other Income	106.1	0.3	2.2	53.5	2.6	164.7
Adjusted Operating Revenue	\$ 5,164.8	\$ 559.1	\$ 1,373.3	\$ 1,881.5	\$ 18.0	\$ 8,996.7
Adjusted Operating Income (Loss)	\$ 768.0	\$ 84.0	\$ 256.8	\$ 91.6	\$ (138.1)	\$ 1,062.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 8 - Segment Information - Continued

	September 30	December 31
	2020	2019
	(in millions of dollars)	
Assets		
Unum US	\$ 18,910.0	\$ 18,586.3
Unum International	3,974.7	3,869.1
Colonial Life	4,771.7	4,629.0
Closed Block	38,158.3	37,008.7
Corporate	3,801.3	2,920.3
Total Assets	\$ 69,616.0	\$ 67,013.4

We measure and analyze our segment performance on the basis of "adjusted operating revenue" and "adjusted operating income" or "adjusted operating loss", which differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. We believe adjusted operating revenue and adjusted operating income or loss are better performance measures and better indicators of the revenue and profitability and underlying trends in our business. These performance measures are in accordance with GAAP guidance for segment reporting, but they should not be viewed as a substitute for total revenue, income before income tax, or net income.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the interest rates assumed in calculating our liabilities.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals. We exclude these items as we believe them to be infrequent or unusual in nature, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability. See Note 12 of the "Notes to Consolidated Financial Statements" contained herein in this Item 1 for further discussion regarding the costs related to the organizational design update, the impairment loss on the right-of-use (ROU) asset related to one of our operating leases for office space, and the costs related to early retirement of debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 8 - Segment Information - Continued

A reconciliation of total revenue to "adjusted operating revenue" and income before income tax to "adjusted operating income" is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Total Revenue	\$ 2,996.3	\$ 2,960.0	\$ 8,888.6	\$ 8,964.3
Excluding:				
Net Realized Investment Gain (Loss)	4.4	(26.2)	(105.8)	(32.4)
Adjusted Operating Revenue	<u>\$ 2,991.9</u>	<u>\$ 2,986.2</u>	<u>\$ 8,994.4</u>	<u>\$ 8,996.7</u>
Income Before Income Tax	\$ 299.6	\$ 299.4	\$ 839.3	\$ 1,004.7
Excluding:				
Net Realized Investment Gain (Loss)	4.4	(26.2)	(105.8)	(32.4)
Costs Related to Organizational Design Update	(23.3)	—	(23.3)	—
Impairment Loss on ROU Asset	—	—	(12.7)	—
Cost Related to Early Retirement of Debt	—	(25.2)	—	(25.2)
Adjusted Operating Income	<u>\$ 318.5</u>	<u>\$ 350.8</u>	<u>\$ 981.1</u>	<u>\$ 1,062.3</u>

Note 9 - Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit (OPEB) Plans

We sponsor several defined benefit pension and OPEB plans for our employees, including non-qualified pension plans. The U.S. qualified and non-qualified defined benefit pension plans comprise the majority of our total benefit obligation and benefit cost. We maintain a separate defined benefit plan for eligible employees in our U.K. operation. The U.S. defined benefit pension plans were closed to new entrants on December 31, 2013, the OPEB plan was closed to new entrants on December 31, 2012, and the U.K. plan was closed to new entrants on December 31, 2002.

U.S. Pension Plan Annuity Purchase

On January 2, 2020, we purchased a group annuity contract which transferred a portion of our U.S. qualified defined benefit pension plan obligation to a third party. Under the transaction, which was funded with plan assets, we transferred the responsibility for pension benefits and annuity administration for approximately 600 retirees, or their beneficiaries, receiving between \$350 and \$500 in monthly benefit payments from the plan. This transfer reduced our 2020 U.S. qualified defined benefit pension plan obligation by approximately \$44.0 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 9 - Employee Benefit Plans - Continued

The following table provides the components of the net periodic benefit cost (credit) for the defined benefit pension and OPEB plans.

	Three Months Ended September 30					
	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
	2020	2019	2020	2019	2020	2019
	(in millions of dollars)					
Service Cost	\$ 2.8	\$ 2.8	\$ —	\$ —	\$ —	\$ —
Interest Cost	18.2	20.8	1.3	1.4	1.0	1.4
Expected Return on Plan Assets	(26.7)	(24.8)	(2.4)	(2.1)	(0.1)	(0.1)
Amortization of:						
Net Actuarial Loss (Gain)	4.7	5.0	0.2	0.3	—	(0.7)
Prior Service Credit	—	—	—	—	(0.1)	(0.1)
Total Net Periodic Benefit Cost (Credit)	\$ (1.0)	\$ 3.8	\$ (0.9)	\$ (0.4)	\$ 0.8	\$ 0.5

	Nine Months Ended September 30					
	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
	2020	2019	2020	2019	2020	2019
	(in millions of dollars)					
Service Cost	\$ 8.3	\$ 8.2	\$ —	\$ —	\$ —	\$ —
Interest Cost	54.7	62.5	3.7	4.5	3.1	4.0
Expected Return on Plan Assets	(80.0)	(74.5)	(7.1)	(6.6)	(0.4)	(0.4)
Amortization of:						
Net Actuarial Loss (Gain)	14.0	15.1	0.8	0.7	—	(1.9)
Prior Service Credit	—	—	—	—	(0.2)	(0.2)
Total Net Periodic Benefit Cost (Credit)	\$ (3.0)	\$ 11.3	\$ (2.6)	\$ (1.4)	\$ 2.5	\$ 1.5

The service cost component of net periodic pension and postretirement benefit cost (credit) is included as a component of compensation expense in our consolidated statements of income. All other components of net periodic pension and postretirement benefit cost are included in other expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 10 - Stockholders' Equity and Earnings Per Common Share
Earnings Per Common Share

Net income per common share is determined as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
(in millions of dollars, except share data)				
Numerator				
Net Income	\$ 231.1	\$ 242.0	\$ 657.6	\$ 804.1
Denominator (000s)				
Weighted Average Common Shares - Basic	203,761.3	208,097.8	203,564.7	211,131.5
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	117.8	18.2	71.4	65.7
Weighted Average Common Shares - Assuming Dilution	203,879.1	208,116.0	203,636.1	211,197.2
Net Income Per Common Share				
Basic	\$ 1.13	\$ 1.16	\$ 3.23	\$ 3.81
Assuming Dilution	\$ 1.13	\$ 1.16	\$ 3.23	\$ 3.81

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. In computing earnings per share assuming dilution, we include potential common shares that are dilutive (those that reduce earnings per share). We use the treasury stock method to account for the effect of outstanding stock options, nonvested restricted stock units, and nonvested performance share units on the computation of diluted earnings per share. Under this method, the potential common shares from stock options and nonvested restricted stock units will each have a dilutive effect, as individually measured, when the average market price of Unum Group common stock during the period exceeds the exercise price of the stock options and the grant price of the nonvested restricted stock units. The outstanding stock options have an exercise price of \$24.25 and the nonvested restricted stock units have grant prices ranging from \$12.45 to \$55.26. Potential common shares from performance based share units will have a dilutive effect as the attainment of performance conditions is progressively achieved during the vesting period. Potential common shares not included in the computation of diluted earnings per share because the impact would be antidilutive, approximated 2.0 million and 1.6 million potential common shares for the three and nine months ended September 30, 2020. There were approximately 1.2 million potential common shares that were antidilutive for both the three and nine months ended September 30, 2019.

Common Stock

During the second quarter of 2019, our board of directors authorized the repurchase of up to \$750.0 million of Unum Group's outstanding common stock through November 23, 2020. This authorization replaced the previous authorization of \$750.0 million that was scheduled to expire on November 24, 2019. The remaining repurchase amount under the new program was \$516.2 million at September 30, 2020.

Common stock repurchases are accounted for using the cost method and classified as treasury stock until otherwise retired. During the three and nine months ended September 30, 2019, we repurchased 3.4 million and 9.0 million shares at a cost of \$100.1 million and \$300.3 million, respectively, which included commissions of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2019. There were no shares repurchased during the three or nine months ended September 30, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 10 - Stockholders' Equity and Earnings Per Common Share - Continued
Preferred Stock

Unum Group has 25.0 million shares of preferred stock authorized with a par value of \$0.10 per share. No preferred stock has been issued to date.

Note 11 - Commitments and Contingent Liabilities

Contingent Liabilities

We are a defendant in a number of litigation matters that have arisen in the normal course of business, including the matters discussed below. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations. Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except if noted in connection with specific matters.

In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. There is a wide variation of pleading practice permitted in the United States courts with respect to requests for monetary damages, including some courts in which no specified amount is required and others which allow the plaintiff to state only that the amount sought is sufficient to invoke the jurisdiction of that court. Further, some jurisdictions permit plaintiffs to allege damages well in excess of reasonably possible verdicts. Based on our extensive experience and that of others in the industry with respect to litigating or resolving claims through settlement over an extended period of time, we believe that the monetary damages asserted in a lawsuit or claim bear little relation to the merits of the case, or the likely disposition value. Therefore, the specific monetary relief sought is not stated.

Unless indicated otherwise in the descriptions below, reserves have not been established for litigation and contingencies. An estimated loss is accrued when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Claims Handling Matters

We and our insurance subsidiaries, in the ordinary course of our business, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Most typically these lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our consolidated financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages could, from time to time, have a material adverse effect on our consolidated results of operations in a period, depending on the results of operations for the particular period.

From time to time class action allegations are pursued where the claimant or policyholder purports to represent a larger number of individuals who are similarly situated. Since each insurance claim is evaluated based on its own merits, there is rarely a single act or series of actions which can properly be addressed by a class action. Nevertheless, we monitor these cases closely and defend ourselves appropriately where these allegations are made.

Miscellaneous Matters

Similar to other insurers, we were the subject of an examination by a third party acting on behalf of a number of state treasurers concerning our compliance with the unclaimed property laws of the participating states. We cooperated fully with this examination and in the fourth quarter of 2017, we started the process to reach a Global Resolution Agreement with the third party regarding settlement of the examination, which we finalized in January of 2018. Under the terms of the agreement, the third party acting on behalf of the signatory states compared insured data to the Social Security Administration's Death Master File to identify deceased insureds and contract holders where a valid claim has not been made. During the fourth quarter of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 11 - Commitments and Contingent Liabilities - Continued

2017, we established reserves which reflect our estimate of the liability expected to be paid as we execute on the terms of the settlement. We also are cooperating with a Delaware Market Conduct examination involving the same issue, which is currently inactive. The legal and regulatory environment around unclaimed death benefits continues to evolve. It is possible that the current settlement and/or similar investigations by other state jurisdictions may result in payments to beneficiaries, the payment of abandoned funds under state law, and/or administrative penalties, the total of which may be in excess of the reserves established.

Securities Class Actions: Three alleged securities class action lawsuits have been filed against Unum Group and individual defendants as follows:

- On June 13, 2018, an alleged securities class action lawsuit entitled Cynthia Pittman v. Unum Group, Richard McKenney, John McGarry, and Daniel Waxenberg was filed in the United States District Court for the Eastern District of Tennessee. The plaintiff seeks to represent purchasers of Unum Group publicly traded securities between January 31, 2018 and May 2, 2018. The plaintiff alleges the Company caused its shares to trade at artificially high levels by failing to disclose information about the rate of long-term care policy terminations and long-term care claim incidence resulting in misleading statements about capital management plans and long-term care reserves. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and seeks compensatory damages in an amount to be proven at trial. The Company strongly denies these allegations and will vigorously defend the litigation.
- On July 13, 2018, an alleged securities class action lawsuit entitled Scott Cunningham v. Unum Group, Richard McKenney, John McGarry, and Daniel Waxenberg was filed in the United States District Court for the Eastern District of Tennessee. The allegations, class period, and damages claimed mirror those in the Pittman matter. The Company strongly denies these allegations and will vigorously defend the litigation.
- On July 25, 2018, an alleged securities class action lawsuit entitled City of Taylor Police and Fire Retirement System v. Unum Group, Richard McKenney, John McGarry, Steve Zabel, and Daniel Waxenberg was filed in the United States District Court for the Eastern District of Tennessee. The plaintiff seeks to represent purchasers of Unum Group publicly traded securities between October 27, 2016 and May 1, 2018. The allegations and damages claimed mirror those in the Pittman matter. The Company strongly denies these allegations and will vigorously defend the litigation.

On November 9, 2018, the court consolidated the Pittman, Cunningham, and City of Taylor Police and Fire Retirement System cases into one matter entitled In re Unum Group Securities Litigation, appointed a lead plaintiff and lead plaintiff's counsel, and directed the plaintiff to file a consolidated amended complaint. On January 15, 2019, the plaintiff filed a consolidated amended complaint asserting claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and seeks compensatory damages in an amount to be proven at trial as well as costs, expenses, and attorney's fees. On March 18, 2019, the Company filed a motion to dismiss the consolidated amended complaint. On November 4, 2019, the court heard oral argument on the motion. On June 1, 2020, the court granted the Company's motion and dismissed the cases with prejudice. On June 26, 2020, the plaintiffs filed a notice of appeal with the Sixth Circuit Court of Appeals.

The appeal is in a very preliminary stage and the outcome is uncertain. We believe the appeal and the underlying claims lack merit and reserves have not been established for these matters as we are unable to estimate a range of reasonably possible losses. However, an adverse outcome in one or more of these actions could, depending on the nature, scope, and amount of any ruling, materially adversely affect our consolidated results of operations in a period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 12 - Other

Debt

In September 2020, our \$400.0 million 5.625% senior unsecured notes matured.

During the nine months ended September 30, 2020, we made principal payments of \$45.0 million on our senior secured non-recourse notes issued by Northwind Holdings, LLC (Northwind Holdings). In October 2020, Northwind Holdings formally submitted its intention to redeem the remaining \$35.0 million of principal on its senior secured non-recourse notes in December 2020. Funds for the redemption are held in the debt service coverage account of Northwind Holdings.

In May 2020, we issued \$500.0 million of 4.500% senior notes due 2025. The notes are callable at or above par and rank equally in the right of payment with all of our other unsecured and unsubordinated debt.

In September 2019, pursuant to a cash tender offer, we purchased and retired (i) \$20.2 million aggregate liquidation amount of our 7.405% capital securities due 2038 issued by Provident Financing Trust I (the Trust), which resulted in the reduction of a corresponding principal amount of our 7.405% junior subordinated debt securities due 2038 issued by Unum Group to the Trust; (ii) \$30.3 million aggregate principal amount of our 7.190% medium-term notes due 2028; (iii) \$30.0 million aggregate principal amount of our 7.250% senior notes due 2028; and (iv) \$256.0 million aggregate principal amount of our 3.000% senior notes due 2021. In connection with the tender offer, we incurred costs of \$25.2 million related to the early retirement of debt.

At September 30, 2020, letters of credit totaling \$0.6 million had been issued from our credit facilities, but there were no borrowed amounts outstanding. Borrowings under the credit facilities are for general corporate uses and are subject to financial covenants, negative covenants, and events of default that are customary. The two primary financial covenants include limitations based on our leverage ratio and consolidated net worth. We are also subject to covenants that limit subsidiary indebtedness. The credit facilities provide for borrowings at an interest rate based either on the prime rate or LIBOR.

Costs Related to Organizational Design Update

During the third quarter of 2020, we realigned certain parts of our organizational structure by shifting resources to accelerate growth, fund priority investments, and simplify and improve our business practices. In connection with this update, we incurred charges of \$23.3 million, which primarily consisted of employee severance and benefit costs as well as certain costs related to lease terminations and the disposal of certain fixed assets. These costs were recorded within either compensation expense or other expenses in the consolidated statements of income and were included within our Corporate segment. This update did not result in the exit or disposal of any of our lines of business and we do not expect material additional costs associated with this update in the future.

Regulatory Examination

In connection with a financial examination of Unum Life Insurance Company of America (Unum America), which closed at the end of the second quarter of 2020, the Maine Bureau of Insurance (MBOI) concluded that Unum America's long-term care statutory reserves are deficient by \$2.1 billion as of December 31, 2018, the financial statement date of the examination period. The MBOI granted permission to Unum America on May 1, 2020, to phase in the additional statutory reserves over seven years beginning with year-end 2020 and ending with year-end 2026. The 2020 phase-in amount is estimated to be between \$200 million and \$250 million. This strengthening will be accomplished by our actuaries incorporating explicitly agreed upon margins into our existing assumptions for annual statutory reserve adequacy testing. These actions will add margin to Unum America's best estimate assumptions. Our long-term care reserves and financial results reported under generally accepted accounting principles are not affected by the MBOI's examination conclusion. We plan to fund the additional statutory reserves with expected cash flows. If the permitted practice was not granted by the MBOI to phase in these additional statutory reserves, the impact to the risk-based capital ratio would have triggered a regulatory event.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Unum Group and Subsidiaries

September 30, 2020

Note 12 - Other - Continued

Impairment Loss on ROU Asset

During the second quarter of 2020, we recognized an impairment loss of \$12.7 million on the ROU asset related to one of our operating leases for office space that we do not plan to continue using to support our general operations. The impairment loss was recorded as a result of a decrease in the fair value of the ROU asset compared to its carrying value. The fair value of the ROU asset was determined based on a discounted cash flow model utilizing estimated market rates for sub-lease rentals. The impairment loss is recorded within other expenses in the consolidated statements of income and is included within our Corporate segment.

Income Tax

On July 22, 2020, the Finance Bill 2019-21 was enacted, resulting in a U.K. tax rate increase from 17 percent to 19 percent, retroactively effective April 1, 2020, which resulted in \$9.3 million of additional tax expense through continuing operations for the revaluation of our tax assets and liabilities in the third quarter of 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Unum Group, a Delaware general business corporation, and its insurance and non-insurance subsidiaries, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, Poland and, to a limited extent, in certain other countries. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America, Provident Life and Accident Insurance Company, The Paul Revere Life Insurance Company, Colonial Life & Accident Insurance Company, Starmount Life Insurance Company, in the United Kingdom, Unum Limited, and in Poland, Unum Zycie TUIR S.A. (Unum Poland). We are a leading provider of financial protection benefits in the United States and the United Kingdom. Our products include disability, life, accident, critical illness, dental and vision, and other related services. We market our products primarily through the workplace.

We have three principal operating business segments: Unum US, Unum International, and Colonial Life. Our other segments are the Closed Block and Corporate segments. These segments are discussed more fully under "Segment Results" included herein in this Item 2.

The benefits we provide help protect people from the financial hardship of illness, injury, or loss of life by providing support when it is needed most. As one of the leading providers of employee benefits, we offer a broad portfolio of products and services through the workplace.

Specifically, we offer group, individual, voluntary, and dental and vision products as well as provide certain fee-based services. These products and services, which can be sold stand-alone or combined with other coverages, help employers of all sizes attract and retain a stronger workforce while protecting the incomes and livelihood of their employees. We believe employer-sponsored benefits are the most effective way to provide workers with access to the information and options they need to protect their financial stability. Working people and their families, particularly those at lower and middle incomes, are perhaps the most vulnerable in today's economy yet are often overlooked by many providers of financial services and products. For many of these people, employer-sponsored benefits are the primary defense against the potentially catastrophic fallout of death, illness, or injury.

We have established a corporate culture consistent with the social values our products provide. Because we see important links between the obligations we have to all of our stakeholders, we place a strong emphasis on contributing to positive change in our communities. Accordingly, we are committed not only to meeting the needs of our customers who depend on us, but also to operating with integrity and being accountable for our actions through sound and consistent business practices, a strong internal compliance program, and a comprehensive risk management strategy.

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the "Cautionary Statement Regarding Forward-Looking Statements" included below the Table of Contents, as well as the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2019.

Operating Performance and Capital Management

For the third quarter of 2020, we reported net income of \$231.1 million, or \$1.13 per diluted common share, compared to net income of \$242.0 million, or \$1.16 per diluted common share, in the third quarter of 2019. For the first nine months of 2020, we reported net income of \$657.6 million, or \$3.23 per diluted common share, compared to net income of \$804.1 million, or \$3.81 per diluted common share in the same period of 2019. Net income includes net realized investment gains and losses. Included in our results for the third quarter and first nine months of 2020 are costs related to an organizational design update in the amount of \$23.3 million before tax and \$18.6 million after tax, or \$0.09 per diluted common share for both the third quarter and first nine months of 2020. Also included in our results for the first nine months of 2020 is an impairment loss on the right-of-use (ROU) asset related to one of our operating leases of \$12.7 million before tax and \$10.0 million after tax, or \$0.05 per diluted common share. Included in our results for the third quarter and first nine months of 2019 are costs related to the early retirement of debt of \$25.2 million before tax and \$19.9 million after tax, or \$0.10 and \$0.09 per diluted common share for the third quarter and first nine months of 2019, respectively. Adjusting for these items, after-tax adjusted operating income for the third quarter of 2020 was \$245.9 million, or \$1.21 per diluted common share compared to \$282.7 million, or \$1.36 per diluted common share, for the same period of 2019. After-tax adjusted operating income was \$770.1 million, or \$3.78 per diluted common share, in the first nine months of 2020, compared to \$849.9 million, or \$4.02 per diluted common share, in the first nine months of 2019. See "Reconciliation of Non-GAAP and Other Financial Measures" contained in this Item 2 for a reconciliation of these items.

Our Unum US segment reported a decrease in adjusted operating income of 28.0 percent and 11.2 percent in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019, due to unfavorable benefits experience, particularly in the group life product line, and higher operating expenses. Also impacting the comparison for the third quarter of 2020 was a decline in premium income and higher net investment income relative to the same period of 2019. The benefit ratio for our Unum US segment was 70.9 percent and 67.8 percent in the third quarter and first nine months of 2020, respectively, compared to 67.2 percent and 66.7 percent in third quarter and first nine months of 2019. Unum US sales decreased 18.5 percent and 11.9 percent in third quarter and first nine months of 2020, respectively, compared to the same periods of 2019. Overall persistency was lower relative to the prior year period.

Our Unum International segment reported a decrease in adjusted operating income, as measured in U.S. dollars, of 11.6 percent and 33.5 percent in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019. As measured in local currency, our Unum UK line of business reported a decrease in adjusted operating income of 18.7 percent and 38.1 percent in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019 due to unfavorable benefits experience, partially offset by growth in premium income. Also contributing to the decrease in adjusted operating income during the first nine months of 2020 compared to the same period of 2019 was lower net investment income. The benefit ratio for our Unum UK line of business was 77.1 percent and 80.0 percent in the third quarter and first nine months of 2020, respectively, compared to 73.4 percent and 76.5 percent in the same periods of 2019. Unum International sales, as measured in U.S. dollars, decreased 9.7 percent and 0.3 percent in the third quarter and first nine months of 2020 compared to the same periods of 2019. Unum UK sales, as measured in local currency decreased 20.7 percent in the third quarter of 2020 but increased 0.4 percent in the first nine months of 2020 relative to the same periods of 2019. Persistency was lower relative to the prior year period.

Our Colonial Life segment reported an increase in adjusted operating income of 5.7 percent and 2.9 percent in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019 due to higher net investment income and lower operating expenses, partially offset by less favorable benefits experience. Also contributing to the increase in adjusted operating income during the first nine months of 2020 compared to the same prior year period was growth in premium income. The benefit ratio for Colonial Life was 52.2 percent and 51.8 percent in the third quarter and first nine months of 2020, respectively, compared to 51.4 percent and 51.3 percent in the same periods of 2019. Colonial Life sales decreased 27.6 percent and 27.3 percent in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019. Persistency was slightly higher relative to the prior year period.

Our Closed Block segment reported an increase in adjusted operating income of 163.2 percent and 49.8 percent in the third quarter and first nine months of 2020 compared to the same periods of 2019 due primarily to favorable benefits experience in the long-term care product line, partially offset by unfavorable benefits experience in the individual disability product line. Also impacting the comparison was net investment income, which was higher in the third quarter of 2020 but lower during the first nine months of 2020 relative to the same periods of 2019. Benefits experience for long-term care was favorable in the third quarter and first nine months of 2020 relative to the same periods of 2019 and is currently lower than our long-term expectations with an interest adjusted loss ratio of 75.6 percent on a rolling twelve-month basis. Individual disability benefits experience was unfavorable in the third quarter and first nine months of 2020 relative to the same periods of 2019 and is currently slightly higher than our range of expectations.

Our net investment income yields continue to be pressured by the low interest rate environment as we maintain consistent credit quality in our invested asset portfolio. The net unrealized gain on our fixed maturity securities was \$8.0 billion at September 30, 2020, compared to \$6.4 billion at December 31, 2019, with the increase due primarily to a decline in U.S. Treasury rates. The earned book yield on our investment portfolio was 4.73 percent for the first nine months of 2020 compared to a yield of 5.00 percent for full year 2019.

We believe our capital and financial positions are strong. At September 30, 2020, the risk-based capital (RBC) ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was approximately 380 percent, which is in line with our expectations. We did not repurchase shares during the first nine months of 2020. Our weighted average common shares outstanding, assuming dilution, equaled 203.9 million and 208.1 million for the third quarters of 2020 and 2019, respectively, and 203.6 million and 211.2 million for the first nine months of 2020 and 2019, respectively. As of September 30, 2020, Unum Group and our intermediate holding companies held short-dated fixed maturity securities, short-term investments, and cash of \$1,178 million.

Costs Related to Organizational Design Update

During the third quarter of 2020, we realigned certain parts of our organizational structure by shifting resources to accelerate growth, fund priority investments, and simplify and improve our business practices. In connection with this update, we incurred charges of \$23.3 million, which primarily consisted of employee severance and benefit costs as well as costs related to lease terminations and the disposal of certain fixed assets. This update did not result in the exit or disposal of any of our lines of business and we do not expect material additional costs associated with this update in the future. For further information on the costs related to the organizational design update, see Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

Impairment Loss on ROU Asset

During the second quarter of 2020, we recognized an impairment loss of \$12.7 million on the ROU asset related to one of our operating leases for office space that we do not plan to continue using to support our general operations. The impairment loss was recorded as a result of a decrease in the fair value of the ROU asset compared to its carrying value. For further information on the impairment loss related to the ROU asset, see Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

Coronavirus Disease 2019 (COVID-19)

On March 11, 2020, the World Health Organization identified the spread of COVID-19 as a pandemic. COVID-19 has caused significant disruption to the global economy and has unfavorably impacted our company as well as the overall insurance industry. Due to the unprecedented nature of these events and the current pace of change in this environment, we cannot fully estimate the ultimate impact of the COVID-19 pandemic at this time. We are closely monitoring several key factors related to our business that have and may continue to have adverse impacts.

Results of Operations

Benefits Experience

Although we have not yet fully determined the correlation between COVID-19 and our benefits experience, we have identified activity in certain of our products that is inconsistent with historical experience that may be due in part to COVID-19 and the related environment. In particular, we have experienced higher claims incidence in our life product lines and lower claim resolutions in our Unum UK group long-term disability product line due to disruptions in our claims processes. Conversely, we experienced lower claims utilization in our dental and vision products resulting from the impact of stay-at-home orders and general quarantine measures during the first half of 2020, but experienced higher utilization during the third quarter of 2020. With respect to our long-term care product line, we have experienced higher claimant mortality and lower submitted incidence.

We continue to monitor the benefits experience across all of our products for trends potentially correlated with COVID-19. For further discussion regarding the benefits experience for each of our operating business segments, see "Segment Results" herein in this Item 2.

Net Investment Income

In the first nine months of 2020, we have experienced a decline in our net investment income as a result of the current economic conditions. Most significantly, declines in the net asset values of our partnership investments in the second quarter of 2020, which reflected the market conditions of the first quarter of 2020, resulted in a loss recorded within net investment income of approximately \$30 million. Conversely, improvements in the net asset values of our partnership investments in the third quarter of 2020, which reflect the market conditions of the second quarter of 2020, resulted in income of approximately \$11 million. During the third quarter of 2020, U.S. equity and credit markets continued to improve from the severe decline experienced during the first quarter of 2020 due to COVID-19, and although our partnership investments are not directly correlated with those markets, their results were positively impacted and should drive higher asset fair values, which we expect to be reflected in our results during the fourth quarter of 2020. In addition to our partnership investment activity, the current economic conditions have sustained the low interest rate environment, which has and will continue to impact the yield on our invested assets, particularly related to the investment of new cash flows. We have also worked with certain of our commercial mortgage loan borrowers that have requested temporary payment deferrals but these instances have not resulted in a significant number of loans with deferrals or a significant impact on our net investment income. For further information on our investment portfolio, see "Investments" contained herein in this Item 2 and Notes 3 and 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

Premium Income and Premium Receivable Collectability

We have experienced a disruption in sales activity related to certain of our product lines due to some potential new customers deferring their purchasing decisions given the current economic environment and challenges in our ability to meet with potential new customers for policies that are traditionally sold in person. If we continue to experience this disruption, our premium income would likely further decline. In addition, in certain of our product lines, we are also experiencing a decline in the number of lives insured by our customers as they navigate the current environment. Although we have not experienced a material decline in the collectability of premiums due from our customers, we have increased the allowance for credit losses on our premium receivable balances to consider higher unemployment levels, state-level requirements regarding billing and administration accommodations, and the general uncertainty regarding the financial condition of our customers. We continue to work with our customers to understand their respective financial conditions and develop solutions on a case-by-case basis to allow for additional payment flexibility to enhance the likelihood of premium collection and avoid disruptions in coverage. However, circumstances may deteriorate quickly which could result in the decline of persistency levels and sales growth in the near term, and potentially longer if the current situation persists, which may materially impact our results of operations through continued increases in our allowances for credit losses and lower premium income.

See Notes 1 and 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on our allowances for credit losses.

Financial Condition

Investments

Regarding our fixed maturity security portfolio, the current economic conditions have increased volatility in the capital markets and have caused significant pressure on the profitability of many companies. The sharp decline in oil prices experienced earlier in the year and decrease in demand due to COVID-19, which began in the first quarter of 2020, also caused pressure on the profitability of companies in the energy sector. We recorded credit losses during the first quarter of 2020 primarily related to fixed maturity securities issued by companies in the energy sector, but recorded minimal credit losses related to energy securities in the second and third quarters of 2020 primarily as a result of the improvement in oil prices. Our exposure to consumer cyclicals which have been stressed due to COVID-19 related shutdowns is a small portion of our portfolio and our exposure to other stressed industries such as airlines and restaurants is minimal. We continue to monitor capital market activity on a regular basis and to the extent that there is continued volatility and ratings downgrades related to the issuers of our fixed maturity securities, we could experience further credit losses, an increase in defaults, and the need for additional capital in our insurance subsidiaries. However, we remain confident in the overall strength and credit quality of our investment portfolio.

Other

If we continue to experience unfavorable trends in the above areas of focus, we may experience an increase in the amortization of deferred acquisition costs associated with a decline in persistency. We may also be required to write-off or impair certain intangible/long-lived assets such as value of business acquired and goodwill if we experience declines in the overall profitability of our businesses and further declines in our market capitalization. Furthermore, if the profitability of our businesses declines, we may also be required to establish a valuation allowance regarding the realization of our deferred tax assets.

Liquidity and Capital Resources

We have strengthened our liquidity position through actions such as maintaining a higher level of short-term investments and posting additional collateral from certain of our U.S. insurance subsidiaries to the regional Federal Home Loan Banks (FHLB). As a result, we believe we have the appropriate liquidity and access to capital to avoid significant disruption to our operations. We have not yet experienced a significant impact to our liquidity as a result of the collection of premiums and submitted claims activity; however, we continually monitor the developments of these items.

As of September 30, 2020, we have borrowed \$30.2 million of funds through our memberships with the regional FHLBs and those funds are used for the purpose of investing in either short-term investments or fixed maturity securities but may be utilized for liquidity if the need arises. Additionally, we have access to two unsecured revolving credit facilities under separate syndicates of lenders that allow us to borrow up to a total of \$600 million. There are currently no outstanding borrowings on these facilities but we remain in compliance with required covenants should we choose to borrow in the future. In May 2020, we also issued \$500.0 million of 4.500% senior notes due 2025 which strengthened our liquidity and demonstrated our ability to raise capital in the current environment.

Following the maturity of our \$400.0 million aggregate principal amount of 5.625% unsecured notes in the third quarter of 2020, which was funded through an issuance of debt during the second quarter of 2019, we have no significant upcoming debt maturities until 2024. We continue to meet the financial covenants contained in our current debt agreements and credit facilities, and we expect that we will continue to meet those covenants in subsequent periods.

To the extent that we begin to experience a significant impact to our liquidity, we would likely sell highly liquid invested assets or borrow funds on our credit facilities to meet operational cash flow requirements.

Business Operations

Other than disruption to sales processes in certain of our product lines, we have not experienced a significant disruption to our operational processes as we have been able to successfully implement our business continuation plans to accommodate remote work arrangements for the safety of our employees and customers. We also have not experienced significant disruption to our financial reporting systems and internal control over financial reporting and disclosure controls and procedures as a result of COVID-19. We have implemented travel restrictions for the safety of our employees and customers, but do not expect those restrictions to significantly disrupt our operations.

U.K. Referendum

On January 31, 2020, an official bill was passed formalizing the withdrawal of the U.K. from the EU. The bill gives approval to an 11-month transition period, until December 31, 2020, to allow for further negotiations regarding the details of the future relationship. We do not expect the underlying operations of our U.K. business to be significantly impacted by the withdrawal but we may see some continued dampening of growth in the U.K. as well as earnings volatility due to the current disruption and uncertainty in the U.K. economy. We may also experience volatility in the fair values of our investments in U.K. and EU-based issuers but we do not believe this volatility will impact our ability to hold these investments. There are currently no indications that capital requirements for our U.K. operations will change, but changes in economic conditions as a result of the U.K.'s withdrawal may cause additional volatility in our solvency ratios. Our reported consolidated financial results may continue to be impacted by fluctuations in the British pound sterling to dollar exchange rate. Further discussion is contained herein in "Unum International Segment" in this Item 2.

Consolidated Company Outlook

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength. The products and services we provide have never been more important to employers, employees and their families, especially given the emergence of the COVID-19 pandemic. We continue to fulfill our corporate purpose of helping the working world thrive throughout life's moments by providing excellent service to people at their time of need. Our strategy remains centered on growing our existing business, expanding our reach, and investing in our operations and technology to anticipate and respond to meet the changing needs of our customers.

In consideration of the recent COVID-19 pandemic, in the near term, we expect top line growth to be challenging, and we may also continue to experience increased claims volatility. The low interest rate environment continues to place pressure on our profit margins by impacting net investment income yields as well as potentially discount rates on our insurance liabilities. We would also expect to experience further investment volatility through net investment income, particularly for partnership net asset value changes and ratings migrations within our portfolio which could impact our capital position. As part of our continued pricing discipline and our reserving methodology, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate.

Our business is well-diversified by geography, industry exposures and case size, and we continue to analyze and employ strategies that we believe will help us navigate the current environment. These strategies allow us to maintain financial flexibility to support the needs of our businesses, while also returning capital to our shareholders. We have strong core businesses that have a track record of generating significant capital, and we will continue to invest in our operations and expand into new areas where we can best leverage our expertise and capabilities to capture market growth opportunities as those opportunities re-emerge. Long-term, we believe that consistent operating results, combined with the implementation of strategic initiatives and the effective deployment of capital, will allow us to meet our financial objectives.

Reconciliation of Non-GAAP and Other Financial Measures

We analyze our performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measure of "after-tax adjusted operating income" differs from net income as presented in our consolidated operating results and income statements prepared in accordance with GAAP due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. We believe after-tax adjusted operating income is a better performance measure and better indicator of the profitability and underlying trends in our business.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the interest rates assumed in calculating our liabilities.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals. We exclude these items as we believe them to be infrequent or unusual in nature, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability. See Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion regarding the costs related to the organizational design update, the impairment loss on the ROU asset related to one of our operating leases for office space, and the cost related to the early retirement of debt.

A reconciliation of GAAP financial measures to our non-GAAP financial measures is as follows:

	Three Months Ended September 30			
	2020		2019	
	(in millions)	per share *	(in millions)	per share *
Net Income	\$ 231.1	\$ 1.13	\$ 242.0	\$ 1.16
Excluding:				
Net Realized Investment Gain (Loss) (net of tax expense (benefit) of \$0.6; \$(5.4))	3.8	0.01	(20.8)	(0.10)
Costs Related to Organizational Design Update (net of tax benefit of \$4.7; \$—)	(18.6)	(0.09)	—	—
Cost Related to Early Retirement of Debt (net of tax benefit of \$—; \$5.3)	—	—	(19.9)	(0.10)
After-tax Adjusted Operating Income	<u>\$ 245.9</u>	<u>\$ 1.21</u>	<u>\$ 282.7</u>	<u>\$ 1.36</u>

	Nine Months Ended September 30			
	2020		2019	
	(in millions)	per share *	(in millions)	per share *
Net Income	\$ 657.6	\$ 3.23	\$ 804.1	\$ 3.81
Excluding:				
Net Realized Investment Loss (net of tax benefit of \$21.9; \$6.5)	(83.9)	(0.41)	(25.9)	(0.12)
Costs Related to Organizational Design Update (net of tax benefit of \$4.7; \$—)	(18.6)	(0.09)	—	—
Impairment Loss on ROU Asset (net of tax benefit of \$2.7; \$—)	(10.0)	(0.05)	—	—
Cost Related to Early Retirement of Debt (net of tax benefit of \$—; \$5.3)	—	—	(19.9)	(0.09)
After-tax Adjusted Operating Income	<u>\$ 770.1</u>	<u>\$ 3.78</u>	<u>\$ 849.9</u>	<u>\$ 4.02</u>

* Assuming Dilution

We measure and analyze our segment performance on the basis of "adjusted operating revenue" and "adjusted operating income" or "adjusted operating loss", which differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. These performance measures are in accordance with GAAP guidance for segment reporting, but they should not be viewed as a substitute for total revenue, income before income tax, or net income.

A reconciliation of total revenue to "adjusted operating revenue" and income before income tax to "adjusted operating income" is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	(in millions of dollars)			
Total Revenue	\$ 2,996.3	\$ 2,960.0	\$ 8,888.6	\$ 8,964.3
Excluding:				
Net Realized Investment Gain (Loss)	4.4	(26.2)	(105.8)	(32.4)
Adjusted Operating Revenue	<u>\$ 2,991.9</u>	<u>\$ 2,986.2</u>	<u>\$ 8,994.4</u>	<u>\$ 8,996.7</u>
Income Before Income Tax	\$ 299.6	\$ 299.4	\$ 839.3	\$ 1,004.7
Excluding:				
Net Realized Investment Gain (Loss)	4.4	(26.2)	(105.8)	(32.4)
Costs Related to Organizational Design Update	(23.3)	—	(23.3)	—
Impairment Loss on ROU Asset	—	—	(12.7)	—
Cost Related to Early Retirement of Debt	—	(25.2)	—	(25.2)
Adjusted Operating Income	<u>\$ 318.5</u>	<u>\$ 350.8</u>	<u>\$ 981.1</u>	<u>\$ 1,062.3</u>

Critical Accounting Estimates

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements.

The accounting estimates deemed to be most critical to our financial position and results of operations are those related to reserves for policy and contract benefits, deferred acquisition costs, valuation of investments, pension and postretirement benefit plans, income taxes, and contingent liabilities. Effective January 1, 2020, we adopted new accounting guidance regarding estimating expected credit losses related to our commercial mortgage loan investments and the recording of credit losses related to our available-for-sale fixed maturity securities. There have been no other significant changes in our critical accounting estimates during the nine months ended September 30, 2020.

For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" in Part II, Item 8 and "Critical Accounting Estimates" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2019.

Accounting Developments

See Note 2 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on accounting developments.

Consolidated Operating Results

(in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Revenue						
Premium Income	\$ 2,318.1	(0.6)%	\$ 2,331.2	\$ 7,058.2	0.6 %	\$ 7,013.0
Net Investment Income	613.2	2.3	599.4	1,767.2	(2.8)	1,819.0
Net Realized Investment Gain (Loss)	4.4	(116.8)	(26.2)	(105.8)	N.M.	(32.4)
Other Income	60.6	9.0	55.6	169.0	2.6	164.7
Total Revenue	2,996.3	1.2	2,960.0	8,888.6	(0.8)	8,964.3
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	1,888.6	0.9	1,871.5	5,626.2	0.2	5,614.9
Commissions	258.3	(7.1)	277.9	810.5	(4.9)	852.4
Interest and Debt Expense	49.4	7.2	46.1	142.6	9.0	130.8
Cost Related to Early Retirement of Debt	—	(100.0)	25.2	—	(100.0)	25.2
Deferral of Acquisition Costs	(134.9)	(16.0)	(160.6)	(446.8)	(11.5)	(504.6)
Amortization of Deferred Acquisition Costs	149.7	2.3	146.3	466.6	(0.4)	468.5
Compensation Expense	253.3	11.8	226.5	726.0	7.3	676.9
Other Expenses	232.3	2.0	227.7	724.2	4.1	695.5
Total Benefits and Expenses	2,696.7	1.4	2,660.6	8,049.3	1.1	7,959.6
Income Before Income Tax	299.6	0.1	299.4	839.3	(16.5)	1,004.7
Income Tax	68.5	19.3	57.4	181.7	(9.4)	200.6
Net Income	\$ 231.1	(4.5)	\$ 242.0	\$ 657.6	(18.2)	\$ 804.1

N.M. = not a meaningful percentage

Fluctuations in exchange rates, particularly between the British pound sterling and the U.S. dollar for our U.K. operations, have an effect on our consolidated financial results. In periods when the pound weakens relative to the preceding period, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results relative to the prior period.

The weighted average pound/dollar exchange rate for our Unum UK line of business was 1.289 and 1.230 for the three months ended September 30, 2020 and 2019, and 1.274 and 1.276 for the nine months ended September 30, 2020 and 2019, respectively. If the 2019 results for our U.K. operations had been translated at the exchange rates of 2020, our adjusted operating revenue and adjusted operating income by segment would have been higher by approximately \$7 million and \$1 million, respectively, in the third quarter of 2019 and consistent in the first nine months of 2019. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Premium income for our principal operating business segments in the third quarter of 2020 declined slightly compared to the same prior year period due primarily to a decrease in Unum US premium income, mostly offset by growth in Unum International. The decline in premium income in Unum US was due primarily to lower sales and persistency levels. Premium income increased in each of our principal operating business segments in the first nine months of 2020 relative to the same period of 2019. Premium income continues to decline, as expected, in our Closed Block segment.

Net investment income increased in the third quarter of 2020 relative to the same period of 2019 due to an increase in the level of invested assets and an increase in miscellaneous investment income, partially offset by a lower yield on invested assets but

declined in the first nine months of 2020 relative to the same period of 2019 due primarily to a decline in the yield on invested assets and an overall decrease in the NAV on our private equity partnerships, partially offset by an increase in the level of invested assets.

Included in net realized investment gains and losses for the first nine months of 2020 was \$59.3 million of credit losses on fixed maturity securities. Credit losses were de minimis on fixed maturity securities during the third quarter of 2020. We recognized \$20.8 million of credit losses on fixed maturity securities in net realized investment gains and losses in the third quarter and first nine months of 2019. Also included in net realized investment gains and losses were changes in the fair value of an embedded derivative in a modified coinsurance arrangement, which resulted in realized gains (losses) of \$14.1 million and \$(11.1) million in the third quarters of 2020 and 2019, respectively, and \$(30.9) million and \$(6.4) million in first nine months of 2020 and 2019, respectively. The changes in the embedded derivative are primarily driven by movements in credit spreads in the overall investment market. See Note 4 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information on realized investment gains and losses.

Other income is primarily comprised of fee-based service products in the Unum US segment, which include leave management services and administrative services only (ASO) business and the underlying results and associated net investment income of certain blocks of individual disability reinsured business.

Overall benefits experience was unfavorable in the third quarter of 2020 relative to the same period of 2019 but was favorable in the first nine months of 2020 relative to the same period of 2019. The benefits experience for each of our operating business segments is discussed more fully in "Segment Results" as follows.

Commissions and the deferral of acquisition costs were lower during the third quarter and first nine months of 2020 compared to the same periods of 2019 driven primarily by lower sales in our Unum US voluntary benefits product line and our Colonial Life segment. The amortization of deferred acquisition costs in the third quarter and first nine months of 2020 was generally consistent with the same periods of 2019.

Interest and debt expense increased in the third quarter and first nine months of 2020 relative to the same periods of 2019 due primarily to a higher level of outstanding debt.

Cost related to early retirement of debt includes costs associated with the purchase and retirement of \$336.5 million aggregate liquidation/principal amount of our outstanding capital and debt securities in connection with a cash tender offer in September 2019. See "Liquidity and Capital Resources" contained herein in this Item 2 for further information.

Other expenses, including compensation expense, increased in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to costs related to an organizational design update and growth in our fee-based service products. Also impacting the comparison for the first nine months of 2020 compared to the same period of 2019 was an impairment loss on the ROU asset during the second quarter of 2020 related to an operating lease for office space and an increase in the provision for the allowance for expected credit losses on premium receivable balances.

Our effective income tax rates for the third quarter and first nine months of 2020 were 22.9 percent and 21.6 percent of income before income tax, respectively, compared to 19.2 percent and 20.0 percent for the same prior year periods. Our effective income tax rates differed from the U.S. statutory rate in effect for the third quarter and first nine months of 2020 and 2019 primarily due to favorable tax credits. Also impacting the difference between the effective tax rate and the U.S. statutory rate in effect for the third quarter and first nine months of 2020 was the unfavorable impact of the U.K. tax rate increase. See Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion regarding the U.K. tax rate increase.

Consolidated Sales Results

Shown below are sales results for our three principal operating business segments.

(in millions)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Unum US	\$ 131.7	(18.5)%	\$ 161.6	\$ 582.8	(11.9)%	\$ 661.7
Unum International	\$ 17.7	(9.7)%	\$ 19.6	\$ 71.7	(0.3)%	\$ 71.9
Colonial Life	\$ 87.3	(27.6)%	\$ 120.6	\$ 258.9	(27.3)%	\$ 356.3

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

Sales, persistency of the existing block of business, employment and salary growth, and the effectiveness of a renewal program are indicators of growth in premium income. Trends in new sales, as well as existing market share, also indicate the potential for growth in our respective markets and the level of market acceptance of price levels and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions. Given the uncertainty caused by the COVID-19 pandemic, we expect to experience further disruption in our sales activity in 2020.

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

Segment Results

Our reporting segments are comprised of the following: Unum US, Unum International, Colonial Life, Closed Block, and Corporate.

Unum US Segment

The Unum US segment is comprised of group disability insurance, which includes our long-term and short-term disability products, our medical stop-loss product, and our fee-based leave management services and ASO business, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, which are comprised of individual disability, voluntary benefits, and dental and vision products.

Unum US Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income	\$ 1,483.4	(1.2)%	\$ 1,501.9	\$ 4,533.8	0.6 %	\$ 4,508.3
Net Investment Income	190.7	3.5	184.2	547.2	(0.6)	550.4
Other Income	42.0	20.7	34.8	117.5	10.7	106.1
Total	1,716.1	(0.3)	1,720.9	5,198.5	0.7	5,164.8
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	1,052.2	4.3	1,009.2	3,073.6	2.2	3,007.0
Commissions	146.3	(5.5)	154.8	455.0	(4.3)	475.6
Deferral of Acquisition Costs	(68.2)	(15.7)	(80.9)	(223.3)	(11.4)	(251.9)
Amortization of Deferred Acquisition Costs	82.1	2.2	80.3	261.8	(1.9)	266.8
Other Expenses	315.5	6.6	296.1	949.5	5.6	899.3
Total	1,527.9	4.7	1,459.5	4,516.6	2.7	4,396.8
Adjusted Operating Income	\$ 188.2	(28.0)	\$ 261.4	\$ 681.9	(11.2)	\$ 768.0
Operating Ratios (% of Premium Income):						
Benefit Ratio	70.9 %		67.2 %	67.8 %		66.7 %
Other Expense Ratio	21.3 %		19.7 %	20.9 %		19.9 %
Adjusted Operating Income Ratio	12.7 %		17.4 %	15.0 %		17.0 %

Unum US Group Disability Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Group Long-term Disability	\$ 450.5	(0.7)%	\$ 453.6	\$ 1,374.5	0.8 %	\$ 1,363.7
Group Short-term Disability	196.2	0.9	194.4	603.0	5.7	570.7
Total Premium Income	646.7	(0.2)	648.0	1,977.5	2.2	1,934.4
Net Investment Income	105.4	5.9	99.5	295.3	(1.0)	298.4
Other Income	39.2	19.9	32.7	111.4	12.2	99.3
Total	791.3	1.4	780.2	2,384.2	2.2	2,332.1
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	479.3	(0.2)	480.5	1,450.8	0.7	1,441.1
Commissions	47.6	(2.1)	48.6	145.6	(1.2)	147.3
Deferral of Acquisition Costs	(11.6)	(7.9)	(12.6)	(36.1)	(3.5)	(37.4)
Amortization of Deferred Acquisition Costs	13.2	1.5	13.0	39.7	3.9	38.2
Other Expenses	189.8	13.2	167.7	558.9	13.2	493.7
Total	718.3	3.0	697.2	2,158.9	3.6	2,082.9
Adjusted Operating Income	\$ 73.0	(12.0)	\$ 83.0	\$ 225.3	(9.6)	\$ 249.2
Operating Ratios (% of Premium Income):						
Benefit Ratio	74.1 %		74.2 %	73.4 %		74.5 %
Other Expense Ratio	29.3 %		25.9 %	28.3 %		25.5 %
Adjusted Operating Income Ratio	11.3 %		12.8 %	11.4 %		12.9 %
Persistency:						
Group Long-term Disability				90.3 %		90.7 %
Group Short-term Disability				87.5 %		89.9 %

Premium income in the third quarter of 2020 was generally consistent with the same period of 2019 but increased during the first nine months of 2020 compared to the same period of 2019 due to growth in the in-force block resulting from higher prior period sales, partially offset by lower persistency. Net investment income increased in the third quarter of 2020 relative to the same period of 2019 due to higher miscellaneous investment income, partially offset by a lower yield on invested assets. Net investment income was slightly lower during the first nine months of 2020 relative to the same period of 2019 due to a decline in both the yield and level of invested assets, mostly offset by higher miscellaneous investment income. Other income increased in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to continued growth in our fee-based service products.

Benefits experience in the third quarter of 2020 was generally consistent with the same period of 2019 and was favorable in the first nine months of 2020 compared to the same period of 2019 due to higher claim recoveries in our group long-term disability product line, partially offset by higher claims incidence in the short term disability product line.

Commissions and the deferral of acquisition costs were lower in the third quarter and first nine months of 2020 compared to the same periods of 2019 due primarily to lower year-to-date sales. The amortization of deferred acquisition costs increased in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to growth in the level of the deferred

asset. Our other expense ratio in the third quarter and first nine months of 2020 increased compared to the same periods of 2019 due primarily to an increase in expenses associated with the administration of our fee-based service products, which experienced higher volumes due to the current COVID-19 environment. Also contributing to the higher expense ratio was an increase in operational investments in our business which was balanced with our continued focus on expense management and operating efficiencies.

Unum US Group Life and Accidental Death and Dismemberment Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Group Life	\$ 406.3	(2.1)%	\$ 415.0	\$ 1,235.4	(1.1)%	\$ 1,249.4
Accidental Death & Dismemberment	39.7	(4.3)	41.5	123.1	(0.9)	124.2
Total Premium Income	446.0	(2.3)	456.5	1,358.5	(1.1)	1,373.6
Net Investment Income	25.2	(6.7)	27.0	74.2	(6.8)	79.6
Other Income	1.0	42.9	0.7	2.0	—	2.0
Total	472.2	(2.5)	484.2	1,434.7	(1.4)	1,455.2
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	372.2	13.2	328.8	1,067.5	8.0	988.5
Commissions	35.0	(3.6)	36.3	108.3	(3.0)	111.7
Deferral of Acquisition Costs	(8.4)	(12.5)	(9.6)	(26.3)	(8.7)	(28.8)
Amortization of Deferred Acquisition Costs	9.6	4.3	9.2	29.3	5.0	27.9
Other Expenses	49.9	(2.3)	51.1	152.2	(3.3)	157.4
Total	458.3	10.2	415.8	1,331.0	5.9	1,256.7
Adjusted Operating Income	\$ 13.9	(79.7)	\$ 68.4	\$ 103.7	(47.8)	\$ 198.5
Operating Ratios (% of Premium Income):						
Benefit Ratio	83.5 %		72.0 %	78.6 %		72.0 %
Other Expense Ratio	11.2 %		11.2 %	11.2 %		11.5 %
Adjusted Operating Income Ratio	3.1 %		15.0 %	7.6 %		14.5 %
Persistency:						
Group Life				88.6 %		90.8 %
Accidental Death & Dismemberment				87.8 %		90.1 %

Premium income was lower in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to lower year-to-date sales and persistency. Net investment income was lower in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to a decline in both the yield and level of invested assets, partially offset by higher miscellaneous investment income.

Benefits experience in the third quarter and first nine months of 2020 was unfavorable compared to the same periods of 2019 due primarily to higher claims incidence in the group life product line, likely resulting from the impacts of COVID-19.

Commissions and the deferral of acquisition costs were lower in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to lower year-to-date sales. The amortization of deferred acquisition costs increased in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to growth in the level of the deferred asset. The other expense ratio in the third quarter of 2020 was consistent with the same period of 2019 and was lower in the first nine months of 2020 compared to the same period of 2019 due to our continued focus on expense management and operating efficiencies.

Unum US Supplemental and Voluntary Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Individual Disability	\$ 117.7	7.8 %	\$ 109.2	\$ 340.3	3.6 %	\$ 328.4
Voluntary Benefits	212.2	(6.2)	226.2	666.6	(3.3)	689.2
Dental and Vision	60.8	(1.9)	62.0	190.9	4.5	182.7
Total Premium Income	390.7	(1.7)	397.4	1,197.8	(0.2)	1,200.3
Net Investment Income	60.1	4.2	57.7	177.7	3.1	172.4
Other Income	1.8	28.6	1.4	4.1	(14.6)	4.8
Total	452.6	(0.9)	456.5	1,379.6	0.2	1,377.5
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	200.7	0.4	199.9	555.3	(3.8)	577.4
Commissions	63.7	(8.9)	69.9	201.1	(7.2)	216.6
Deferral of Acquisition Costs	(48.2)	(17.9)	(58.7)	(160.9)	(13.4)	(185.7)
Amortization of Deferred Acquisition Costs	59.3	2.1	58.1	192.8	(3.9)	200.7
Other Expenses	75.8	(1.9)	77.3	238.4	(3.9)	248.2
Total	351.3	1.4	346.5	1,026.7	(2.9)	1,057.2
Adjusted Operating Income	\$ 101.3	(7.9)	\$ 110.0	\$ 352.9	10.2	\$ 320.3
Operating Ratios (% of Premium Income):						
Benefit Ratios:						
Individual Disability	48.6 %		49.5 %	51.1 %		50.9 %
Voluntary Benefits	45.6 %		44.2 %	40.3 %		40.6 %
Dental and Vision	76.8 %		74.0 %	59.0 %		71.2 %
Other Expense Ratio	19.4 %		19.5 %	19.9 %		20.7 %
Adjusted Operating Income Ratio	25.9 %		27.7 %	29.5 %		26.7 %
Persistency:						
Individual Disability				89.8 %		90.1 %
Voluntary Benefits				72.7 %		72.5 %
Dental and Vision				82.4 %		84.1 %

Premium income was lower in the third quarter and first nine months of 2020 compared to the same periods of 2019, with a decline in the voluntary benefits product line, partially offset by growth in the individual disability product line. Also impacting the first nine months of 2020 compared to the same period of 2019 was higher premium income in the dental and

vision product line due to growth in the in-force block resulting from prior period sales. Net investment income was higher in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to higher miscellaneous investment income, partially offset by a decline in the yield on invested assets.

Benefits experience for the individual disability product line was favorable in the third quarter of 2020 compared to the same period of 2019 due to favorable claim recoveries, but was unfavorable during the first nine months of 2020 compared to the same period of 2019 due to higher claims incidence, partially offset by favorable claim recoveries. Benefits experience for voluntary benefits was unfavorable in the third quarter of 2020 compared to the same period of 2019 due primarily to higher claims incidence in the life product line, likely resulting from the impacts of COVID-19. Benefits experience for voluntary benefits was favorable during the first nine months of 2020 compared to the same period of 2019 due primarily to a higher level of policy terminations in the first quarter of 2020, mostly offset by higher claims incidence. Benefits experience for the dental and vision product line was unfavorable in the third quarter of 2020 compared to the same period of 2019 due to higher claims incidence but remained favorable in the first nine months of 2020 compared to the same period of 2019 due to lower claims incidence in the second quarter of 2020 resulting from the impacts of COVID-19.

Commissions and the deferral of acquisition costs were lower for the third quarter and first nine months of 2020 relative to the same periods of 2019 due primarily to lower sales in the voluntary benefits product line. The amortization of deferred acquisition costs increased in the third quarter of 2020 compared to the same period of 2019 due primarily to a higher level of policy terminations but decreased in the first nine months of 2020 relative to the same period of 2019 due to a decline in the level of the deferred asset. Our other expense ratio in the third quarter of 2020 was generally consistent with the same period of 2019 but was lower during the first nine months of 2020 relative to the same period of 2019 due to a decline in sales-related expenses and our continued focus on expense management and operating efficiencies balanced with operational investments in our business. Also impacting the other expense ratio in the first nine months of 2020 were increases in the provision for the allowance for expected credit losses on premium receivable balances.

Sales

(in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Sales by Product						
Group Disability and Group Life and AD&D						
Group Long-term Disability	\$ 29.8	25.2 %	\$ 23.8	\$ 116.4	6.4 %	\$ 109.4
Group Short-term Disability	15.2	(25.9)	20.5	59.0	(24.4)	78.0
Group Life and AD&D	31.3	1.3	30.9	116.0	(7.4)	125.3
Subtotal	76.3	1.5	75.2	291.4	(6.8)	312.7
Supplemental and Voluntary						
Individual Disability	17.0	(37.3)	27.1	53.9	(4.8)	56.6
Voluntary Benefits	29.9	(35.8)	46.6	205.5	(18.8)	253.0
Dental and Vision	8.5	(33.1)	12.7	32.0	(18.8)	39.4
Subtotal	55.4	(35.9)	86.4	291.4	(16.5)	349.0
Total Sales	\$ 131.7	(18.5)	\$ 161.6	\$ 582.8	(11.9)	\$ 661.7
Sales by Market Sector						
Group Disability and Group Life and AD&D						
Core Market (< 2,000 employees)	\$ 46.7	(14.8)%	\$ 54.8	\$ 178.5	(4.6)%	\$ 187.1
Large Case Market	29.6	45.1	20.4	112.9	(10.1)	125.6
Subtotal	76.3	1.5	75.2	291.4	(6.8)	312.7
Supplemental and Voluntary	55.4	(35.9)	86.4	291.4	(16.5)	349.0
Total Sales	\$ 131.7	(18.5)	\$ 161.6	\$ 582.8	(11.9)	\$ 661.7

Group sales increased during the third quarter of 2020 compared to the same period of 2019 due to higher new and existing customer sales in the large case market and growth in our medical stop-loss product, mostly offset by lower sales to new and existing customers in the core market, which we define as employee groups with fewer than 2,000 employees. Group sales decreased in the first nine months of 2020 compared to the same period of 2019 due to lower sales to new customers in our core market and existing customers in our large case market, partially offset by higher sales to new customers in our large case market and growth in our medical stop-loss product. The sales mix in the group market sector for the first nine months of 2020 was approximately 61 percent core market and 39 percent large case market.

Individual disability sales, which are primarily concentrated in the multi-life market, decreased in the third quarter and first nine months of 2020 with the same periods of 2019 due to lower sales to both new and existing customers. Voluntary benefits sales decreased during the third quarter and first nine months of 2020 compared to the same periods of 2019 due to lower sales to new and existing customers in both the core and large case markets. Dental and vision sales declined in the third quarter and first nine months of 2020 compared to the same periods of 2019 driven primarily by lower sales to both new and existing customers.

We believe the lower sales levels during the third quarter and first nine months of 2020 compared to the same periods of 2019 are driven by the impact of COVID-19, which has caused higher unemployment levels and general uncertainty around the financial condition of our customers as well as disruption in our sales processes. Further discussion of COVID-19 is contained herein in "Executive Summary" in this Item 2.

Segment Outlook

We remain committed to offering consumers a broad set of financial protection benefit products at the worksite. During 2020, we will continue to invest in a unique customer experience defined by simplicity, empathy, and deep industry expertise through the re-design of our processes and the increased utilization of digital capabilities and technology to enhance enrollment,

underwriting, and claims processing. In addition, we will continue to focus on the expansion of our portfolio of products. In particular, we believe our significant investment in leave management services will allow for substantial growth opportunities, particularly with larger employers, and stronger persistency in our core products. With respect to smaller employers, we will continue to enhance our distribution model and provide comprehensive consumer-focused products. We believe our active client management and differentiated integrated customer experience across our product lines, underpinned by strong risk management, will continue to enable us to grow our market over the long-term.

Given the uncertainty caused by the COVID-19 pandemic, we expect to experience further disruption in our sales activity, persistency, and ultimately premium income in 2020. We could also continue to experience claims volatility, particularly in our short-term disability, leave management, and group life products as well as potential disruption in our overall claims processing activity which can result in short-term unfavorable experience. The low interest rate environment continues to place pressure on our profit margins by impacting net investment income yields as well as potentially discount rates on our insurance liabilities. Our net investment income may continue to be unfavorably impacted by fluctuations in miscellaneous investment income. As part of our continued pricing discipline and our reserving methodology, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Unum International Segment

The Unum International segment is comprised of our operations in both the United Kingdom and Poland. Our Unum UK products include insurance for group long-term disability, group life, and supplemental lines of business, which includes dental, individual disability, and critical illness products. Our Unum Poland products include insurance for individual and group life with accident and health riders. Unum International's products are sold primarily through field sales personnel and independent brokers and consultants.

Operating Results

Shown below are financial results and key performance indicators for the Unum International segment. Certain prior year amounts were reclassified to conform to current year presentation.

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Unum UK						
Group Long-term Disability	\$ 92.2	8.7 %	\$ 84.8	\$ 272.0	3.7 %	\$ 262.3
Group Life	27.3	(2.2)	27.9	83.3	(0.7)	83.9
Supplemental	25.4	17.6	21.6	73.9	12.5	65.7
Unum Poland	20.5	13.9	18.0	57.9	9.2	53.0
Total Premium Income	165.4	8.6	152.3	487.1	4.8	464.9
Net Investment Income	26.3	8.2	24.3	79.1	(15.8)	93.9
Other Income	0.2	N.M.	—	0.4	33.3	0.3
Total	191.9	8.7	176.6	566.6	1.3	559.1
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	124.5	14.1	109.1	377.9	9.1	346.4
Commissions	12.4	6.9	11.6	36.8	4.5	35.2
Deferral of Acquisition Costs	(2.8)	(3.4)	(2.9)	(8.9)	(6.3)	(9.5)
Amortization of Deferred Acquisition Costs	1.8	—	1.8	5.3	(1.9)	5.4
Other Expenses	34.6	5.5	32.8	99.6	2.0	97.6
Total	170.5	11.9	152.4	510.7	7.5	475.1
Adjusted Operating Income	\$ 21.4	(11.6)	\$ 24.2	\$ 55.9	(33.5)	\$ 84.0

N.M. = not a meaningful percentage

Foreign Currency Translation

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

Fluctuations in exchange rates have an effect on Unum International's reported financial results and our consolidated financial results. In periods when the functional currency strengthens relative to the preceding period, translation increases current

period results relative to the prior period. In periods when the functional currency weakens, translation decreases current period results relative to the prior period.

Unum UK Operating Results

Shown below are financial results and key performance indicators for the Unum UK product lines in functional currency.

(in millions of pounds, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Group Long-term Disability	£ 71.3	3.6 %	£ 68.8	£ 213.9	3.8 %	£ 206.0
Group Life	21.1	(7.0)	22.7	65.5	(0.8)	66.0
Supplemental	19.7	12.6	17.5	58.2	12.8	51.6
Total Premium Income	112.1	2.8	109.0	337.6	4.3	323.6
Net Investment Income	18.9	3.3	18.3	58.1	(16.5)	69.6
Other Income	0.1	N.M.	—	0.1	—	0.1
Total	131.1	3.0	127.3	395.8	0.6	393.3
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	86.4	8.0	80.0	270.2	9.2	247.5
Commissions	6.9	(1.4)	7.0	21.1	2.4	20.6
Deferral of Acquisition Costs	(0.9)	(18.2)	(1.1)	(3.2)	(20.0)	(4.0)
Amortization of Deferred Acquisition Costs	1.3	(7.1)	1.4	3.9	(4.9)	4.1
Other Expenses	22.2	4.2	21.3	64.8	4.3	62.1
Total	115.9	6.7	108.6	356.8	8.0	330.3
Adjusted Operating Income	£ 15.2	(18.7)	£ 18.7	£ 39.0	(38.1)	£ 63.0
Weighted Average Pound/Dollar Exchange Rate	1.289		1.230	1.274		1.276
Operating Ratios (% of Premium Income):						
Benefit Ratio	77.1 %		73.4 %	80.0 %		76.5 %
Other Expense Ratio	19.8 %		19.5 %	19.2 %		19.2 %
Adjusted Operating Income Ratio	13.6 %		17.2 %	11.6 %		19.5 %
Persistency:						
Group Long-term Disability				87.2 %		88.9 %
Group Life				81.0 %		88.3 %
Supplemental				90.3 %		92.3 %

N.M. = not a meaningful percentage

Premium income was higher in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to growth in the in-force block and the impact of rate increases in the group long-term disability product line.

Net investment income was higher in the third quarter of 2020 compared to the same period of 2019 due to higher investment income from inflation index-linked bonds, partially offset by a lower yield on fixed-rate bonds. Net investment income was

lower in the first nine months of 2020 relative to the same period of 2019 due to lower miscellaneous investment income resulting from a higher than normal level of bond calls in 2019, a decline in the yield on fixed-rate bonds, and lower investment income from inflation index-linked bonds. Our investments in inflation index-linked bonds support the claim reserves associated with certain group policies that provide for inflation-linked increases in benefits. The change in net investment income attributable to these index-linked bonds is generally offset by a change in the reserves for future claim payments related to the inflation index-linked group long-term disability and group life policies.

Overall benefits experience was unfavorable in the third quarter and first nine months of 2020 relative to the same prior year periods due to lower claim resolutions in the group long-term disability product line resulting from the continued disruption in claim processes related to COVID-19 and overall higher claims incidence. Also impacting the comparison during the third quarter and first nine months of 2020 relative to the same periods of 2019 was the impact of inflation-linked experience in benefits related to our group products, which was higher during the third quarter of 2020 but lower during the first nine months of 2020.

Commissions in the third quarter and first nine months of 2020 were generally consistent with the same prior year periods. Deferral of acquisition costs were lower in third quarter and first nine months of 2020 compared to the same prior year periods due to lower deferrable expenses. The amortization of deferred acquisition costs during the third quarter and first nine months of 2020 was generally consistent with the same prior year periods. The other expense ratio during the third quarter and first nine months of 2020 was generally consistent with the same prior year periods, with certain expenses related to COVID-19 offset by our continued focus on expense management and operating efficiencies.

Sales

Certain prior year amounts below were reclassified to conform to current year presentation.

(in millions of dollars and pounds)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Unum International Sales by Product						
Unum UK						
Group Long-term Disability	\$ 8.1	2.5 %	\$ 7.9	\$ 29.7	4.2 %	\$ 28.5
Group Life	4.3	(14.0)	5.0	16.1	(10.1)	17.9
Supplemental	1.5	(61.5)	3.9	16.5	1.9	16.2
Unum Poland	3.8	35.7	2.8	9.4	1.1	9.3
Total Sales	\$ 17.7	(9.7)	\$ 19.6	\$ 71.7	(0.3)	\$ 71.9

Unum International Sales by Market Sector

Unum UK						
Group Long-term Disability and Group Life						
Core Market (< 500 employees)	\$ 7.6	(13.6)%	\$ 8.8	\$ 26.9	(1.1)%	\$ 27.2
Large Case Market	4.8	17.1	4.1	18.9	(1.6)	19.2
Subtotal	12.4	(3.9)	12.9	45.8	(1.3)	46.4
Supplemental	1.5	(61.5)	3.9	16.5	1.9	16.2
Unum Poland	3.8	35.7	2.8	9.4	1.1	9.3
Total Sales	\$ 17.7	(9.7)	\$ 19.6	\$ 71.7	(0.3)	\$ 71.9

Unum UK Sales by Product

Group Long-term Disability	£ 6.2	(3.1)%	£ 6.4	£ 23.4	4.9 %	£ 22.3
Group Life	3.3	(17.5)	4.0	12.7	(9.3)	14.0
Supplemental	1.2	(61.3)	3.1	13.0	3.2	12.6
Total Sales	£ 10.7	(20.7)	£ 13.5	£ 49.1	0.4	£ 48.9

Unum UK Sales by Market Sector

Group Long-term Disability and Group Life						
Core Market (< 500 employees)	£ 5.8	(17.1)%	£ 7.0	£ 21.1	(0.9)%	£ 21.3
Large Case Market	3.7	8.8	3.4	15.0	—	15.0
Subtotal	9.5	(8.7)	10.4	36.1	(0.6)	36.3
Supplemental	1.2	(61.3)	3.1	13.0	3.2	12.6
Total Sales	£ 10.7	(20.7)	£ 13.5	£ 49.1	0.4	£ 48.9

The following discussion of sales results relates only to our Unum UK product lines and is based on functional currency.

Group long-term disability sales were lower in the third quarter of 2020 compared to the same period of 2019 due primarily to lower sales to both new and existing customers in the core market, which we define as employee groups with fewer than 500 employees, partially offset by higher sales to both new and existing customers in the large case market. Group long-term disability sales were higher in the first nine months of 2020 compared to the same period of 2019 due to higher sales to new customers in the large case market, partially offset by lower sales to both new and existing customers in the core market.

Group life sales declined in the third quarter and first nine months of 2020 compared to the same periods of 2019 driven primarily by lower sales to new customers in the core and large case markets, partially offset by higher sales to existing customers in the core and large case markets.

Supplemental sales were lower in the third quarter of 2020 compared to the same period of 2019 due to lower sales in both the group critical illness and dental product lines. Supplemental sales were higher during the first nine months of 2020 compared to the same period of 2019 due to higher group critical illness sales.

Segment Outlook

We are committed to driving growth in the Unum International segment and will build on the capabilities that we believe will generate growth and profitability in our businesses over the long term. Within our Unum UK line of business, expanding our group long-term disability market position remains a priority. In addition, we will continue to focus on increasing participation levels while also developing new distribution and services to reach new small case clients. We will also continue the implementation of price increases and will maintain our disciplined sales approach. Within our Unum Poland line of business, we will leverage our U.S. and U.K. expertise to grow existing distribution channels and expand our current product offerings. We continue to invest in digital capabilities, technology, and product enhancements which we believe will drive sustainable growth over the long term.

Given the uncertainty caused by the COVID-19 pandemic and the ongoing negotiations following the recent withdrawal of the U.K. from the EU we expect to experience further disruption to our financial results in 2020. Sales activity could be lower and we could also continue to experience claims volatility in our group life and disability product lines. Uncertainty in the U.K. economy may continue to pressure our growth expectations in the near-term and may also lead to lower claim discount rates. However, we believe we are well positioned to capitalize on future growth opportunities as the operating environment improves. As part of our continued pricing discipline and our reserving strategy, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We will likely continue to experience volatility in net investment income and our benefit ratio due to fluctuations in the level of inflation in the U.K.; however, we do not expect this to have a significant impact on adjusted operating income. Recent economic conditions have caused volatility in our solvency ratios used to monitor capital adequacy. There are no indications currently that capital requirements for our U.K. operations will change due to the recent withdrawal of the U.K. from the EU. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly to respond to external challenges.

Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, which includes our dental and vision products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees, on both a group and an individual basis, at the workplace through an independent contractor agency sales force and brokers.

Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Accident, Sickness, and Disability	\$ 238.9	(1.7)%	\$ 243.0	\$ 738.4	1.5 %	\$ 727.6
Life	91.9	6.0	86.7	282.5	7.6	262.6
Cancer and Critical Illness	89.1	(1.2)	90.2	272.3	0.9	269.9
Total Premium Income	419.9	—	419.9	1,293.2	2.6	1,260.1
Net Investment Income	43.7	18.4	36.9	118.2	6.5	111.0
Other Income	0.3	(66.7)	0.9	0.9	(59.1)	2.2
Total	463.9	1.4	457.7	1,412.3	2.8	1,373.3
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	219.0	1.5	215.8	669.4	3.6	646.2
Commissions	79.9	(12.2)	91.0	260.0	(7.2)	280.3
Deferral of Acquisition Costs	(63.9)	(16.8)	(76.8)	(214.6)	(11.8)	(243.2)
Amortization of Deferred Acquisition Costs	65.8	2.5	64.2	199.5	1.6	196.3
Other Expenses	70.9	(7.1)	76.3	233.8	(1.3)	236.9
Total	371.7	0.3	370.5	1,148.1	2.8	1,116.5
Adjusted Operating Income	\$ 92.2	5.7	\$ 87.2	\$ 264.2	2.9	\$ 256.8
Operating Ratios (% of Premium Income):						
Benefit Ratio	52.2 %		51.4 %	51.8 %		51.3 %
Other Expense Ratio	16.9 %		18.2 %	18.0 %		18.8 %
Adjusted Operating Income Ratio	22.0 %		20.8 %	20.4 %		20.4 %
Persistency:						
Accident, Sickness, and Disability				74.2 %		73.4 %
Life				83.4 %		83.6 %
Cancer and Critical Illness				81.4 %		81.0 %

Premium income in the third quarter of 2020 was consistent with the same period of 2019 and slightly higher during the first nine months of 2020 relative to the same prior year period due to growth in the in-force block resulting from prior period sales growth and stable persistency. Net investment income increased during the third quarter and first nine months of 2020 relative to the same periods of 2019 due to higher miscellaneous investment income and an increase in the level of invested assets, partially offset by a decline in the yield on invested assets.

Benefits experience in the third quarter and first nine months of 2020 was unfavorable relative to the same periods of 2019, with unfavorable experience in the life product line, likely resulting from the impacts of COVID-19, partially offset by favorable experience in both the cancer and critical illness and accident, sickness, and disability lines of business.

Commissions and the deferral of acquisition costs were lower in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to lower sales. The amortization of deferred acquisition costs increased during the third quarter and first nine months of 2020 relative to the same periods of 2019 driven by growth in the level of the deferred asset due to prior period sales growth. The other expense ratio was lower in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to a decline in sales-related expenses and our continued focus on expense management and operating efficiencies.

Sales

(in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Sales by Product						
Accident, Sickness, and Disability	\$ 55.3	(29.6)%	\$ 78.6	\$ 165.2	(28.8)%	\$ 232.0
Life	19.5	(17.7)	23.7	56.3	(18.9)	69.4
Cancer and Critical Illness	12.5	(31.7)	18.3	37.4	(31.9)	54.9
Total Sales	\$ 87.3	(27.6)	\$ 120.6	\$ 258.9	(27.3)	\$ 356.3
Sales by Market Sector						
Commercial						
Core Market (< 1,000 employees)	\$ 57.3	(22.4)%	\$ 73.8	\$ 170.8	(24.6)%	\$ 226.6
Large Case Market	8.7	(47.6)	16.6	30.6	(39.9)	50.9
Subtotal	66.0	(27.0)	90.4	201.4	(27.4)	277.5
Public Sector	21.3	(29.5)	30.2	57.5	(27.0)	78.8
Total Sales	\$ 87.3	(27.6)	\$ 120.6	\$ 258.9	(27.3)	\$ 356.3

The impact of COVID-19 has caused higher unemployment levels and general uncertainty around the financial condition of our customers as well as disruption in our sales processes. As a result, sales for each of our product lines and market sectors have declined during the third quarter and first nine months of 2020 relative to the same periods of 2019. The number of new accounts decreased 27.9 percent and 31.9 percent, respectively, in the third quarter and first nine months of 2020 compared to the same periods of 2019. The average new case size decreased 3.2 percent and 2.1 percent in the third quarter and first nine months of 2020, respectively.

Segment Outlook

We remain committed to providing employees and their families with simple, modern, and personal benefit solutions. During 2020, we will continue to focus on expanding our distribution system through the growth and development of our agency sales force and growth of effective broker partnerships. We will also continue to invest in new solutions and digital capabilities to support growth, enhance the customer experience, and improve productivity. We believe our distribution system, customer service capabilities, digital and virtual tools, and ability to serve all market sizes position us well for future growth in the long-term.

Given the uncertainty caused by the COVID-19 pandemic, we expect to experience further disruption in our sales activity, persistency, and ultimately, premium income in 2020. The lower interest rate environment will continue to have an unfavorable impact on our profit margins, and volatility in miscellaneous investment income is likely to continue. While we believe our underlying profitability will remain strong, current economic conditions and increasing competition in the voluntary workplace market are seen as external risks to achievement of our business plans. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Closed Block Segment

The Closed Block segment consists of group and individual long-term care, individual disability, and other insurance products no longer actively marketed. We discontinued offering individual long-term care in 2009 and group long-term care in 2012. Individual disability in this segment generally consists of policies we sold prior to the mid-1990s and entirely discontinued selling in 2004. Other insurance products include group pension, individual life and corporate-owned life insurance, reinsurance pools and management operations, and other miscellaneous product lines.

Operating Results

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

(in millions of dollars, except ratios)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Premium Income						
Long-term Care	\$ 167.7	2.5 %	\$ 163.6	\$ 498.2	1.8 %	\$ 489.2
Individual Disability	80.0	(12.5)	91.4	240.1	(15.4)	283.9
All Other	1.7	(19.0)	2.1	5.8	(12.1)	6.6
Total Premium Income	249.4	(3.0)	257.1	744.1	(4.6)	779.7
Net Investment Income	351.2	1.1	347.3	1,013.6	(3.3)	1,048.3
Other Income	17.8	(5.8)	18.9	49.7	(7.1)	53.5
Total	618.4	(0.8)	623.3	1,807.4	(3.9)	1,881.5
Benefits and Expenses						
Benefits and Change in Reserves for Future Benefits	492.9	(8.3)	537.4	1,505.3	(6.8)	1,615.3
Commissions	19.7	(3.9)	20.5	58.7	(4.2)	61.3
Interest and Debt Expense	0.4	(66.7)	1.2	1.9	(54.8)	4.2
Other Expenses	34.6	(7.2)	37.3	104.3	(4.4)	109.1
Total	547.6	(8.2)	596.4	1,670.2	(6.7)	1,789.9
Adjusted Operating Income	\$ 70.8	163.2	\$ 26.9	\$ 137.2	49.8	\$ 91.6
Interest Adjusted Loss Ratios:						
Long-term Care	67.4 %		89.8 %	71.8 %		88.6 %
Individual Disability	86.6 %		79.0 %	87.0 %		80.1 %
Operating Ratios (% of Premium Income):						
Other Expense Ratio	13.9 %		14.5 %	14.0 %		14.0 %
Adjusted Operating Income Ratio	28.4 %		10.5 %	18.4 %		11.7 %
Persistency:						
Long-term Care				95.0 %		95.5 %
Individual Disability				88.5 %		88.1 %

Premium income for long-term care increased in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to rate increases mostly offset by policy terminations. We continue to file requests with various state insurance departments for premium rate increases on certain of our individual and group long-term care policies which reflect assumptions as of the date of filings. In states for which a rate increase is submitted and approved, we routinely provide customers options for coverage changes or other approaches that might fit their current financial and insurance needs. Premium income for individual disability decreased in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to continued policy terminations and maturities. Also contributing to the decrease in premium income in the first nine months of 2020 was a one-time reinsurance cost related to a small block of policies during the first quarter of 2020.

Net investment income was slightly higher during the third quarter of 2020 relative to the same period of 2019 due primarily to improved net asset values (NAV) on our private equity partnerships and a higher level of invested assets, partially offset by a decrease in the yield on invested assets. Net investment income was lower in the first nine months of 2020 relative to the same period of 2019 due primarily to a decline in the NAV on our private equity partnerships and a lower yield on invested assets. Partially offsetting this decline during the first nine months of 2020 relative to the same period of 2019 was an increase in the level of invested assets.

Other income, which primarily includes the underlying results and associated net investment income of certain blocks of individual disability reinsured business, continues to decline due to expected terminations and maturities.

The interest adjusted loss ratio for long-term care was favorable during the third quarter and first nine months of 2020 relative to the same periods of 2019 driven primarily by higher claimant mortality. Also impacting the comparison for the first nine months of 2020 compared to the same period of 2019 were lower submitted claims. The interest adjusted loss ratio for long-term care for the rolling twelve months was 75.6 percent. Individual disability benefits experience was unfavorable during the third quarter and first nine months of 2020 relative to the same periods of 2019 driven by overall unfavorable claims activity. Also contributing to the unfavorable experience for the first nine months of 2020 was the impact of the one-time reinsurance cost in the first quarter of 2020 as previously discussed.

The other expense ratio was lower in the third quarter of 2020 compared to the same period of 2019 driven primarily by our continued focus on expense management and operating efficiencies. The other expense ratio in the first nine months of 2020 was consistent with the same period of 2019, with our continued focus on expense management and operating efficiencies offsetting declines in premium income for individual disability.

Segment Outlook

We will continue to execute on our well-defined strategy of implementing long-term care premium rate increases, efficient capital management, improved financial analysis, and operational effectiveness. We will continue to explore structural options to enhance financial flexibility. Despite continued anticipated premium rate increases in our long-term care business, we expect overall premium income and adjusted operating revenue to decline over time as these closed blocks of business wind down. We will likely experience volatility in net investment income due to fluctuations of miscellaneous investment income and the increased allocation towards alternative assets, primarily private equity partnership investments, in the long-term care product line portfolio. We record changes in our share of the NAV of the partnerships in net investment income. We receive financial information related to our investments in partnerships generally on a one-quarter lag in accordance with our accounting policy. As these net asset values are volatile and can move materially with swings in economic conditions within the market, there will likely be significant movements up or down in future periods as conditions change. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

Profitability of our long-tailed products is affected by claims experience related to mortality and morbidity, resolutions, investment returns, premium rate increases, and persistency. We believe that the interest adjusted loss ratios for long-term care and the individual disability lines of business will be relatively flat over the long term, but these product lines may continue to experience quarterly volatility, particularly in the near term for our long-term care product lines as our claim block matures and as we continue the implementation of premium rate increases. Specific to our long-term care line of business, which is in loss recognition and should report levels of benefits plus operating expenses that equal the gross premium reported, we expect the long term interest adjusted loss ratio to be in the 85 to 90 percent range with some quarterly volatility. Claim resolution rates, which measure the resolution of claims from recovery, deaths, settlements, and benefit expirations, are very sensitive to operational and external factors and can be volatile. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible that variability in any of our reserve assumptions, including, but not limited to, interest rates, mortality, morbidity, resolutions, premium rate increases, benefit change elections, and persistency, could result in a material impact on the adequacy of our reserves, including adjustments to reserves established under loss recognition.

In consideration of the recent COVID-19 pandemic and related impacts, we expect our Closed Block segment could temporarily experience greater than normal volatility across multiple risk factors. Specific to our long-term care line of business, we expect that we may experience an increase in mortality as well as a decrease in incidence and interest rates. For our individual disability line of business, we expect that we may experience an increase in mortality and incidence as well as a decrease in persistency and claim resolutions.

Corporate Segment

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expenses not allocated to a line of business.

Operating Results

(in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	% Change	2019	2020	% Change	2019
Adjusted Operating Revenue						
Net Investment Income	\$ 1.3	(80.6)%	\$ 6.7	\$ 9.1	(40.9)%	\$ 15.4
Other Income	0.3	(70.0)	1.0	0.5	(80.8)	2.6
Total	1.6	(79.2)	7.7	9.6	(46.7)	18.0
Interest, Debt, and Other Expenses	79.0	(3.4)	81.8	203.7	12.4	181.3
Loss Before Income Tax and Net Realized Investment Gains and Losses						
	(77.4)	(4.5)	(74.1)	(194.1)	(18.9)	(163.3)
Costs Related to Organizational Design Update	23.3	N.M.	—	23.3	N.M.	—
Impairment Loss on ROU Asset	—	—	—	12.7	N.M.	—
Cost Related to Early Retirement of Debt	—	(100.0)	25.2	—	(100.0)	25.2
Adjusted Operating Loss	\$ (54.1)	(10.6)	\$ (48.9)	\$ (158.1)	(14.5)	\$ (138.1)

N.M. = not a meaningful percentage

Net investment income decreased in the third quarter and first nine months of 2020 relative to the same periods of 2019 due to a decline in the yield on invested assets.

Interest, debt, and other expenses were lower in the third quarter of 2020 but higher during the first nine months of 2020 relative to the same periods of 2019. Interest, debt, and other expenses includes the costs related to an organizational design update during the third quarter of 2020, the impairment loss on ROU asset during the second quarter of 2020, and the early retirement of debt during the third quarter of 2019. Excluding these items, interest, debt, and other expenses for the third quarter of 2020 were generally consistent with the same period of 2019, but were higher during the first nine months of 2020 relative to the same period of 2019 due to higher interest expense resulting from a higher level of outstanding debt, partially offset by lower pension costs in 2020. See Note 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion on the costs related to the organizational design update, the impairment loss on ROU asset, and the costs related to the early retirement of debt.

Segment Outlook

We expect to continue to generate excess capital on an annual basis through the statutory earnings in our insurance subsidiaries and believe we are well positioned with flexibility to preserve our capital strength while also returning capital to our shareholders.

Investments

Overview

Investment activities are an integral part of our business, and profitability is significantly affected by investment results. We segment our invested assets into portfolios that support our various product lines. Generally, our investment strategy for our 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 our businesses. We seek to earn investment income while assuming credit risk in a prudent and selective manner, subject to constraints of quality, liquidity, diversification, and regulatory considerations. Our overall investment philosophy is to invest in a portfolio of high quality assets that provide investment returns consistent with that assumed in the pricing of our insurance products. Assets are invested predominately in fixed maturity securities. Changes in interest rates may affect the amount and timing of cash flows.

We manage our asset and liability cash flow match and our asset and liability duration match to manage interest rate risk. We may redistribute investments among our different lines of business, when necessary, to adjust the cash flow and/or duration of the asset portfolios to better match the cash flow and duration of the liability portfolios. Asset and liability portfolio modeling is updated on a quarterly basis and is used as part of the overall interest rate risk management strategy. Cash flows from the in-force asset and liability portfolios are projected at current interest rate levels and at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates. Testing the asset and liability portfolios under various interest rate scenarios enables us to choose what we believe to be the most appropriate investment strategy, as well as to limit the risk of disadvantageous outcomes. Although we test the asset and liability portfolios under various interest rate scenarios as part of our modeling, the majority of our liabilities related to insurance contracts are not interest rate sensitive, and we therefore have minimal exposure to policy withdrawal risk. Our determination of investment strategy relies on long-term measures such as reserve adequacy analysis and the relationship between the portfolio yields supporting our various product lines and the aggregate discount rate assumptions embedded in the reserves. We also use this analysis in determining hedging strategies and utilizing derivative financial instruments for managing interest rate risk and the risk related to matching duration for our assets and liabilities. We do not use derivative financial instruments for speculative purposes.

Our investment portfolio is well diversified by type of investment and industry sector. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We believe our emphasis on risk management in our investment portfolio has positioned us well and generally reduced the volatility in our results.

COVID-19

The current economic conditions have increased volatility in the capital markets and have caused significant pressure on the profitability of many companies. The sharp decline in oil prices experienced earlier in the year and lack of demand due to COVID-19, which began to occur in the first quarter of 2020, also caused pressure on the profitability of companies in the energy sector. We recorded credit losses during the first quarter of 2020 primarily related to fixed maturity securities issued by companies in the energy sector, but recorded minimal credit losses related to energy securities in the second and third quarters of 2020 primarily as a result of the improvement in oil prices. Our fixed income exposure to consumer cyclicals, which have been stressed due to COVID-19 related shutdowns, is approximately 3 percent of our portfolio. Our exposure to other stressed industries such as airlines and restaurants is minimal at 0.2 percent of our portfolio each. In the first nine months of 2020, we had approximately \$672 million of downgrades of investment-grade securities to high yield or below investment grade, which contributed to the increase in our holdings of below-investment-grade securities from 7.5 percent at December 31, 2019 to 8.5 percent at September 30, 2020 on an amortized cost basis less the allowance for credit losses. On a fair value basis, the percentage of our below-investment grade securities was 7.3 percent on September 30, 2020 compared to 6.7 percent at December 31, 2019.

We continue to monitor capital market activity on a regular basis and to the extent that there is continued volatility and ratings downgrades related to the issuers of our fixed maturity securities, we could experience further credit losses, an increase in defaults, and the need for additional capital in our insurance subsidiaries. However, we remain confident in the overall strength and credit quality of our investment portfolio. Net investment income may decline as a result of the current economic conditions, which have sustained the low interest rate environment that will continue to impact the yield on our invested assets, particularly related to the investment of new cash flows. For further discussion, see "Fixed Maturity Securities" contained herein in this Item 2.

Improvements in the net asset values (NAV) of our partnership investments in the third quarter of 2020, which reflect the market conditions of the second quarter of 2020, resulted in net investment income of approximately \$11 million. During the third quarter of 2020, U.S. equity and credit markets continued to improve from the severe decline experienced during the first quarter of 2020 due to COVID-19, and although our partnership investments are not directly correlated with those markets, their results were positively impacted and should drive higher asset fair values, which we expect to be reflected in our results in the fourth quarter of 2020. In addition to our partnership investment activity, the current economic conditions have sustained the low interest rate environment, which has and will continue to impact the yield on our invested assets, particularly related to the investment of new cash flows. We have also worked with certain of our commercial mortgage loan borrowers that have requested temporary payment deferrals but has not resulted in a significant number of loans with deferrals or a significant impact on our net investment income. For further discussion, see "Mortgage Loans" and "Private Equity Partnerships" contained herein in this Item 2.

See "Executive Summary" for further information on the impact from COVID-19 contained herein in this Item 2.

Fixed Maturity Securities

The fair values and associated unrealized gains and losses of our fixed maturity securities portfolio, by industry classification, are as follows:

Fixed Maturity Securities - By Industry Classification As of September 30, 2020

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	\$ 3,513.3	\$ 467.2	\$ 208.7	\$ 12.4	\$ 3,304.6	\$ 479.6
Capital Goods	4,568.1	745.9	88.9	4.4	4,479.2	750.3
Communications	3,196.2	631.6	161.8	12.2	3,034.4	643.8
Consumer Cyclical	1,610.1	230.9	93.8	3.8	1,516.3	234.7
Consumer Non-Cyclical	7,922.5	1,454.4	185.3	11.1	7,737.2	1,465.5
Energy	4,442.3	525.2	631.4	69.6	3,810.9	594.8
Financial Institutions	3,885.7	532.7	44.3	0.5	3,841.4	533.2
Mortgage/Asset-Backed	1,432.1	115.0	21.5	0.2	1,410.6	115.2
Sovereigns	1,115.1	254.2	29.1	1.4	1,086.0	255.6
Technology	1,945.7	224.8	27.1	7.2	1,918.6	232.0
Transportation	2,443.2	366.5	189.5	13.3	2,253.7	379.8
U.S. Government Agencies and Municipalities	5,179.9	826.3	275.1	3.6	4,904.8	829.9
Public Utilities	8,016.0	1,656.1	132.7	6.6	7,883.3	1,662.7
Total	<u>\$ 49,270.2</u>	<u>\$ 8,030.8</u>	<u>\$ 2,089.2</u>	<u>\$ 146.3</u>	<u>\$ 47,181.0</u>	<u>\$ 8,177.1</u>

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities portfolios had been in a gross unrealized loss position as of September 30, 2020 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after September 30, 2020. The decrease in the unrealized loss on fixed maturity securities during the third quarter of 2020 was due primarily to a decrease in credit spreads.

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

(in millions of dollars)

	2020			2019	
	September 30	June 30	March 31	December 31	September 30
<i>Fair Value < 100% >= 70% of Amortized Cost</i>					
<= 90 days	\$ 10.1	\$ 18.0	\$ 499.4	\$ 13.8	\$ 4.3
> 90 <= 180 days	4.7	45.7	0.1	2.0	1.9
> 180 <= 270 days	14.9	1.9	—	—	—
> 270 days <= 1 year	0.7	0.1	0.3	—	3.1
> 1 year <= 2 years	2.3	2.4	1.8	3.8	6.6
> 2 years <= 3 years	—	—	3.2	2.8	1.5
> 3 years	—	—	—	0.8	—
Sub-total	32.7	68.1	504.8	23.2	17.4
<i>Fair Value < 70% >= 40% of Amortized Cost</i>					
<= 90 days	—	—	145.2	—	—
> 90 <= 180 days	—	—	—	0.3	—
> 180 <= 270 days	—	—	0.2	—	—
> 270 days <= 1 year	—	—	—	—	0.3
> 1 year <= 2 years	—	—	—	—	—
Sub-total	—	—	145.4	0.3	0.3
Total	\$ 32.7	\$ 68.1	\$ 650.2	\$ 23.5	\$ 17.7

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

(in millions of dollars)

	2020			2019	
	September 30	June 30	March 31	December 31	September 30
<i>Fair Value < 100% >= 70% of Amortized Cost</i>					
<= 90 days	\$ 13.8	\$ 16.1	\$ 167.0	\$ 0.5	\$ 5.1
> 90 <= 180 days	4.5	77.1	0.7	3.1	10.3
> 180 <= 270 days	40.0	0.4	0.8	5.1	1.5
> 270 days <= 1 year	0.2	5.5	4.4	0.9	0.9
> 1 year <= 2 years	6.4	8.1	0.8	17.5	31.0
> 2 years <= 3 years	4.1	11.7	12.1	1.3	0.3
> 3 years	8.1	7.9	11.5	13.7	5.2
Sub-total	77.1	126.8	197.3	42.1	54.3
<i>Fair Value < 70% >= 40% of Amortized Cost</i>					
<= 90 days	—	—	114.6	—	—
> 90 <= 180 days	—	5.2	2.7	—	12.0
> 180 <= 270 days	1.0	3.8	12.8	15.1	—
> 270 days <= 1 year	3.8	—	12.5	—	—
> 1 year <= 2 years	9.8	13.6	5.7	—	—
> 2 years <= 3 years	8.1	—	1.2	—	12.7
> 3 years	13.8	13.9	10.6	10.5	21.6
Sub-total	36.5	36.5	160.1	25.6	46.3
<i>Fair Value < 40% of Amortized Cost</i>					
<= 90 days	—	—	9.6	—	—
> 180 <= 270 days	—	—	—	—	—
> 270 days <= 1 year	—	—	15.7	—	—
> 1 year <= 2 years	—	—	8.5	—	—
> 2 years <= 3 years	—	—	9.0	—	—
> 3 years	—	—	16.8	—	—
Sub-total	—	—	59.6	—	—
Total	\$ 113.6	\$ 163.3	\$ 417.0	\$ 67.7	\$ 100.6

At September 30, 2020, we held two below-investment-grade fixed maturity securities in the energy sector with a gross unrealized loss greater than \$10.0 million. The two securities have a combined fair value of \$147.4 million and a gross unrealized loss of \$25.0 million. We have the ability and intend to continue to hold these securities to recovery of amortized cost and believe that no credit losses have occurred.

During the first quarter of 2020, we recognized the following credit losses greater than \$10 million:

- \$20.8 million on fixed maturity securities issued by an oil and gas producer. The profitability of the company has been impacted by the decline in oil prices. Given the current environment, near term debt maturities may be difficult to refinance.
- \$17.1 million on fixed maturity securities issued by an oil and gas producer. The profitability of the company has been impacted by the decline in oil prices and the company has a high level of debt. The company filed for bankruptcy as expected in early April 2020.
- \$10.2 million on fixed maturity securities issued by a paper company whose sales of lumber and other products have been impacted by the slowdown in the economy.

We had no individual realized investment losses of \$10.0 million or greater from impairments of fixed maturity securities during the third quarter of 2020 and no individual realized investment losses of \$10.0 million or greater from sales of fixed maturity securities during the third quarter or first nine months of 2020.

At September 30, 2020, our mortgage/asset-backed securities had an average life of 3.6 years, effective duration of 2.8 years, and a weighted average credit rating of AAA. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. One of the risks involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income.

As of September 30, 2020, the amortized cost net of allowance for credit losses and fair value of our below-investment-grade fixed maturity securities was \$3,525.9 million and \$3,602.1 million, respectively. Below-investment-grade securities are inherently riskier than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

Fixed Maturity Securities - Energy Sector

Our investment portfolio has exposure to companies whose businesses are negatively impacted by lower oil and natural gas prices. These include exploration and production companies, refineries, midstream pipeline companies, and oilfield service businesses. The sharp decline in energy prices and decrease in demand due to COVID-19, which began to occur in the first quarter of 2020, put pressure on the earnings and cash flows of these businesses. Oil prices did improve during the second quarter of 2020 and continued to improve modestly during the third quarter of 2020; however, we continue to monitor this sector closely. The degree to which a business is affected by energy prices can vary greatly depending on, among other things, its energy subsector, geographic locations, cost structure flexibility, capital structure, and hedging policies.

At September 30, 2020, approximately 48 percent of our exposure to the energy sector was represented by the midstream (pipeline) subsector which tends to be more correlated to product volume sales than to commodity prices. Approximately 26 percent of our exposure is in the oil and gas independent exploration and production subsector where demand for products is highly correlated with oil and gas prices. Approximately 17 percent of our exposure is in the integrated subsector which is comprised of large highly rated companies. The majority of our energy sector holdings are investment-grade fixed maturity securities.

At September 30, 2020, the fair value of investment-grade fixed maturity securities in the energy sector was \$3,736.5 million, with a gross unrealized gain of \$588.8 million and a gross unrealized loss of \$5.2 million. The fair value of below-investment-grade fixed maturity securities in the energy sector was \$705.8 million, with a gross unrealized gain of \$6.0 million and a gross unrealized loss of \$64.4 million. The following table shows additional information related to our holdings in the energy sector.

Fixed Maturity Securities - Energy Sector
As of September 30, 2020

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Midstream	\$ 2,152.9	\$ 230.1	\$ 213.9	\$ 17.7	\$ 1,939.0	\$ 247.8
Oil and Gas-Independent	1,175.8	108.7	389.8	43.2	786.0	151.9
Oil Field	79.8	4.1	8.3	4.2	71.5	8.3
Oil-Integrated	743.7	143.7	19.4	4.5	724.3	148.2
Oil-Refining	254.3	37.8	—	—	254.3	37.8
Other Energy	35.8	0.8	—	—	35.8	0.8
Total	\$ 4,442.3	\$ 525.2	\$ 631.4	\$ 69.6	\$ 3,810.9	\$ 594.8

Fixed Maturity Securities - Foreign Exposure

Our investments in issuers in foreign countries are chosen for specific portfolio management purposes, including asset and liability management and portfolio diversification across geographic lines and sectors to minimize non-market risks. In our approach to investing in fixed maturity securities, specific investments within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. For each security, we consider the political, legal, and financial environment of the sovereign entity in which an issuer is domiciled and operates. The country of domicile is based on consideration of the issuer's headquarters, in addition to location of the assets and the country in which the majority of sales and earnings are derived. We do not have exposure to foreign currency risk, as the cash flows from these investments are either denominated in currencies or hedged into currencies to match the related liabilities. We continually evaluate our foreign investment risk exposure.

Mortgage Loans

The carrying value of our mortgage loan portfolio was \$2,406.5 million and \$2,397.0 million at September 30, 2020 and December 31, 2019, respectively. Our investments in mortgage loans are carried at amortized cost less an allowance for credit losses. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. Our mortgage loan portfolio is well diversified geographically and among property types. Due to conservative underwriting, the incidence of problem mortgage loans and foreclosure activity continues to be low. We held no impaired mortgage loans at September 30, 2020 or December 31, 2019. Effective January 1, 2020, we adopted a new accounting standard requiring the estimation of an allowance for expected credit losses which was \$14.6 million at September 30, 2020. See Note 2 and 4 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion of our mortgage loan portfolio and the allowance for expected credit losses.

Private Equity Partnerships

The carrying value of our investments in private equity partnerships was \$688.6 million and \$616.7 million at September 30, 2020 and December 31, 2019, respectively. These partnerships are passive in nature and represent funds that are primarily invested in private credit, private equity, and real assets. The carrying value of the partnerships is based on our share of the partnership's NAV and changes in the carrying value are recorded as a component of net investment income. We receive financial information related to our investments in partnerships generally on a one-quarter lag in accordance with our accounting policy. We recorded net investment income totaling \$11.3 million for the partnerships in the third quarter of 2020 reflecting the market conditions of the second quarter of 2020. The majority of our investments in partnerships are not redeemable. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments and there is generally not a public market for these investments. We had \$622.3 million of commitments for additional investments in the partnerships at September 30, 2020 which may or may not be funded. See Note 3 in the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further discussion of our private equity partnerships.

Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment, duration, foreign currency, and credit risks. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps and U.S. Treasury rates, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Credit exposure on derivatives is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held. We had no credit exposure on derivatives at September 30, 2020. We held \$34.3 million of net cash collateral from our counterparties at September 30, 2020. The carrying value of fixed maturity securities posted as collateral to our counterparties was \$30.4 million at September 30, 2020. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have an investment-grade credit rating, and by our use of cross-collateralization agreements.

Other

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled \$18.6 million and \$30.5 million on a fair value basis at September 30, 2020 and December 31, 2019, respectively.

For further information see "Investments" in Part I, Item 1 and "Critical Accounting Estimates" and "Investments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2019, and Notes 3, 4, and 5 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

Liquidity and Capital Resources

Overview

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

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

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

The liquidity requirements of the holding company Unum Group include common stock dividends, interest and debt service, and ongoing investments in our businesses. Unum Group's liquidity requirements are met by assets held by Unum Group and our intermediate holding companies, dividends from primarily our insurance subsidiaries, and issuance of common stock, debt, or other capital securities and borrowings from existing credit facilities, as needed. As of September 30, 2020, Unum Group and our intermediate holding companies held fixed maturity securities, short-term investments, and cash of \$1,178 million. Fixed maturity securities consisted primarily of mortgage/asset-backed securities with an average maturity of 1.1 years. Short-term investments consisted primarily of corporate bonds and commercial paper. No significant restrictions exist on our ability to use or access funds in any of our U.S. or foreign intermediate holding companies. Dividends repatriated from our foreign subsidiaries are eligible for 100 percent exemption from U.S. income tax but may be subject to withholding tax and/or tax on foreign currency gain or loss.

As part of our capital deployment strategy, we repurchase shares of Unum Group's common stock, as authorized by our board of directors. Our current share repurchase program was approved by our board of directors in May 2019 and authorizes the repurchase of up to \$750 million of common stock through November 2020, with the pace of repurchase activity to depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. We did not repurchase shares during the first nine months of 2020 and do not expect to resume repurchases through the remainder of our currently authorized repurchase program. The dollar value of shares remaining under the current repurchase program was approximately \$516 million at September 30, 2020. See Note 10 of the "Notes to Consolidated Financial Statements" contained herein in Item 1.

Liquidity and Capital Resource Considerations - COVID-19

We have strengthened our liquidity position through actions such as maintaining a higher level of short-term investments and posting additional collateral from certain of our U.S. insurance subsidiaries to the regional FHLBs. As a result, we believe we have the appropriate liquidity and access to capital to avoid significant disruption to our operations. We have not yet experienced a significant impact to our liquidity as a result of the collection of premiums and submitted claims activity; however, we continually monitor the developments of these items.

As of September 30, 2020, we have borrowed \$30.2 million of funds through our memberships with the regional FHLBs and similar to our previous advances, these funds are used for the purpose of investing in either short-term investments or fixed maturity securities but may be utilized for liquidity if the need arises. Additionally, we have access to two unsecured revolving credit facilities under separate syndicates of lenders that allow us to borrow up to a total of \$600 million. There are currently no outstanding borrowings on these facilities but we remain in compliance with required covenants should we choose to borrow in the future. In May 2020, we also issued \$500.0 million of 4.500% senior notes due 2025 which strengthened our liquidity and demonstrated our ability to raise capital in the current environment.

Following the maturity of our \$400.0 million aggregate principal amount of 5.625% unsecured notes which occurred in the third quarter of 2020 and was funded through an issuance of debt during the second quarter of 2019, we have no significant upcoming debt maturities until 2024. We continue to meet the financial covenants contained in our current debt agreements and credit facilities, and we expect that we will continue to meet those covenants in subsequent periods.

To the extent that we begin to experience a significant impact to our liquidity, we would likely sell highly liquid invested assets or borrow funds on our credit facilities to meet operational cash flow requirements.

See "Debt" and "Transfers of Financial Assets" for further discussion of our debt arrangements, credit facilities, and of our FHLB arrangements contained herein in this Item 2. For further discussion of the key considerations regarding the impacts of COVID-19 see "Executive Summary" herein in this Item 2.

Cash Available from Subsidiaries

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

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

Certain of our domestic insurance subsidiaries cede blocks of business to Northwind Reinsurance Company (Northwind Re) and Fairwind Insurance Company (Fairwind), both of which are affiliated captive reinsurance subsidiaries domiciled in the United States with Unum Group as the ultimate parent. The ability of Northwind Re and Fairwind to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Northwind Re and Fairwind.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries also depends on additional factors such as RBC ratios and capital adequacy and/or solvency requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. The RBC ratios for our U.S. insurance subsidiaries at September 30, 2020 are in line with our expectations and are significantly above the level that would require state regulatory action.

In connection with a financial examination of Unum Life Insurance Company of America (Unum America), which closed at the end of the second quarter of 2020, the Maine Bureau of Insurance (MBOI) has concluded that Unum America's long-term care statutory reserves are deficient by \$2.1 billion as of December 31, 2018, the financial statement date of the examination period. The MBOI granted permission to Unum America on May 1, 2020, to phase in the additional statutory reserves over seven years beginning with year-end 2020 and ending with year-end 2026. The 2020 phase-in amount is estimated to be between \$200 million and \$250 million. This strengthening will be accomplished by our actuaries incorporating explicitly agreed upon margins into our existing assumptions for annual statutory reserve adequacy testing. These actions will add margin to Unum America's best estimate assumptions. Our long-term care reserves and financial results reported under generally accepted accounting principles are not affected by the MBOI's examination conclusion. We plan to fund the additional statutory reserves with expected cash flows.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from our U.K. subsidiaries, the payment of which may be subject to applicable insurance company regulations and capital guidance in the U.K. Unum Limited is subject to the requirements of Solvency II, a European Union (EU) directive, which prescribes capital requirements and risk management standards for the European insurance industry. Our European holding company is also subject to the Solvency II requirements relevant to insurance holding companies, while its subsidiaries, which includes Unum Limited, are subject to group supervision under Solvency II. Unum Limited received approval from the U.K. Prudential Regulation Authority to use its own internal model for calculating regulatory capital and also received approval for certain associated regulatory permissions including transitional relief as the Solvency II capital regime continues to be implemented.

There are currently no indications that capital requirements for Unum Limited will change as a result of the U.K.'s exit from the EU. Recent economic conditions have caused volatility in our solvency ratios used to monitor capital adequacy.

The payment of dividends to the parent company from our subsidiaries also requires the approval of the individual subsidiary's board of directors.

During 2020, we intend to maintain a level of capital in our insurance subsidiaries above the applicable capital adequacy requirements and minimum solvency margins.

Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group.

Funding for Employee Benefit Plans

During the nine months ended September 30, 2020, we made contributions of \$50.8 million and £2.8 million to our U.S. and U.K. defined contribution plans, respectively, and expect to make additional contributions of approximately \$24 million and £1 million during the remainder of 2020. We made a de minimis amount of contributions to our U.S. qualified defined benefit pension plan and no contribution to our U.K. defined benefit pension plan during the nine months ended September 30, 2020. We do not expect to make any further contributions to either plan during 2020. We have met all minimum pension funding requirements set forth by the Employee Retirement Income Security Act. We have estimated our future funding requirements under the Pension Protection Act of 2006 and under applicable U.K. law and do not believe that any future funding requirements will cause a material adverse effect on our liquidity.

Debt

Our long-term debt balance at September 30, 2020 was \$3,378.6 million, net of deferred debt issuance costs of \$36.8 million, and consisted primarily of secured and unsecured senior notes and junior subordinated debt securities.

In September 2020, our \$400.0 million 5.625% senior unsecured notes matured.

Northwind Holdings, LLC (Northwind Holdings) made principal payments on its floating rate, senior secured non-recourse notes of \$45.0 million during the nine months ended September 30, 2020. In October 2020, Northwind Holdings formally submitted its intention to redeem the remaining \$35.0 million of principal on its senior secured non-recourse notes in December 2020. Funds for the redemption are held in the debt service coverage account of Northwind Holdings.

In May 2020, we issued \$500.0 million of 4.500% senior notes due 2025. The notes are callable at or above par and rank equally in the right of payment with all of our other unsecured and unsubordinated debt.

We have access to two separate unsecured revolving credit facilities, each with a different syndicate of lenders. One of our credit facilities is under a five-year agreement and is effective through April 2024. The terms of this agreement provide for a borrowing capacity of \$500.0 million with an option to be increased up to \$700.0 million. We may also request, on up to two occasions, that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At September 30, 2020, letters of credit totaling \$0.6 million had been issued from this credit facility, but there were no borrowed amounts outstanding.

Our other credit facility is under a three-year agreement and is effective until April 2022. The terms of this agreement provide for a borrowing capacity of \$100.0 million with an option to be increased up to \$140.0 million. We may also request that the lenders' commitment termination dates be extended by one year. The credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At September 30, 2020, there have been no letters of credit issued from the credit facility and there were no borrowed amounts outstanding.

There are no significant financial covenants associated with any of our outstanding debt obligations. We continually monitor our compliance with our debt covenants and remain in compliance. Our credit facilities include financial covenants that place limitations on our leverage ratio and consolidated net worth. The credit facilities also include covenants that limit subsidiary indebtedness. We have not observed any current trends that would cause a breach of any of our debt or credit facility

covenants. See "Debt" and Note 8 of the "Notes to Consolidated Financial Statements" contained in Part II, Items 7 and 8, respectively, of our annual report on Form 10-K for the year ended December 31, 2019 for further discussion.

Commitments

At September 30, 2020, we had unfunded unconditional commitments of \$1.8 million to fund tax credit partnership investments and \$12.6 million to fund the purchase of transferable state tax credits. These commitments are recognized as liabilities in our consolidated balance sheets, with a corresponding recognition of other long-term investments and other assets, respectively. In addition, we had commitments of \$185.3 million to fund certain investments in private placement fixed maturity securities and \$622.3 million to fund certain private equity partnerships. As of September 30, 2020, we had \$26.9 million of commercial mortgage loan commitments.

With respect to our commitments and off-balance sheet arrangements, see the discussion under "Commitments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2019. During the first nine months of 2020, there were no substantive changes in our commitments, contractual obligations, or other off-balance sheet arrangements other than the changes noted herein.

Transfers of Financial Assets

Our investment policy permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increases our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as secured borrowings. As of September 30, 2020, we did not hold any cash collateral from securities lending agreements. The average cash collateral balance during the first nine months of 2020 was de minimis. As of September 30, 2020, we did not hold any off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the first nine months of 2020 was \$51.2 million, and the maximum amount outstanding at any month end was \$234.3 million.

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for short-term general business purposes until projected cash flows become available from our operations or existing investments. We had no repurchase agreements outstanding at September 30, 2020, nor did we utilize any repurchase agreements during the first nine months of 2020. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

Certain of our U.S. insurance subsidiaries are members of regional FHLBs. As of September 30, 2020, we owned \$21.7 million of FHLB common stock and had outstanding advances of \$30.2 million from the regional FHLBs.

See Note 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information.

Consolidated Cash Flows

(in millions of dollars)

	Nine Months Ended September 30	
	2020	2019
Net Cash Provided by Operating Activities	\$ 1,278.8	\$ 1,256.8
Net Cash Used by Investing Activities	(1,090.1)	(1,205.9)
Net Cash Used by Financing Activities	(169.0)	(67.9)
Net Change in Cash and Bank Deposits	<u>\$ 19.7</u>	<u>\$ (17.0)</u>

Operating Cash Flows

Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on policy renewals and growth of existing business, renewal price increases, and persistency. Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and capital and on the earned yield. The level of commissions and operating expenses is attributable to the level of sales and the first year acquisition expenses associated with new business as well as the maintenance of existing business. The level of paid claims is affected partially by the growth and aging of the block of business and also by the general economy, as previously discussed in the operating results by segment.

Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Our investment strategy is to match the cash flows and durations of our assets with the cash flows and durations of our liabilities to meet the funding requirements of our business. When market opportunities arise, we may sell selected securities and reinvest the proceeds to improve the yield and credit quality of our portfolio. We may at times also sell selected securities and reinvest the proceeds to improve the duration matching of our assets and liabilities and/or re-balance our portfolio. As a result, sales before maturity may vary from period to period. The sale and purchase of short-term investments is influenced by proceeds received from FHLB funding advances, issuance of debt, our securities lending program, and by the amount of cash which is at times held in short-term investments to facilitate the availability of cash to fund the purchase of appropriate long-term investments, repay maturing debt, and/or to fund our capital deployment program.

See Note 4 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 for further information.

Financing Cash Flows

Financing cash flows consist primarily of borrowings and repayments of debt, repurchase of common stock, and dividends paid to stockholders.

In September 2020, our \$400.0 million 5.625% senior unsecured notes matured.

In May 2020, we issued \$500.0 million of 4.500% senior notes due 2025 and received total proceeds of \$494.1 million.

During each of the first nine months of 2020 and 2019 we made principal payments of \$45.0 million on our senior secured non-recourse notes issued by Northwind Holdings.

In September 2019, we issued \$450.0 million of 4.50% senior notes due 2049 and received total proceeds of \$446.0 million.

Also in September 2019, pursuant to a cash tender offer, we purchased and retired \$336.5 million aggregate liquidation/principal amount of our outstanding capital and debt securities, including debt repurchase costs of \$24.1 million for a total cash outflow of \$360.6 million.

In June 2019, we issued \$400.0 million of 4.00% senior notes due 2029 and received total proceeds of \$395.9 million.

Cash used to repurchase shares of Unum Group's common stock during first nine months of 2019 was \$297.2 million. During the first nine months of 2020 and 2019 we paid dividends of \$173.8 million and \$170.3 million, respectively, to holders of Unum Group's common stock.

See Notes 10 and 12 of the "Notes to Consolidated Financial Statements" contained herein in Item 1 and "Debt" contained in this Item 2 for further information.

Ratings

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

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

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

	AM Best	Fitch	Moody's	S&P
Outlook	Negative	Negative	Negative	Stable
Issuer Credit Ratings	bbb	BBB-	Baa3	BBB
Financial Strength Ratings				
Provident Life and Accident Insurance Company	A	A-	A3	A
Provident Life and Casualty Insurance Company	A	A-	NR	NR
Unum Life Insurance Company of America	A	A-	A3	A
First Unum Life Insurance Company	A	A-	A3	A
Colonial Life & Accident Insurance Company	A	A-	A3	A
The Paul Revere Life Insurance Company	A	A-	A3	A
Starmount Life Insurance Company	A-	NR	NR	NR
Unum Insurance Company	A-	A-	A3	NR
Unum Limited	NR	NR	NR	A-

NR = not rated

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

On April 16, 2020, Fitch downgraded the financial strength rating on our rated domestic insurance subsidiaries from A to A- and the issuer credit rating on our senior debt obligations from BBB to BBB- due to ongoing concerns regarding our long-term care exposure and the adequacy of those reserves. In addition, Fitch also maintained a negative outlook following the downgrade due to concerns over the current COVID-19 pandemic and the impact it may have on our financial position and operating results, particularly as it relates to investment returns and claims incidence.

On May 4, 2020, Moody's downgraded the financial strength rating on our rated domestic insurance subsidiaries from A2 to A3 and the issuer credit rating on our senior debt obligations from Baa2 to Baa3 due to concerns around capital flexibility related to future funding requirements for our long-term care reserves. In addition, Moody's updated their outlook from stable to negative due to concerns over the current COVID-19 pandemic and the impact it may have on our financial position and operating results.

Also on May 4, 2020, S&P affirmed their ratings and outlook on our rated insurance subsidiaries and issuer credit ratings on our senior debt obligations.

On May 27, 2020, AM Best revised their outlook from stable to negative while affirming both the financial strength ratings on our domestic insurance subsidiaries and the long-term issuer ratings on our senior debt obligations. The negative outlook reflects concerns related to future capital contributions required to support our long-term care reserves as well as the impacts from current economic conditions on our operating results and investment portfolio.

There have been no other changes in the rating agencies' outlooks or ratings during 2020 prior to the date of this filing.

Agency ratings are not directed toward the holders of our securities and are not recommendations to buy, sell, or hold our securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term. We have ongoing dialogue with the rating agencies concerning our insurance risk profile, our financial flexibility, our operating performance, and the quality of our investment portfolios. The rating agencies provide specific criteria and, depending on our performance relative to the criteria, will determine future negative or positive rating agency actions.

See our annual report on Form 10-K for the year ended December 31, 2019 for further information regarding our debt and financial strength ratings and the risks associated with rating changes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risk exposures including interest rate risk and foreign exchange rate risk. With respect to our exposure to market risk, see the discussion under "Investments" in Item 2 of this Form 10-Q and in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2019. During the first nine months of 2020, there was no substantive change to our market risk or the management of this risk.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. We evaluated those controls based on the 2013 Internal Control - Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective as of September 30, 2020.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Part I, Item 1, Note 11 of the "Notes to Consolidated Financial Statements" for information on legal proceedings.

ITEM 1A. RISK FACTORS

In addition to the other information set forth within this report, consideration should be given to the information disclosed in Item 1A "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2019 and the following risk factor we have added regarding the impacts of the coronavirus disease (COVID-19), which reemphasizes risk factors we have previously disclosed, addresses certain new risks, and provides specific context under the current environment.

The COVID-19 pandemic is negatively impacting certain aspects of our business and, depending on severity and duration, could have a material adverse effect on our financial position, results of operations, liquidity and capital resources, and overall business operations.

The COVID-19 pandemic has caused significant disruption to the global economy and may result in unfavorable impacts to our company as well as the overall insurance industry. Due to the unprecedented nature of these events and the current pace of change in this environment, we cannot fully estimate the duration or ultimate impact of the COVID-19 pandemic at this time. Further events that we are unable to control, such as the further spread or spikes in the number of cases of COVID-19 or the emergence of new strains of coronavirus, and the related responses by government authorities and businesses, may heighten the impacts of COVID-19 and present additional risks. We are closely monitoring several key risks related to our business that may potentially have adverse impacts on our business.

We may experience a significant deterioration or delay in the collectability of premiums from both our group and individual customers due to a rise in unemployment levels, the deterioration of economic conditions and the general uncertainty regarding the financial situation of our customers. Additionally, certain states and other governing bodies have granted premium payment extensions for policyholders while still requiring insurers to pay claims, which, if continued or expanded may put significant strain on our liquidity and capital position in the near term. We are working closely with our customers to understand their respective financial conditions and, if necessary, may develop solutions on a case-by-case basis to allow for additional payment flexibility. However, we may be unable to achieve solutions with some customers that materially improve the likelihood of premium collectability, or such solutions may have other negative consequences to our business. As such, we may experience significant lapse activity which may put strain on our liquidity and capital position and may also result in a decline in both premium income and persistency, particularly if customers do not ultimately return following a lapse. Further, adverse economic conditions may adversely affect the discretionary spending of current or potential customers, which may result in lower sales or other negative changes to customer purchasing patterns.

Depending on the duration and severity of the current economic uncertainty, we may experience an increase in claims incidence due to COVID-19-related claims and may also experience unfavorable claim trends due to the historical correlation between economic uncertainty and claims incidence. Unfavorable developments in these factors may adversely impact our liquidity and capital position as well as our reserve margins and overall profitability.

Although we have access to significant amounts of capital, which include credit facilities, FHLB arrangements, and the ability to liquidate certain investments, it may be insufficient or even inaccessible if we are not in compliance with required covenants under our borrowing arrangements or if the associated lenders are unable to provide funds. In addition, if investment markets become illiquid or severely impaired, we may be unable to liquidate our investments in a timely manner.

On April 16, 2020, Fitch downgraded the financial strength ratings on our rated domestic insurance subsidiaries and the issuer credit rating on our senior debt obligations, primarily due to ongoing concerns regarding our historic long-term care exposure and the adequacy of the reserves, and placed us on negative outlook in large part due to the effects of the COVID-19 pandemic. On May 4, 2020, Moody's downgraded our financial strength and issuer credit ratings due to concerns around capital flexibility related to future funding requirements for our long-term care reserves, and placed us on negative outlook due to concerns over the COVID-19 pandemic and the impact it may have on our financial position and operating results. On May 27, 2020, AM Best revised their outlook from stable to negative due to concerns related to future capital contributions required to support our long-term care reserves as well as the impacts from current economic conditions on our operating results and investment portfolio. If our financial strength or credit default ratings were to be further downgraded as a result of the disruptions caused by the COVID-19 pandemic, our business could be negatively affected, including our relationship with distribution partners, our ability to compete and our cost of capital and ability to raise additional capital.

Regarding our financial position and results of operations, the current economic disruption may result in adverse impacts to our future profitability and growth and may also alter the timing and magnitude of our plans for overall business expansion. As previously indicated, we may experience slower premium growth or even declines in premium income resulting from lower sales and persistency. In response to the disruptive economic effects of the COVID-19 pandemic, the Federal Reserve has taken actions to reduce interest rates, and the potential for a sustained low interest rate environment is magnified by the effects of COVID-19 on economic conditions. Further declines in interest rates or the continuance of low interest rates may place substantial pressure on our profit margins as well as on the discount rates used to calculate our insurance liabilities. Furthermore, the current economic conditions may result in the inability for companies to make interest and principal payments on their debt securities or mortgage loans that we hold for investment purposes. Accordingly, although we maintain a disciplined approach regarding our overall investment strategy, we may still incur significant losses that can result in a decline in net investment income and/or material increases in credit losses on our investment portfolio. With respect to our benefits experience, as previously discussed, we may experience higher claims incidence directly related to COVID-19 claims as well as due to generally higher incidence associated with an economic downturn. Other potentially unfavorable impacts that we may experience include the write-off or impairment of intangible/long-lived assets such as DAC, value of business acquired, and goodwill, or the establishment of a valuation allowance regarding the realization of our deferred tax assets.

From an operational perspective, our employees, sales associates, brokers and distribution partners, as well as the workforces of our vendors, service providers and counterparties, may also be adversely affected by the COVID-19 pandemic or efforts to mitigate the pandemic, including government-mandated shutdowns, requests or orders for employees to work remotely, and other social distancing measures. The social distancing measures could result in an adverse impact on our ability to conduct our business, including in our ability to sell our policies, including policies that are traditionally sold in person, and our ability to adjudicate and pay claims in a timely manner. Additionally, the vast majority of our employees are currently working remotely and have been doing so for an extended length of time. This working environment is unprecedented and may expose us to various additional risks that range from potential increases in inefficiency as our employees adapt to their new working environment to more specific risks such as elevated cyber-security vulnerability resulting from the wide-scale remote usage of our company networks and risks to the effectiveness of our internal controls over financial reporting.

See "Executive Summary", "Segment Operating Results", and "Liquidity and Capital Resources" included herein in Part 1, Item 2 under "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion.

To the extent the COVID-19 pandemic adversely affects our business, financial position, results of operations, liquidity and capital resources, and overall business operations, it may also have the effect of heightening many of the other risks disclosed in disclosed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and any subsequent Quarterly Reports on Form 10-Q and other filings we make with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In May 2019, our board of directors authorized the repurchase of up to \$750 million of Unum Group's common stock through November 23, 2020. No shares were purchased during the third quarter of 2020. At September 30, 2020, the approximate dollar value of shares that may yet be purchased under the program was \$516.2 million, however, we do not expect to resume repurchases through the remainder of our currently authorized repurchase program.

ITEM 6. EXHIBITS

Index to Exhibits

- (4.1) [First Supplemental Indenture for Senior Debt Securities, between Unum Group and The Bank of New York Mellon Trust Company, N.A. dated as of August 20, 2020 \(incorporated by reference to Exhibit 4.4 to Unum Group's Registration Statement on Form S-3ASR \(Registration No. 333-248208\) filed on August 20, 2020\).](#)
- (10.1) [Form of Success Incentive Plan Cash Success Unit and Stock Success Unit Agreement with Employee in U.S. \(incorporated by reference to Exhibit 10.1 of Unum Group's Form 8-K filed on August 26, 2020\).](#)
- (10.2) [Form of Success Incentive Plan Cash Success Unit and Stock Success Unit Agreement with Employee in U.K. \(incorporated by reference to Exhibit 10.2 of Unum Group's Form 8-K filed on August 26, 2020\).](#)
- (31.1) [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- (31.2) [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- (32.1) [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- (32.2) [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- (101) The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- (104) Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Unum Group

(Registrant)

Date: October 28, 2020

By: /s/ Steven A. Zabel

Steven A. Zabel

Executive Vice President, Chief Financial Officer

Date: October 28, 2020

By: /s/ Cherie A. Pashley

Cherie A. Pashley

Senior Vice President, Chief Accounting Officer

113

[\(Back To Top\)](#)

Section 2: EX-31.1 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION

I, Richard P. McKenney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unum Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

/s/ Richard P. McKenney

Richard P. McKenney

President and Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Unum Group and will be retained by Unum Group and furnished to the Securities and Exchange Commission or its staff upon request.

[\(Back To Top\)](#)

Section 3: EX-31.2 (EX-31.2)

EXHIBIT 31.2

CERTIFICATION

I, Steven A. Zabel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unum Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

/s/ Steven A. Zabel

Steven A. Zabel

Executive Vice President, Chief Financial Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Unum Group and will be retained by Unum Group and furnished to the Securities and Exchange Commission or its staff upon request.

[\(Back To Top\)](#)

Section 4: EX-32.1 (EX-32.1)

EXHIBIT 32.1

**STATEMENT OF CHIEF EXECUTIVE OFFICER
OF UNUM GROUP
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Unum Group (the Company) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Richard P. McKenney, President and Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2020

/s/ Richard P. McKenney

Richard P. McKenney

President and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Unum Group and will be retained by Unum Group and furnished to the Securities and Exchange Commission or its staff upon request.

[\(Back To Top\)](#)

Section 5: EX-32.2 (EX-32.2)

EXHIBIT 32.2

**STATEMENT OF CHIEF FINANCIAL OFFICER
OF UNUM GROUP
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Unum Group (the Company) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Steven A. Zabel, Executive Vice President and Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2020

/s/ Steven A. Zabel

Steven A. Zabel

Executive Vice President, Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Unum Group and will be retained by Unum Group and furnished to the Securities and Exchange Commission or its staff upon request.

[\(Back To Top\)](#)