THE OHIO NATIONAL LIFE INSURANCE COMPANY

(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Financial Statements and Supplementary Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors
The Ohio National Life Insurance Company:

We have audited the accompanying financial statements of The Ohio National Life Insurance Company (a wholly owned subsidiary of Ohio National Financial Services, Inc.) (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Ohio Department of Insurance (the Department). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Department, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Department described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the schedules of supplemental insurance information, investment risk interrogatories, and summary of investments is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Columbus, Ohio
May 9, 2019

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2018 and 2017

(Dollars in thousands, except share amounts)

Admitted Assets		**2018**	**2017**
Investments:			
Bonds	$	7,018,143	5,924,261
Preferred stocks		18,292	20,292
Common stocks at fair value (cost $37,680 in 2018 and $37,473 in 2017)		38,406	40,629
Common stock of unconsolidated life insurance subsidiaries at statutory equity (cost $181,332 in 2018 and $176,082 in 2017)		352,946	339,235
Common stocks of nonlife insurance subsidiaries at statutory equity (cost $10,830 in 2018 and $9,730 in 2017)		8,498	11,206
Mortgage loans on real estate		859,830	804,802
Real estate, at cost less accumulated depreciation		26,407	24,851
Contract loans		638,824	542,701
Cash, cash equivalents and short-term investments		327,430	443,294
Receivables for securities		136	2,540
Derivatives		107,064	64,054
Other invested assets		76,570	75,000
Securities lending reinvested collateral assets		230,305	533
Total investments		9,702,851	8,293,398
Premiums and other considerations deferred and uncollected		85,262	73,537
Accrued investment income		64,367	56,378
Current federal income tax recoverable		34,254	29,532
Deferred tax asset, net		132,476	129,612
Other assets		181,741	198,298
Separate account assets		18,883,485	22,895,981
Total admitted assets	$	29,084,436	31,676,736
Liabilities and Capital and Surplus			
Reserves for future policy benefits:			
Life policies and contracts	$	7,129,776	6,533,014
Accident and health policies		28,833	28,750
Annuity and other deposit funds		666,396	650,464
Contract claims		18,007	13,676
Other policyholders’ funds:			
Policyholders’ dividend accumulations		34,266	36,110
Provision for policyholders’ dividends payable in following year		112,196	97,278
Other		1,144	1,226
Payable to parent, subsidiaries and affiliates		146,625	160,766
Interest maintenance reserve		28,906	33,283
Asset valuation reserve		2,422	5,842
Transfers to separate accounts due or accrued, net		(173,980)	(251,475)
Payable for securities		1,428	20,143
Payable for securities lending		230,305	533
Reinsurance funds withheld due to affiliate, net		484,274	—
Other liabilities		471,280	349,600
Separate account liabilities		18,883,485	22,895,976
Total liabilities		28,065,363	30,575,186
Capital and surplus:			
Class A common stock, $1 par value. Authorized, issued, and outstanding 10,000,000 shares		10,000	10,000
Surplus notes		309,698	309,622
Gross paid in and contributed surplus		283,297	283,297
Aggregate write-ins for special surplus funds		(4,409)	(11,532)
Unassigned surplus		420,487	510,163
Total capital and surplus		1,019,073	1,101,550
Total liabilities and capital and surplus	$	29,084,436	31,676,736

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Operations

Years ended December 31, 2018 and 2017

(Dollars in thousands)

		2018	2017
Premiums and other considerations:			
Life and annuity	$	2,222,765	2,572,585
Accident and health		5,981	6,354
Total premiums and other considerations:		2,228,746	2,578,939
Investment income:			
Interest on bonds		284,323	255,293
Dividends on stocks		3,380	3,505
Dividends from subsidiaries		31,924	35,124
Interest on mortgage loans		41,426	42,119
Real estate income		1,932	2,349
Interest on contract loans		27,261	22,615
Other income		15,702	15,768
Total investment income		405,948	376,773
Less investment expenses		33,856	32,829
Net investment income		372,092	343,944
Total income		2,600,838	2,922,883
Death and other benefits:			
Death benefits		98,072	88,362
Accident and health benefits		2,178	2,078
Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries		3,383,480	2,154,856
Total death and other benefits		3,483,730	2,245,296
Change in reserves for future policy benefits and other funds		669,329	660,765
Commissions		318,169	312,521
General insurance expenses		170,690	162,661
Insurance taxes, licenses, and fees		18,860	17,954
Net transfers from separate accounts		(2,139,023)	(668,908)
Total expenses		2,521,755	2,730,289
Income before dividends to policyholders, benefit for federal income taxes, and net realized capital losses		79,083	192,594
Dividends to policyholders		116,431	102,665
(Loss) income before benefit for federal income taxes and net realized capital losses		(37,348)	89,929
Benefit for federal income taxes		(9,704)	(22,489)
Loss (income) before net realized capital losses		(27,644)	112,418
Net realized capital losses, net of interest maintenance reserve and income taxes		(27,776)	(41,404)
Net (loss) income	$	(55,420)	71,014

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2018 and 2017

(Dollars in thousands)

		Common stock	Surplus notes	Gross paid in and contributed surplus	Aggregate write-ins for special purpose funds	Unassigned surplus	Total capital and surplus
Balance at December 31, 2016	$	10,000	309,546	283,297	(8,289)	487,536	1,082,090
Net income		—	—	—	—	71,014	71,014
Amortization of surplus note		—	76	—	—	—	76
Change in net unrealized capital gains		—	—	—	—	8,976	8,976
Change in net unrealized foreign exchange capital gain		—	—	—	—	281	281
Change in net deferred income tax		—	—	—	—	(77,478)	(77,478)
Change in nonadmitted assets and related items		—	—	—	—	62,373	62,373
Change in asset valuation reserve		—	—	—	—	25,754	25,754
Correction of an error, net of tax		—	—	—	—	1,849	1,849
Benefit plan adjustment		—	—	—	—	(142)	(142)
Voluntary reserve		—	—	—	(3,243)	—	(3,243)
Dividends to stockholder		—	—	—	—	(70,000)	(70,000)
Balance at December 31, 2017		10,000	309,622	283,297	(11,532)	510,163	1,101,550
Net loss		—	—	—	—	(55,420)	(55,420)
Amortization of surplus note		—	76	—	—	—	76
Change in net unrealized capital gains		—	—	—	—	4,403	4,403
Change in net unrealized foreign exchange capital loss		—	—	—	—	(137)	(137)
Change in net deferred income tax		—	—	—	—	29,729	29,729
Change in nonadmitted assets and related items		—	—	—	—	(16,816)	(16,816)
Change in asset valuation reserve		—	—	—	—	3,420	3,420
Correction of an error, net of tax		—	—	—	—	(1,063)	(1,063)
Benefit plan adjustment		—	—	—	—	6,208	6,208
Voluntary reserve		—	—	—	7,123	—	7,123
Dividends to stockholder		—	—	—	—	(60,000)	(60,000)
Balance at December 31, 2018	$	10,000	309,698	283,297	(4,409)	420,487	1,019,073

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Cash Flow

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018	2017
Cash flow from operations:		
Premiums, other considerations, and fund deposits	$ 1,847,775	2,230,640
Investment income	372,370	341,714
	2,220,145	2,572,354
Less:		
Death and other benefits	2,614,046	1,922,099
Commissions, taxes, and other expenses	445,230	470,287
Dividends paid to policyholders	100,620	92,022
Net transfers from separate accounts	(2,216,518)	(701,733)
	943,378	1,782,675
Net cash provided by operations	1,276,767	789,679
Cash flow from investing activities:		
Proceeds from investments sold, matured, or repaid:		
Bonds	919,511	706,249
Stocks	4,851	9,038
Mortgage loans on real estate	124,424	134,516
Other	2,435	23,487
Total investment proceeds	1,051,221	873,290
Less cost of investments acquired:		
Bonds	2,016,210	1,175,703
Stocks	6,426	2,029
Mortgage loans on real estate	180,882	157,527
Real estate	2,546	12
Other	63,326	23,813
Total investments acquired	2,269,390	1,359,084
Less increase in contract loans	95,801	77,164
Net cash used in investing activities	(1,313,970)	(562,958)
Cash flow from financing and other miscellaneous sources:		
Deposits on deposit-type contracts and other liabilities	122,022	197,926
Withdrawals on deposit-type contracts and other liabilities	(131,929)	(244,860)
Dividends to stockholder	(60,000)	(70,000)
Other, net	(8,754)	(3,582)
Net cash used in financing	(78,661)	(120,516)
Net (decrease) increase in cash, cash equivalents and short-term investments	(115,864)	106,205
Cash, cash equivalents and short-term investments:		
Beginning of year	443,294	337,089
End of year	$ 327,430	443,294
Supplemental disclosures of cash flow information for non-cash transactions:		
Change in securities lending collateral	$ 229,772	$ (189,283)
Funds held under fixed indexed annuity reinsurance agreement, net	482,442	—

See accompanying notes to statutory financial statements.

(1) Organization and Business

Organization

The Ohio National Life Insurance Company ("ONLIC" or the "Company") is a stock life insurance company wholly owned by Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS is 100% owned by Ohio National Mutual Holdings, Inc. ("ONMH"), a mutual holding company organized under Ohio insurance laws.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual insurance holding companies.

ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary, National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary, Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company, Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company, Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company, Sunrise Captive Re, LLC ("SUNR"), a special purpose financial captive life insurance company, approved by the State of Ohio on January 9, 2019, Ohio National Investments, Inc. ("ONII"), an investment advisor, Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934, and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

Business

ONLIC is a life and health (disability) insurer licensed in 49 states, the District of Columbia and Puerto Rico. The Company offered a full range of life, disability, and annuity products through independent agents and other distribution channels and is subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018, that it will exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision follows a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective September 15, 2018, the Company no longer accepts applications for annuities or new retirement plans, however, will continue to service and support existing clients in both product lines.

In 2018, the Company offered certain variable annuity policyholders with the guaranteed minimum income benefit ("GMIB") rider the opportunity to exchange that policy and associated rider for a fixed indexed annuity policy with an enhanced guaranteed lifetime withdrawal benefit ("GLWB") rider. More than $500,000 in account value was exchanged under this program.

Additionally, in late 2018 and through March 15, 2019, the Company offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. Through December 31, 2018, the Company paid more than $50,000 related to the buy-back, which is included in benefits and claims on the corresponding statements of income. See Note 3(p) for more information regarding the buy-back.

The Company is subject to regulation by the insurance departments of states in which it is licensed and undergoes periodic examinations by those departments.

(2) Basis of Presentation

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Ohio Department of Insurance (the "Department"), which is an other comprehensive basis of accounting that differs from U.S. generally accepted accounting principles ("GAAP"). The Department requires that insurance companies domiciled in the State of Ohio prepare their statutory basis financial statements in accordance with the Statement of Statutory Accounting Principles ("SSAP") that are described in the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* (the "Manual") subject to any deviations prescribed or permitted by the state insurance commissioner.

ONLIC does not have any permitted or prescribed statutory accounting practices as of December 31, 2018 and 2017. Certain of ONLIC's wholly-owned subsidiaries have permitted accounting practices as disclosed in Note 3(c). The statutory financial statements presented represent the accounts of the Company and do not include the accounts of any of its subsidiaries.

Statutory accounting practices are different in some respects from financial statements prepared in accordance with GAAP. The primary reasons for the differences between equity and net income on a GAAP basis versus capital and surplus and net income on a statutory basis are that, for GAAP reporting purposes:

- The costs related to acquiring business, principally commissions and certain policy issue expenses related to successful acquisition efforts, are amortized over the period benefited rather than charged to income in the year incurred;

- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;

- investments in fixed maturity securities are carried at either amortized cost or fair value based on their classifications; fixed maturity securities designated at purchase as held-to-maturity based on the Company's intent and ability to hold to maturity are carried at amortized cost; investments in fixed maturity securities classified as available-for-sale are carried at estimated fair value with net unrealized holding gains and losses reported in other comprehensive income; fixed maturity securities designated as trading are carried at fair value with net unrealized holding gains and losses reported in income; under statutory accounting, investments in bonds are reported at the lower of amortized cost or fair value based on their NAIC rating and any adjustments to fair value are reported directly in surplus, see Note 3(c) for more information regarding bond valuation;

- only contracts that have significant mortality or morbidity risk are classified as insurance contracts; otherwise they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments; for statutory reporting, contracts that have any mortality or morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts;

- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at fair value as opposed to a component of separate account assets;
- under GAAP, "nonadmitted" assets do not exist, while for statutory reporting nonadmitted assets are excluded from surplus; see Note 3(b) for more information regarding nonadmitted assets;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive income and comprehensive income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain variable interest entities, is the primary beneficiary while for statutory, consolidation is not applicable;
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus;
- certain assets and liabilities are reported gross of ceded reinsurance balances;
- deposits to universal life contracts, investment contracts and limited payment contracts are not included in revenue;
- negative cash balances are reported as liabilities; and
- on a statutory basis only, the correction of immaterial prior period errors are recorded directly to surplus.

Equity in accordance with GAAP was $2,609,008 and $2,763,368 as of December 31, 2018 and 2017, respectively. Net income in accordance with GAAP was $92,763 and $245,722 for the years ended December 31, 2018 and 2017, respectively.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Company that materially affect financial reporting are summarized below.

(a) Use of Estimates

In preparing the statutory financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statutory financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most significant estimates and assumptions include those used in determining the liability for future policy benefits and claims, contingencies, provision for income taxes, deferred taxes, uncertain income tax positions and contingencies, and valuation of and impairment losses on investments. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the date of the statutory financial statements. Management believes the amounts provided are appropriate.

(b) Nonadmitted Assets

Certain assets designated as "nonadmitted assets" (principally furniture, equipment, certain deferred taxes, and certain receivables) have been excluded from total admitted assets by a direct charge to surplus.

(c) Investments

<u>Investment Income</u>
Interest and dividends on investments is recorded within investment income. Realized capital gains and losses are reported net of federal income tax and transfers to the interest maintenance reserve ("IMR"). Realized gains (losses) on the sale of investments are determined on the basis of specific security identification on the trade date. Unrealized gains and losses on investments are charged or credited to unassigned surplus in accordance with NAIC rules.

Dividends are recorded on the ex-dividend date and interest is accrued as earned using an effective yield method giving effect to amortization of premiums and accretion of discounts.

<u>Bonds</u>
Bonds are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC Investment Analysis Office. Bonds are rated as"1" (highest quality), "2" (high quality), "3" (medium quality), "4" (low quality), "5" (lowest quality, not in or near default) or "6" (lowest quality, in or near default). Bonds rated as categories 1 through 5 are reported in the financial statements at amortized cost using the modified scientific method. Bonds rated as category 6 are reported at the lower of amortized cost or fair value.

Mortgage-backed securities are generally stated at amortized cost and are amortized using anticipated prepayment assumptions based on a retrospective adjustment method that estimates prepayment activity by way of certain factors, including seasonality, current levels of interest rates, economic activity, and the term and age of the underlying collateral.

All securities defined as hybrid securities by the SVO are reported as bonds and are carried at amortized cost.

Preferred and Common Stocks

Preferred stocks rated by the SVO as categories 1-3 are reported at amortized cost. Those rated as categories 4-6 are reported at the lower of amortized cost or fair value.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO, and quoted market prices when information is not available from the SVO.

Investments in the Company's wholly owned insurance subsidiaries are carried at audited statutory equity with changes in net assets, other than dividends declared, recognized as net unrealized capital gains or losses through surplus. Investments in the Company's special purpose financial captive reinsurers are carried as follows: MONT and KENW are carried at zero due to the fact that the State of Vermont has granted a permitted practice to allow the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus was to fall below the level of all capital contributions then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. Investments in wholly owned noninsurance subsidiaries are carried at the value of their underlying audited GAAP basis equity, adjusted for nonadmitted assets, based on the significance of their operations beyond holding assets for the use of the Company. The Company does not record the investment in ONII, a noninsurance subsidiary, as it does not have audited GAAP financial statements for 2018 and 2017.

Management reviews its investments in subsidiary, controlled, and affiliated entities for impairment based upon if it is probable that the Company will be able to recover the carrying amount of the investment or if there is evidence indicating the inability of the investee to sustain earnings, which would justify the carrying amount of the investment.

Management regularly reviews its bond and stock portfolios in order to evaluate the necessity to record impairment losses for other-than-temporary declines in estimated fair value of investments. See Note 6 for management's description and analysis of the portfolio.

Mortgage Loans on Real Estate

Mortgage loans on real estate are recorded at the unpaid principal balance of the loan, net of valuation allowance and unamortized discount. Management periodically reviews the portfolio for impairment and obtains updated valuations of the underlying collateral as needed. Significant changes (increase or decrease) in the net value of the collateral are adjusted through the valuation allowance; however, the net carrying value amount of the loan shall not exceed the recorded investment in the loan.

Loans in foreclosure and loans considered impaired as of the statutory statement of admitted assets, liabilities, and capital and surplus date are placed on nonaccrual status and written down to the estimated fair value, net of estimated selling costs, of the underlying property to derive a new cost basis. Interest received on nonaccrual status mortgage loans on real estate is included in net investment income in the period received.

Commercial mortgages can be restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case by case basis to evaluate whether a TDR has occurred and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral.

Real Estate
Real estate, occupied by the Company and held for the production of income, is generally carried at depreciated cost, net of encumbrances. Accumulated depreciation was $4,103 and $2,542 as of December 31, 2018 and 2017, respectively.

The Company occupies less than 50% of buildings held for the production of income.

Contract Loans
Contract loans are stated at unpaid principal balances. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate. Generally, interest is capitalized on the policy's anniversary date.

Cash, Cash Equivalents and Short-term Investments
Short-term investments are carried at amortized cost and cash equivalents are carried at fair value. Cash equivalents are short-term and highly liquid investments with original maturities of three months or less and short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at time of purchase.

Derivatives
The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity product. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. These derivative instruments are carried at estimated fair value. The realized changes in fair value are recorded in net realized capital losses, net of interest maintenance reserve and income taxes. The unrealized changes in fair value are recorded in unassigned surplus.

The Company enters into derivative transactions that meet the criteria for hedge accounting. The Company purchased a foreign currency swap that meets the criteria for hedge accounting and is accounted for consistent with the underlying hedged asset. The swap instrument is carried at estimated fair value and changes in estimated fair value of the swaps are recorded as unrealized capital gains or losses in unassigned surplus.

Other Invested Assets
Other invested assets primarily consist of an inter-company surplus note, accounted for at amortized cost less any portion deemed to be nonadmitted.

Securities Lending Program

The Company participates in an indemnified securities lending program administered by an unaffiliated agent in which certain portfolio holdings are loaned to third parties. The borrower must deliver to the Company's agent collateral having a market value equal to at least 102% and 105%, respectively, of the market value of the domestic and foreign securities loaned. The collateral received by the Company's agent from the borrower to secure loans on behalf of the Company must be in the form of cash, securities issued or guaranteed by the U.S. government or its agencies, or a bank letter of credit or equivalent obligation as may be pre-approved by the Company. The Company monitors the estimated fair value of the loaned securities on a daily basis and additional collateral is obtained as necessary. Securities lending reinvested collateral assets and the corresponding liability, payables for securities lending, are recorded on the statutory statements of admitted assets, liabilities, and capital and surplus. Income and expenses associated with securities lending transactions are reported within net investment income.

(d) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. Separate account liabilities for individual annuities issued in 1992 and after represent contract holders' funds adjusted for possible future surrender charges in accordance with the Commissioner's Annuity Reserve Valuation Method ("CARVM"). The difference between full account value and CARVM is reflected in transfers to separate accounts due or accrued, net, as prescribed by the NAIC, on the statutory statements of admitted assets, liabilities and capital and surplus. The annual change in the difference between full account value and CARVM is reflected in the statutory statements of income as part of the net transfers from separate accounts. The Company's revenue reflects fees charged to the separate accounts including administrative services and risks assumed and for the activity related to guaranteed contracts, which are riders to existing variable annuity contracts that are guaranteed by the Company's general account assets.

Under accounting procedures prescribed by the NAIC, the Company records seed money contributed to or withdrawn from variable annuity separate accounts through a direct charge or credit to surplus. Seed money held in separate accounts represents the difference between separate account assets and liabilities. The change in separate account surplus, developed through seed money contributions, withdrawals, and unrealized gains and losses generated thereon, is also recorded directly to surplus, without providing for federal income tax, or income tax reductions. Dividend and capital gain distributions on seed money are recorded as other income in the statutory statements of income.

Premium income, benefits and expenses of the separate accounts are included in the statutory statements of income with the offset recorded in net transfers from separate accounts in the statutory statements of income. Investment income and realized capital gains (losses) on the assets of separate accounts, other than seed money, accrue to contract holders and are not recorded in the statutory statements of income. Unrealized capital gains (losses) on assets of separate accounts accrue to contract holders and, accordingly, are reflected in the separate account liability to the contract holder.

(e) Revenues and Expenses

Premiums are credited to revenue over the premium paying period of the policies. Individual accident and health (disability) premiums are earned ratably over the terms of the related contracts or policies. Universal life and annuity premiums are recognized as revenue when received. Amounts received related to deposit contracts with mortality or morbidity risk, such as traditional life products and certain annuities with life contingencies, are recorded as premiums. Amounts received as payment for deposit contracts that do not incorporate any mortality or morbidity risk, including those annuities without life contingencies and guaranteed investment contracts, are not reported as revenue, but are recorded directly to the appropriate policy reserve account.

Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred.

(f) Reserves for Future Policy Benefits

Life Policies and Contracts
Reserves for traditional life products are based on statutory mortality and interest requirements without consideration for withdrawals. The mortality table and interest assumptions currently being used for the majority of new policies issued are the 2001 Commissioners Standard Ordinary ("CSO") table with an interest rate of 3.5%. With respect to in force policies, the mortality tables and interest assumptions used are primarily the 1941 CSO table with interest rates of 2.25% to 2.5%, the 1958 CSO table with interest rates of 1.75% to 4.5%, the 1980 CSO table with interest rates of 3.0% to 6.0%, the 2001 CSO table with interest rates of 3.0% to 4.0%, and the 2017 CSO table with an interest rate of 3.5%.

The Company waives the deduction of deferred fractional premium at death and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Reserves are computed using continuous functions to reflect these practices.

The method used in valuation of substandard policies is to hold 50% of the annual substandard premium as the substandard reserve in addition to the reserve calculated using standard mortality.

The Company had $4,540,932 and $3,991,068 of individual life insurance in force as of December 31, 2018 and 2017, respectively, and $478,968 and $402,824 of related reserves as of December 31, 2018 and 2017, respectively, for which the gross premiums were less than the net premiums according to the standard valuation set by the Department.

Tabular interest, tabular less actual reserves released, and tabular cost for all life contracts are determined in accordance with NAIC Annual Statement instructions. Traditional life, permanent and term products use a formula that applies a weighted average interest rate determined from a seriatim valuation file to the mean average reserves.

Accident and Health (Disability) Policies
The aggregate reserves for individual accident and health (disability) policies consist of active life reserves, disabled life reserves and unearned premium reserves. The active life reserves are calculated on a two year preliminary term basis at interest rates of 3.0% to 6.0%, using either the 1964 Commissioner's

Disability Table (policies issued prior to 1990) or the 1985 Commissioner's Individual Disability Table A (policies issued after 1989). The disabled life reserves are calculated using either the 1985 Commissioner's Individual Disability Table C, at interest rates of 3.5% to 5.5% (claims incurred after 1989) or the 1964 Commissioner's Disability Table, at an interest rate of 3.5% (claims incurred prior to 1990).

Annuity and Other Deposit Funds
The Company issued traditional variable annuity contracts through its separate accounts, for which investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

The Company also issued nontraditional variable annuity contracts in which the Company provides various forms of guarantees/riders to benefit the related contract holders.

The Company has five main types of rider benefits offered with individual variable annuity contracts:

- guaranteed minimum death benefit ("GMDB");
- guaranteed minimum income benefit ("GMIB");
- guaranteed minimum accumulation benefit ("GMAB");
- guaranteed minimum withdrawal benefit ("GMWB"); and
- guaranteed lifetime withdrawal benefit ("GLWB").

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Actuarial Guideline 43 ("AG43") interprets the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. AG43 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The guideline applies the principles of asset adequacy analysis directly to the risks associated with these products and guarantees. The AG43 liability is evaluated under both standard and stochastic scenarios net of currently held applicable hedge asset cash flows. The Company holds the reserve liability valuation at the higher of the standard or stochastic scenario values. These guarantee reserves are included in the general account reserves.

Actuarial Guideline 35 ("AG35") interprets the standards for the valuation of reserves for fixed indexed annuities. AG35 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The reserves for both the base policy and the rider guarantees and are included in general account liabilities.

The reserves and deposit liabilities for individual deferred annuity products have been established based on the participants' net contributions, policy term, interest rates and various contract provisions. The average interest rates credited on these annuity policies were 2.77% and 2.75% for the years ended

December 31, 2018 and 2017, respectively. The reserves for individual annuity policies issued after 1991 have been adjusted for possible future surrender charges in accordance with CARVM.

Reserves for ordinary (individual) immediate annuities are determined primarily using the 1937 Standard Annuity Table (interest rate of 11.25%), the 1971 Individual Annuity Mortality Table (interest rate of 11.25%), the 1983 Annuity Table (interest rates of 6.25% to 11.00%), the Annuity 2000 Table (interest rates of 4.00% to 7.00%), or the IAR2012 Mortality Table (interest rates of 2.25% to 4.00%). Group immediate annuity reserves are based primarily on the 1971 Group Annuity Mortality Table (interest rates of 11% to 11.25%), the 1983 Group Annuity Mortality Table (interest rates of 6.25% to 9.25%) or the 1994 Group Annuity Mortality Table (interest rates of 3.00% to 7.00%).

(g) Participating Business/Policyholders' Dividends

Participating business, which refers to policies that participate in profits through policyholders' dividends, represents 19.8% and 19.1% of the Company's ordinary life insurance in force at December 31, 2018 and 2017, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholders' funds in the statutory statements of admitted assets, liabilities and capital and surplus. The policyholder dividends incurred are recorded in dividends to policyholders in the statutory statements of income.

Policyholder dividends are approved annually by the Company's board of directors based upon the amount of distributable surplus. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity, and expense experience for the year, as well as management's judgment as to the appropriate level of statutory surplus to be retained by the Company.

(h) Asset Valuation Reserve/Interest Maintenance Reserve

In compliance with statutory requirements, the Company maintains an asset valuation reserve ("AVR") and an IMR as prescribed by the NAIC.

The AVR is a formula reserve, which addresses specific asset risk areas and consists of the default component and the equity component. The default component provides for future credit related losses on bonds including corporate debt securities, preferred stocks, derivative instruments, net of reinsurance, and mortgages. The equity component covers all types of equity investments. The two components are designed to address the default and equity risks of the Company's assets by calculating maximum reserve targets and controlling the flow of the reserve from and into surplus. The change in AVR is charged or credited directly to unassigned surplus.

The IMR minimizes the statutory statements of income impact of interest rates related realized capital gains and losses. Realized capital gains and losses for all types of bonds that result from changes in the overall level of interest rates are removed from the net realized capital gains (losses) amount and credited or charged to the liability for IMR. This liability is amortized into income over the remaining life of each bond based on a seriatim method.

Credit related other-than-temporary impairment losses are recorded through the AVR; interest related other-than-temporary impairment losses are recorded through the IMR.

(Dollars in thousands)

(i) Reinsurance

Reinsurance is an agreement by which a reporting entity transfers all or part of its risk under a contract to another reporting entity. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, including those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

Accounting for reinsurance requires the use of significant management estimates and assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the strength of counterparties to its reinsurance agreements. Reinsurance does not discharge the Company from its primary liability to policyholders and to the extent that a reinsurer should be unable to meet its obligations, the Company would be liable to policyholders.

Premium income, reserves for future policy benefits, and liabilities for contract claims are stated net of reinsurance. Premiums, benefits and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company records a receivable for reinsured benefits paid and reduces policyholders' reserves for the portion of insurance liabilities that are reinsured. Commissions and expense allowances on reinsurance ceded are recorded as revenue.

(j) Federal Home Loan Bank ("FHLB") Agreements

The Company is a member of the FHLB of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts. The Company had outstanding deposit contracts of $350,000 as of December 31, 2018 and December 31, 2017 which are included in annuity and other deposit funds on the statutory statements of admitted assets, liabilities, and capital and surplus. The Company uses the deposits for the purpose of additional spread income.

FHLB capital stock purchased at December 31 is indicated in the table below and is only in the general account. FHLB capital stock is included in common stocks at fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

		2018	2017
Membership stock - Class B	$	25,000	25,000
Activity stock		11,552	11,552
Total	$	36,552	36,552
Actual or estimated borrowing capacity as determined by the insurer	$	577,615	577,615

(Dollars in thousands)

Membership stock eligible and not eligible for redemption at December 31, 2018 is as follows:

Membership stock		Current year total	Not eligible for redemption	Less than 6 months	6 months to less than 1	1 to less than 3 years	3 to 5 years
Class B	$	25,000	25,000	-	-	-	-

Total collateral pledged to FHLB as of December 31 is indicated in the table below and is only in the general account.

		2018	2017
Total collateral pledged:			
Fair value	$	399,899	392,253
Carrying value		401,075	387,415
Total borrowing		350,000	350,000

The maximum amount pledged as of December 31 is as follows:

		2018	2017
Maximum amount pledged:			
Fair value	$	404,638	407,872
Carrying value		408,075	396,268
Total borrowing		350,000	350,000

Borrowing from FHLB as of December 31 is indicated in the table below and is only in the general account.

		General account	Funding agreements reserves established
2018			
Funding agreements	$	350,000	350,000
2017			
Funding agreements	$	350,000	350,000

The maximum amount available during the reporting period ended December 31, 2018 is indicated in the table below and is only applicable to the general account.

		2018
Funding agreements	$	350,000

The Company has no prepayment obligations under debt, funding agreements or other agreements.

(k) Income Taxes

Total federal income taxes are based upon the Company's best estimate of its current and deferred tax liabilities. Current tax expense is reported on the statutory statements of income as provision for federal income tax expenses if resulting from operations, and within net realized capital gains (losses) if resulting from capital transactions. Changes in the balance of deferred taxes, which provided for book versus tax temporary differences, are subject to limitations and are reported on various lines within surplus. Limitations of deferred income taxes are recorded on the change in nonadmitted assets line, whereas, deferred taxes associated with net unrealized capital gains (losses) are shown within that caption on a net basis. Accordingly, the reporting of temporary differences, such as reserves and policy acquisition costs, and permanent differences, such as dividend received deduction and tax credits, results in effective tax rates that differ from the federal statutory tax rate.

The Company is included as part of the life/non-life consolidated federal income tax return of its ultimate parent, ONMH. The method of allocation of tax among the consolidated affiliates is subject to a written agreement and is based on the affiliates' separate company taxable income. Net operating losses and realized losses are settled when utilized. Intercompany settlements are made at least quarterly.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act. See Note 4 for a description of the new tax law.

(l) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred. On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's statutory financial statements.

(m) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans.

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality.

Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's statutory financial statements.

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsors a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions are based on the net earnings of the Company. Accordingly, the Company recognizes compensation cost for current contributions.

(n) Equity and Undistributed Income of Subsidiaries

Dividends received by the Company from its affiliates are recognized in investment income provided that the dividend is not in excess of undistributed accumulated earnings.

(o) New Accounting Standards

In November of 2018, the NAIC issued SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees, effective January 1, 2020. This guidance establishes statutory accounting principles to address certain, limited derivative transactions hedging variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity. Eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities. The Company has not yet evaluated the impact of this standard on its financial statements.

In November of 2017, the NAIC adopted modifications to SSAP No. 86 *Derivatives*. This guidance captures information on financing premium in derivative contracts in aggregate and requires disclosures in a narrative format. The adoption of this new guidance was immaterial.

In August of 2017, the NAIC adopted modifications to SSAP No. 26 *Bonds*. This guidance clarifies that recognized losses from other-than-temporary impairments shall be recorded entirely to the asset valuation reserve or the interest maintenance reserve in accordance with the Annual Statement instructions. The adoption of this guidance did not impact the Company's financial statements.

In June of 2017, the NAIC adopted modifications to SSAP No. 37 *Mortgage Loans*. This guidance clarifies the definition of a mortgage loan to include both "participant" and a "co-lender" within the definition of a mortgage loan. The adoption of this guidance did not have a material impact on the Company's financial statements.

The Company plans to adopt principles based reserving in 2020 and all applicable SSAP and Actuarial Guideline additions and updates.

(p) Subsequent Events

The Company has evaluated subsequent events through May 09, 2019, the date the statutory financial statements were available to be issued.

The buy-back program mentioned in Note 1 produced over $100,000 of expense for the year 2019 through May 09, 2019.

No other events have occurred subsequent to the statutory statements of admitted assets, liabilities, and capital and surplus date and before the date of evaluation that would require disclosure.

(4) Risks

The Company participates in an industry where there are risk factors that could have material adverse effects on the business and operating results. The following is a description of the various risk factors:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company's products, or additional unanticipated expenses in the pricing of its products.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, *Income Taxes*, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the President signs a bill into law.

The Act reduces the corporate income tax rate to 21 percent (previously 35 percent), effective January 1, 2018, for all corporations. The effects of the new legislation are recognized by adjusting the Company's deferred tax assets and/or deferred tax liabilities as of December 31, 2017. The effects of changes in tax laws or rates on deferred tax assets or deferred tax liabilities are allocated to capital and surplus and are reflected in the tax rate reconciliation in Note 15.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations may be designed to protect or benefit policyholders and thus affect the Company's operating results.

Changes in the tax treatment for corporate owned life insurance ("COLI") and bank owned life insurance ("BOLI") could impact the Company's ability to sell those products in the future or existing policies may be surrendered or allowed to lapse.

Increased assessments from guaranty associations may occur if there is an increase of impaired, insolvent or failed insurers in the jurisdictions in which the Company operates.

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 13% of total individual annuity reserves as of December 31, 2018 and 2017. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

Mortality Risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation may occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company attempts to reduce this risk through geographical diversification and the purchase of reinsurance.

Reinsurance Risk is the risk that the reinsurance companies, where the Company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into reinsurance contracts to cede a portion of its life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies it chooses to cede risk to, requiring collateral to support ceded reserves, and following up on any outstanding balances with reinsurance companies.

Ratings Risk is the risk that rating agencies change their outlook or rating of the Company. If such ratings were lowered significantly relative to our competitors, our ability to market products to new customers could be harmed as well as the potential loss of existing customers. The Company monitors its Risk-Based Capital ("RBC") and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Information Technology Risk is the risk that the computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, or other events beyond the Company's control. The failure of the computer systems for any reason could disrupt operations, result in the loss of customer business, materially affect profitability as well as negatively impact the Company's reputation. The Company attempts to mitigate this risk through several layers of firewall and system access protocols as well as off-site data warehouse facilities.

Credit Risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivative counterparties, default on their contractual obligations or experience adverse changes that would affect the Company. The Company attempts to minimize the adverse impact of this risk by monitoring the portfolio diversification, the Company's exposure to impairment, collectability of the loans, and the credit quality of reinsurers and derivative counterparties, as well as, in many cases, requiring collateral, lines of credit or assets in trust to manage credit exposure.

Interest Rate Risk is the risk that interest rates will change and impact the valuation of the bond investments. A change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. To the extent that liabilities come due more quickly than assets mature, an insurer would have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Equity Market Risk is the risk of loss due to declines in the equity markets in which the Company participates. A decline in the stock market will affect the value of equity securities and the contract value of the Company's individual variable annuity contracts which offer guaranteed benefit riders as well as fixed indexed annuity contracts. Losses in the equity market could result in declines in separate account assets and assets under management thus affecting investment management fees revenue.

The Company attempts to minimize the adverse impact of equity market risk by monitoring the diversification of the Company's investment portfolio and through reinsurance arrangements with third-parties. The Company uses equity index put options, equity index call options, equity swaps and interest rate swaptions to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities.

Liquidity Risk is the risk that the Company may not have the ability to sell certain investments to meet obligations of the Company.

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, the Company manages the BOLI growth to not exceed a specified percentage of general account assets to minimize the risk of liquidity strain.

Investment Risk – see Note 6 for additional risks specific to the investment portfolio.

(5) Fair Value Measurements

Included in various investment related line items in the statutory financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or for certain bonds and preferred stock when carried at the lower of cost or market.

Fair Value Hierarchy
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in circumstances.

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the statutory statements of admitted assets, liabilities, and capital and surplus into a three level hierarchy based on the priority of the inputs to the valuation technique in accordance with SSAP No. 100, *Fair Value Measurements*. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets and liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include cash, cash equivalents and short-term investments, separate account assets and exchange traded derivatives.

- **Level 2** – Fair value is based on significant inputs, other than quoted prices included in Level 1 that are observable in active markets or that are derived principally from or corroborated by observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, and private placement securities, derivatives, common stocks, securities lending reinvested collateral and cash equivalent securities.

- **Level 3** – Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management’s best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain corporate debt, asset-backed or mortgage-backed securities, and derivative securities.

(Dollars in thousands)

The following tables present the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31:

		Level 1	Level 2	Level 3	Total
2018					
Assets:					
Investments:					
Bonds	$	—	196	—	196
Common stocks		—	38,406	—	38,406
Cash, cash equivalents and short-term investments		327,430	—	—	327,430
Derivatives		6,906	100,158	—	107,064
Securities lending reinvested collateral assets		—	230,305	—	230,305
Other assets:					
Separate account assets		18,883,485	—	—	18,883,485
Total assets	$	19,217,821	369,065	—	19,586,886
Liabilities:					
Other liabilities:					
Derivatives	$	2,866	—	—	2,866
Total liabilities	$	2,866	—	—	2,866

		Level 1	Level 2	Level 3	Total
2017					
Assets:					
Investments:					
Bonds	$	—	278	—	278
Common stocks		—	40,629	—	40,629
Cash, cash equivalents and short-term investments		375,324	67,970	—	443,294
Derivatives		2,632	61,422	—	64,054
Securities lending reinvested collateral assets		—	533	—	533
Other assets:					
Separate account assets		22,895,981	—	—	22,895,981
Total assets	$	23,273,937	170,832	—	23,444,769
Liabilities:					
Other liabilities:					
Derivatives	$	12,712	23,104	—	35,816
Total liabilities	$	12,712	23,104	—	35,816

(Dollars in thousands)

The carrying amount and the NAIC estimated fair value of all financial instruments were as follows as of December 31. The valuation techniques used to estimate these fair values are described below.

2018	Carrying amount	NAIC estimated fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets:					
Investments:					
Bonds	$ 7,018,143	7,046,661	10,512	6,998,851	37,298
Preferred stocks	18,292	17,954	—	17,954	—
Common stocks, other than investments in affiliates	38,406	38,406	—	38,406	—
Mortgage loans on real estate	859,830	854,877	—	—	854,877
Contract loans	638,824	677,219	—	—	677,219
Cash, cash equivalents and short-term investments	327,430	327,430	327,430	—	—
Derivatives	107,064	107,064	6,906	100,158	—
Other invested assets	76,570	90,065	—	90,065	—
Securities lending reinvested collateral assets	230,305	230,305	—	230,305	—
Other assets:					
Separate account assets	18,883,485	18,883,485	18,883,485	—	—
Liabilities:					
Guaranteed investment contracts	$ 541,154	514,763	—	514,763	—
Individual deferred annuities	1,681,087	1,663,862	—	1,663,862	—
Immediate and other annuity deposits	1,256,535	1,256,678	—	1,256,678	—
Other policyholder funds	146,462	146,462	146,462	—	—
Derivatives	2,866	2,866	2,866	—	—
Separate account liabilities	18,883,485	18,883,485	18,883,485	—	—

(Dollars in thousands)

2017	**Carrying amount**	**NAIC estimated fair value**	**Fair value hierarchy level Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
Bonds	$ 5,924,261	6,189,535	9,843	6,150,844	28,848
Preferred stocks	20,292	21,214	—	21,214	—
Common stocks, other than investments in affiliates	40,629	40,629	—	40,629	—
Mortgage loans on real estate	804,802	810,281	—	—	810,281
Contract loans	542,701	584,417	—	—	584,417
Cash, cash equivalents and short-term investments	443,294	443,294	375,324	67,970	—
Derivatives	64,054	64,054	2,632	61,422	—
Other invested assets	75,000	88,496	—	88,496	—
Securities lending reinvested collateral assets	533	533	—	533	—
Other assets:					
Separate account assets	22,895,981	22,895,981	22,895,981	—	—
Liabilities:					
Guaranteed investment contracts	$ 552,571	538,757	—	538,757	—
Individual deferred annuities	1,839,124	1,833,113	—	1,833,113	—
Immediate and other annuity deposits	930,796	916,536	—	916,536	—
Other policyholder funds	133,388	133,388	133,388	—	—
Derivatives	35,816	35,816	12,712	23,104	—
Separate account liabilities	22,895,976	22,895,976	22,895,976	—	—

Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of SSAP No. 100, *Fair Value Measurements*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

The Company has policies and guidelines that establish valuation methodologies and consistent application of such methodologies. These policies and guidelines provide controls around the valuation process. These controls include appropriate review and analysis of investment prices against market activity or price variances, review of price source changes, and review of methodology changes.

The following is a discussion of the methodologies used to determine estimated fair values for the financial instruments and policy reserves listed in the above tables:

Bonds – The estimated fair value of bonds is based on market prices published by the SVO, where available. Otherwise, the fair value of bonds is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities. The Company classifies these bonds as Level 1 assets.

When there are no recent reported trades, the Company uses third party pricing services that use matrix or model processes to develop a security price using future cash flow expectations and collateral performance discounted at an estimated market rate. For the pricing of asset-backed and mortgage-backed securities, the models include estimates for future principal prepayments based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Since these securities have been priced using market observable inputs that are obtained by the independent pricing services, the Company has classified these bonds as Level 2 assets.

Bonds not priced by independent services are generally priced using an internal pricing matrix. The internal pricing matrix is developed by obtaining spreads for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular bond to be priced using the internal matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that bond. The estimated market yield is then used to estimate the fair value of the particular bond. Since the inputs used for the internal pricing matrix are based on observable market data, the Company has classified these fair values within Level 2.

In some instances, the independent pricing service will price securities using independent broker quotations from market makers and other broker/dealers recognized to be market participants, which utilize inputs that may be difficult to corroborate with observable market data. These bonds are classified as Level 3 assets.

Preferred stocks – The estimated fair values of preferred stocks are determined from market prices published by the SVO. The Company has classified these fair values as Level 2 as they are priced using market observable inputs.

Common stocks – The Company’s primary common stock holding is FHLB stock which is carried at par, which approximates fair value. The FHLB stock is not traded on an active market and is classified as a Level 2 asset.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO or quoted market prices when fair market values are not available from the SVO. The Company has classified these other common stock fair values as Level 2 as they are priced using market observable inputs.

Cash, cash equivalents and short-term investments – Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash and cash equivalents are comprised of money market funds, bank deposits, and commercial paper.

Short-term investments are considered Level 2 since they are short-term, highly liquid investments that are not traded on an active market but are both a) readily convertible to known amounts of cash, and b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. These short-term investments are recorded at carrying value, which approximates fair value since they are so close to maturity.

Derivatives – The Company enters into long-term investments comprised of equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity and fixed indexed annuity products. The equity futures and currency futures are exchange traded derivatives and the fair value is based on an active market quotation. The Company has classified the fair values of the exchange traded derivatives as Level 1. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. These derivative assets are classified as Level 2 assets.

Securities lending reinvested collateral assets – Securities lending reinvested collateral is considered Level 2 for the purposes of our fair value classification since they are short-term money market funds that are only available to securities lending customers and are not traded on an active market.

Separate account assets – Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the statutory statement of admitted assets, liabilities, and capital and surplus. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified separate account assets as Level 1 assets.

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has classified the fair value of mortgage loans using the discounted cash flow analysis as Level 3 since certain significant inputs such as credit rating are internal.

Contract loans – The fair value of policy loans is estimated using discounted cash flow calculations. The Company has classified these fair values as Level 3 since the expected life of the loan is based on internal assumptions.

Other invested assets – The Company's other invested assets include an affiliated surplus note. The fair value of the affiliated surplus note is determined by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments. The Company has classified the fair value generally as Level 2 since the valuation inputs are based on market observable information.

(Dollars in thousands)

The carrying amount reported in the statutory financial statements of unaffiliated joint ventures or partnership interests that have underlying characteristics of common stocks approximates fair value. The Company has classified these fair values as Level 3 since the valuation inputs are not based on market observable information.

Deferred and immediate annuity and investment contracts – The fair value of the Company's liabilities under investment contracts is disclosed using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Interest rates used are similar to currently offered contracts with maturities consistent with those remaining for the contracts being valued. The Company has classified these fair values as Level 2 since the inputs are market observable.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the statutory financial statements for these instruments approximates their estimated fair value. The Company has classified these amounts as Level 1 since these amounts can be converted to cash by the policyholder.

Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Changes in the observability of significant valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the market observability of valuation inputs that are significant to the fair value measurement.

The Company had no transfers between levels in 2018 or 2017.

Common Stock of Subsidiaries

Common stock of unconsolidated non-life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONEQ, and ONESCO. At December 31, 2018 and 2017, no non-life insurance subsidiary's common stock exceeded 10% of the Company's admitted assets.

Description of SCA Investment	12/31/2017 Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub 1 or Sub 2)	NAIC Response Received (Yes/No)	NAIC Valuation (Amount)	NAIC Disallowed Valuation Method (Yes/No)
ONEQ	$ 5,503	6/28/2018	Sub 2	Yes	$ 5,503	No
ONESCO	5,703	6/28/2018	Sub 2	Yes	5,703	No

Common stock of unconsolidated life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONLAC and NSLAC. Investments in the Company's special purpose financial captive reinsurers are carried differently. MONT and KENW are carried at zero due to the fact that the State of Vermont has allowed the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus were to fall below the level of all capital contributions, then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. The investment in SUNR is carried at the amount of capital contributions made by the Company at December 31, 2018 and is immaterial. At December 31, 2018 and 2017, none of the Company's unconsolidated life insurance subsidiaries' common stock exceeded 10% of the Company's admitted assets.

(6) Investments

Investment Risks and Uncertainties

Investments are exposed to various risks and uncertainties that affect the determination of estimated fair values, the ability to sell certain investments during strained market conditions, the recognition of impairments, and the recognition of income on certain investments. These risks and uncertainties include:

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other than temporary impairments; and
- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

Any of these situations are reasonably possible and could result in a charge to income in a future period.

The determination of impairments is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with each asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

The recognition of income on certain investments, including asset-backed and mortgage-backed securities, is dependent upon certain factors such as prepayments and defaults, and changes in factors could result in changes in amounts to be earned.

(Dollars in thousands)

Bonds and Stocks

Bonds and Stocks by Sector
The carrying value, gross unrealized gains and losses, and estimated fair values of investments in bonds and stocks at December 31 are as follows:

	2018			
	Carrying value*	**Gross unrealized gains**	**Gross unrealized losses**	**NAIC estimated fair value**
Bonds:				
U.S. government	$ 163,425	3,444	(3,852)	163,017
All other governments	16,940	—	(808)	16,132
States, territories and possessions	559,222	14,421	(3,660)	569,983
Political subdivisions of states	13,694	521	(2)	14,213
Special revenue and assessment	344,751	8,368	(4,698)	348,421
Industrial and miscellaneous	5,917,111	130,082	(115,309)	5,931,884
Hybrid securities	3,000	11	—	3,011
Total bonds	$ 7,018,143	156,847	(128,329)	7,046,661
Preferred stocks	$ 18,292	55	(393)	17,954
Common stocks	$ 37,680	1,291	(565)	38,406

* Represents cost for Common stocks

	2017			
	Carrying value*	**Gross unrealized gains**	**Gross unrealized losses**	**NAIC estimated fair value**
Bonds:				
U.S. government	$ 164,021	5,257	(2,511)	166,767
All other governments	4,986	222	—	5,208
States, territories and possessions	491,202	21,681	(1,266)	511,617
Political subdivisions of states	13,886	783	(19)	14,650
Special revenue and assessment	314,121	11,955	(3,323)	322,753
Industrial and miscellaneous	4,933,045	248,746	(16,499)	5,165,292
Hybrid securities	3,000	248	—	3,248
Total bonds	$ 5,924,261	288,892	(23,618)	6,189,535
Preferred stocks	$ 20,292	922	—	21,214
Common stocks	$ 37,473	3,467	(311)	40,629

* Represents cost for Common stocks

(Dollars in thousands)

Included in the above tables under the caption U.S. government are bonds that were issued by agencies not backed by the full faith and credit of the U.S. government such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investments with an amortized cost of $8,708 and $9,062 were on deposit with various regulatory agencies as required by law as of December 31, 2018 and 2017, respectively.

Maturities of Bonds
The carrying value and the NAIC estimated fair value of bonds at December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration.

		Carrying value	NAIC estimated fair value
Due in one year or less	$	352,893	354,327
Due after one year through five years		2,198,333	2,207,266
Due after five years through ten years		3,052,005	3,064,407
Due after ten years		1,414,912	1,420,661
Total	$	7,018,143	7,046,661

Continuous Gross Unrealized Losses for Bonds and Stocks
The following tables present the NAIC estimated fair value and gross unrealized losses of the Company's bonds (aggregated by sector) and preferred and common stocks in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

(Dollars in thousands)

	Less than 12 months		12 months or longer		Total	
	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2018						
Bonds:						
U.S. government	$ 30,443	(385)	68,156	(3,467)	98,599	(3,852)
All other governments	16,132	(808)	–	–	16,132	(808)
States, territories and possessions	90,116	(1,423)	83,849	(2,237)	173,965	(3,660)
Political subdivisions of states	–	–	2,643	(2)	2,643	(2)
Special revenue and assessment	34,552	(379)	121,602	(4,319)	156,154	(4,698)
Industrial and miscellaneous	2,149,404	(67,616)	944,634	(47,693)	3,094,038	(115,309)
Total bonds	2,320,647	(70,611)	1,220,884	(57,718)	3,541,531	(128,329)
Preferred and common stocks	7,961	(239)	1,204	(719)	9,165	(958)
Total	$ 2,328,608	(70,850)	1,222,088	(58,437)	3,550,696	(129,287)

	Less than 12 months		12 months or longer		Total	
	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2017						
Bonds:						
U.S. government	$ 21,222	(193)	61,761	(2,318)	82,983	(2,511)
States, territories and possessions	56,969	(597)	30,616	(669)	87,585	(1,266)
Political subdivisions of states	2,626	(19)	–	–	2,626	(19)
Special revenue and assessment	48,329	(405)	77,433	(2,918)	125,762	(3,323)
Industrial and miscellaneous	795,987	(7,379)	254,198	(9,120)	1,050,185	(16,499)
Total bonds	925,133	(8,593)	424,008	(15,025)	1,349,141	(23,618)
Preferred and common stocks	1,979	(51)	667	(260)	2,646	(311)
Total	$ 927,112	(8,644)	424,675	(15,285)	1,351,787	(23,929)

(Dollars in thousands)

The tables below summarize the bonds by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

	Less than 12 months	12 months or longer	Total
2018			
99.9%-80%:			
U.S. government	$ (385)	(3,467)	(3,852)
All other governments	(808)	—	(808)
States, territories and possessions	(1,423)	(2,237)	(3,660)
Political subdivisions of states	—	(2)	(2)
Special revenue and assessment	(379)	(4,319)	(4,698)
Industrial and miscellaneous	(66,369)	(43,673)	(110,042)
Below 80%:			
Industrial and miscellaneous	(1,247)	(4,020)	(5,267)
Total	$ (70,611)	(57,718)	(128,329)

	Less than 12 months	12 months or longer	Total
2017			
99.9%-80%:			
U.S. government	$ (193)	(2,318)	(2,511)
States, territories and possessions	(597)	(669)	(1,266)
Political subdivisions of states	(19)	—	(19)
Special revenue and assessment	(405)	(2,918)	(3,323)
Industrial and miscellaneous	(7,379)	(9,120)	(16,499)
Total	$ (8,593)	(15,025)	(23,618)

Evaluation of Other Than Temporarily Impaired Investments

Management regularly reviews its bond and stock portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in fair value of investments.

An analysis which focuses on the issuer’s ability to service its debts and the length of time and extent the bond has been valued below cost. This review process includes an assessment of the credit quality or an assessment of the future cash flows of the identified investment in the portfolio.

For any securities identified in the review of the portfolio, the Company considers additional relevant facts and circumstances in evaluating whether the security is other than temporarily impaired ("OTTI"). Relevant facts and circumstances that may be considered include:

- comparison of current estimated fair value of the security as compared to cost;
- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer's key financial ratios based upon the issuer's financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;
- the Company's intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity investments, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

In addition to the above, for certain securitized financial assets with contractual cash flows, including loan-backed and structured securities, the Company periodically evaluates the securities using the currently estimated cash flows, including new prepayment assumptions using the retrospective adjustment methodology. If the evaluation based on currently estimated cash flows results in discounted estimated future cash flows less than the book value, an OTTI is considered to have occurred. If the Company has the ability to hold and no intent to sell the security, the impairment amount recognized as a realized loss would be the difference between the amortized cost and the discounted cash flows.

For bonds that are OTTI and securities where the Company intends to sell or does not have the ability to hold the security, the realized loss would equal the difference between the amortized cost and its fair value at the statutory statements of admitted assets, liabilities, and capital and surplus date.

For industrial and miscellaneous securities, the Company evaluated the financial performance of the issuer based upon credit performance and investment ratings, and expects to recover the entire amortized cost of each security.

As of December 31, 2018, investments in loan-backed and structured securities for which an OTTI has not been recognized in earnings and which were in an unrealized loss position had a fair value of

(Dollars in thousands)

$1,019,835. Loan-backed and structured securities in an unrealized loss position for less than 12 months had a fair value of $493,250 and unrealized losses of $6,217. Loan-backed and structured securities in an unrealized loss position for greater than 12 months had a fair value of $526,585 and unrealized losses of $15,661. These loan-backed and structured securities were primarily categorized as industrial and miscellaneous.

Current Year Evaluation

The Company has concluded that securities in an unrealized loss position as of December 31, 2018 and 2017 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold these investments until recovery of estimated fair value or amortized cost and for equity investments, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2017 to December 31, 2018 due to wider credit spreads and higher U.S. Treasury yields. Additionally, unrealized losses increased in certain industry sectors (i.e. energy, oil) due to overall sector declines in value and not issuer-specific credit deterioration. Accordingly, no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage loans consist of commercial mortgage loans originated in the United States. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of the commercial mortgage loan portfolio as of December 31, 2018 and 2017 were $859,830 and $804,802, respectively.

The minimum and maximum gross lending rates for commercial mortgage loans for the years ended December 31 were:

	2018	**2017**
Minimum	3.9%	3.8%
Maximum	5.3%	5.3%

Concentration of Credit Risk

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. The Company's portfolio is collateralized by properties located in the United States. Total loans in any state did not exceed 17.3% as of December 31, 2018 or 2017.

The states that exceed 10% of the total loan portfolio were as follows as of December 31:

	2018	**2017**
Ohio	$ 148,611	104,186
Texas	104,983	101,094
California	100,155	85,229

(Dollars in thousands)

Portfolio Analysis
The Company performs an annual performance review of the commercial mortgage loan portfolio and assigns a rating based on the property's loan-to-value ("LTV"), age, mortgage debt service coverage ("DSC") and occupancy. This analysis helps identify loans that may experience difficulty. If a loan is not paying in accordance with contractual terms, it is placed on a watch list and monitored through inspections and contact with the property's local representative. In addition, as part of portfolio monitoring, the Company physically inspected nearly 100% of the properties in the portfolio. The LTV and DSC ratios are applied consistently across the entire commercial mortgage loan portfolio.

The following table summarizes our commercial mortgage loan portfolio, net of allowance, LTV ratios and DSC ratios using available data as of December 31. The ratios are updated as information becomes available.

				DSC				
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2018								
0% - 50%	$	154,291	54,500	105,266	92,760	31,660	7,776	446,253
50% - 60%		9,702	12,571	60,451	52,577	46,941	3,834	186,076
60% - 70%		—	23,636	23,164	44,808	29,797	7,936	129,341
70% - 80%		—	—	—	47,311	18,213	16,901	82,425
80% and greater		—	—	—	6,790	3,310	5,635	15,735
Total	$	163,993	90,707	188,881	244,246	129,921	42,082	859,830

				DSC				
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2017								
0% - 50%	$	141,069	70,870	136,384	81,516	26,753	1,544	458,136
50% - 60%		—	22,169	50,888	35,203	28,595	923	137,778
60% - 70%		—	1,161	78,749	33,543	39,603	1,818	154,874
70% - 80%		—	—	—	9,653	24,575	7,626	41,854
80% and greater		—	—	—	3,401	—	8,759	12,160
Total	$	141,069	94,200	266,021	163,316	119,526	20,670	804,802

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. Our corporate policy directs that our LTV on new mortgages not exceed 75% for standard mortgages. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 75% in 2018 and 2017.

(Dollars in thousands)

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the debt service coverage ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher debt service coverage ratio could indicate a better quality loan.

Mortgage Loan Aging
The table below depicts the commercial mortgage loan portfolio exposure of the remaining balances (which equal the Company's recorded investment), by type, as of December 31:

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2018	$ 2,144	—	—	2,144	857,686	859,830	—
2017	$ 2,419	—	—	2,419	802,383	804,802	—

Performance, Impairment and Foreclosures
The Company had no mortgage loans in the process of foreclosure at December 31, 2018 and 2017. There were no mortgage loan write-downs in 2018 and 2017. The Company did not have an allowance for credit losses at December 31, 2018 or 2017.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the statutory statements of admitted assets, liabilities, and capital and surplus date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

The Company had no mortgage loans on nonaccrual status as of December 31, 2018 and 2017.

The Company did not have any significant troubled debt restructurings of mortgage loans during 2018 or 2017.

(Dollars in thousands)

The Company had no recorded investments in and unpaid principal balance of impaired commercial loans at December 31, 2018 or 2017.

No mortgages were sold to ONFS in 2018 or 2017.

The Company has a mortgage loan receivable from ONFS of $23,257 and $24,002 as of December 31, 2018 and 2017, respectively.

The Company has other financing receivables with contractual maturities of one year or less such as reinsurance recoverables and premiums receivables. The Company does not record a valuation allowance for these items since the Company has not had any significant collection issues related to these types of receivables. The Company writes off the receivable if it is deemed to be uncollectible.

Securities Lending

As of December 31, 2018 and 2017, the Company received $230,305 and $533, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in securities lending reinvested collateral assets in the statutory statements of admitted assets, liabilities, and capital and surplus with a corresponding liability of payable for securities lending to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2018 and 2017. The estimated fair value of loaned securities was $223,155 and $519 as of December 31, 2018 and 2017, respectively.

Insurer Self-Certified Securities

The following represents securities for which the Company does not have all the information required for the NAIC to provide an NAIC designation, but for which the Company is receiving timely payments of principal and interest. These securities are referred to as "5GI Securities."

	Number of 5GI Securities		Aggregate BACV		Aggregate Fair Value	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Bonds	$ 1	—	1,000	—	1,000	—

Net Realized Capital Gains (Losses) and Change in Unrealized Capital Gains (Losses)

The following is a summary of realized capital gains (losses) and the change in unrealized capital gains (losses), including realized losses for OTTI of investments, for the years ended December 31:

(Dollars in thousands)

		Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2018				
Bonds	$	1,531	(2,778)	(1,247)
Common stocks		691	2,223	2,914
Derivative instruments		(27,485)	5,376	(22,109)
Other		(641)	(555)	(1,196)
Total		(25,904)	4,266	(21,638)
Less amount credited to interest maintenance reserve		1,218	—	1,218
Net losses before tax		(27,122)	4,266	(22,856)
Taxes on investment losses		(654)	(2,643)	(3,297)
Admitted deferred tax asset		—	2,643	2,643
Net (losses) gains after tax	$	(27,776)	4,266	(23,510)

		Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2017				
Bonds	$	(14,350)	(1,722)	(16,072)
Common stocks		—	6,550	6,550
Mortgage loans on real estate		(459)	—	(459)
Derivative instruments		(18,543)	1,348	(17,195)
Other		(6,665)	3,081	(3,584)
Total		(40,017)	9,257	(30,760)
Less amount credited to interest maintenance reserve		747	—	747
Net losses before tax		(40,764)	9,257	(31,507)
Taxes on investment losses		(640)	(2,020)	(2,660)
Admitted deferred tax asset		—	2,020	2,020
Net (losses) gains after tax	$	(41,404)	9,257	(32,147)

(Dollars in thousands)

Realized capital gains and losses, net of tax, for all types of bonds that result from changes in the overall level of interest rates are credited or charged to the IMR, and these capital gains or losses are amortized into income over the remaining period of time based on the original maturity date of the bond sold.

Realized capital losses on investments, as shown in the tables above, include write-downs for OTTI of $1,552 and $15,828 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, securities with a carrying value of $61,810 which had a cumulative write-down of $17,703 due to OTTI, remained in the Company's investment portfolio.

Included in the write-downs for OTTI are write-downs for OTTI on loan-backed and structured securities of $1,552 and $0 for 2018 and 2017, respectively. The table below lists each security that recognized OTTI impairment in 2018 due to the fact that the present value of the cash flows expected to be collected was less than the amortized cost basis of the securities:

CUSIP		Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI in Current Period	Amortized Cost After OTTI	Fair Value	Date of Financial Statement When Reported
22540VZZ8	$	2,104	1,941	163	1,941	1,962	12/31/2018
00934@AA7		750	200	550	200	200	12/31/2018
694308HG5		1,999	1,470	529	1,470	1,470	12/31/2018
694308GJ0		1,085	948	137	948	948	12/31/2018
694308HL4		621	596	25	596	596	12/31/2018
22540VMK5		465	398	67	398	397	9/30/2018
12669GC82		1,030	949	81	950	994	6/30/2018
Total	$	8,054	6,502	1,552	6,503	6,567	

Sales of Bonds

Proceeds from sales of investments in bonds, excluding calls, during 2018 and 2017 were $662,441 and $487,589, respectively. Gross gains of $4,970 and $9,436, and gross losses of $2,564 and $7,376 were realized on those transactions in 2018 and 2017, respectively.

(7) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity products, such as the GMAB, GMWB, GMIB and GLWB, and in fixed indexed annuity products.

(Dollars in thousands)

The following tables summarize the carrying value and notional amounts of the Company's derivative financial instruments as of December 31:

	Assets		Liabilities	
	Carrying value*	**Notional amount**	**Carrying value****	**Notional amount**
2018				
Equity futures	$ 5,679	244,536	—	—
Currency futures	1,227	30,689	2,866	265,613
Equity puts	57,604	870,360	—	—
Equity index call options	9,097	1,823,403	—	—
Equity swap	—	—	—	—
Currency swap	1,020	9,038	—	—
Swaption	32,437	2,600,000	—	—
Total	$ 107,064	5,578,026	2,866	265,613
2017				
Equity futures	$ 2,632	110,563	8,798	691,976
Currency futures	—	—	3,914	328,277
Equity puts	770	90,949	1,614	1,326,558
Equity index call options	12,911	550,919	—	—
Equity swap	—	—	21,490	509,883
Currency swap	642	9,038	—	—
Swaption	47,099	4,870,000	—	—
Total	$ 64,054	5,631,469	35,816	2,856,694

* Included in derivatives
** Included in other liabilities

Credit Risk
The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments.

Because exchange traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records.

(Dollars in thousands)

The Company manages its credit risk related to certain reinsurance contracts by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2018 and 2017, a non-affiliated reinsurer held assets in trust with an estimated fair value of $891,834 and $843,495, respectively, and a letter of credit of $299,602 and $169,757, respectively. As of December 31, 2018 and 2017, SYRE held assets in trust with an estimated fair value of $7,406 and $7,289, respectively, and a letter of credit of $935,000 and $400,000, respectively.

For equity futures and currency futures, cash or an acceptable security is posted to the margin account whenever the Company has open derivatives positions to meet the initial margin maintenance requirement. Additional cash or securities are posted to the account if the margin balance is less than the maintenance margin requirement due to market movements. Conversely, the Company can request funds back if the Company has a margin surplus greater than the maintenance requirement.

(8) Deferred and Uncollected Life Insurance Premiums

Deferred and uncollected life insurance premiums are included in premiums and other considerations deferred and uncollected in the Company’s statutory statements of admitted assets, liabilities, and capital and surplus. The table below summarizes these deferred and uncollected life insurance premiums, gross and net of loading for the years ended December 31:

		2018		2017	
		Gross	**Net of loading**	**Gross**	**Net of loading**
Ordinary new business	$	15,259	3,083	18,591	3,550
Ordinary renewal		108,154	82,179	92,061	69,987
Total	$	123,413	85,262	110,652	73,537

(9) Separate Accounts

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. For the current reporting year, the Company reported assets and liabilities from variable individual annuities and variable group annuities.

In accordance with the State of Ohio procedures on approving items within the separate account, the separate account classification of the product is supported by the Ohio Statute 3907.15.

(Dollars in thousands)

As of December 31, 2018 and 2017, the Company's separate account statement included legally insulated assets of $18,883,485 and $22,895,976, respectively. The assets legally insulated from the general account as of December 31, are attributed to the following:

	2018	2017
Variable individual annuities	$ 17,918,169	21,807,513
Variable group annuities	935,832	1,054,130
Variable immediate annuities	29,484	34,338
Total	$ 18,883,485	22,895,981

At December 31, 2018, there were no separate account securities lending arrangements.

In accordance with the products/transactions recorded within the separate account, some separate account liabilities are guaranteed by the general account. (In accordance with the guarantees provided, if the investment proceeds are insufficient to cover the rate of return guaranteed for the product, the policyholder proceeds will be remitted by the general account.)

As of December 31, 2018, the general account of the Company had a maximum guarantee for separate account liabilities of $657,440.

To compensate the general account for the risk taken, the separate account has paid risk charges as follows for the past five years:

	Risk charges
2018	$ 248,184
2017	244,227
2016	230,772
2015	213,087
2014	189,797

As of December 31, 2018, the general account of the Company had paid $68,604 towards separate account guarantees.

(Dollars in thousands)

The Company does not guarantee a return of the contract holders' separate account. Information regarding the nonguaranteed separate accounts of the Company is as follows as of and for the years ended December 31:

		2018	2017
Premiums, considerations or deposits at year end	$	712,604	996,538
Reserves at year end for accounts with assets at:			
Market value	$	18,544,703	22,483,194
Amortized cost		164,801	161,307
Total reserves	$	18,709,504	22,644,501
By withdrawal characteristics:			
Subject to discretionary withdrawal:			
With market value adjustment	$	—	—
At book value without market value adjustment and with current surrender charge of 5% or more		—	—
At market value		18,679,987	22,610,144
At book value without market value adjustment and with current surrender charge of less than 5%		—	—
Subtotal		18,679,987	22,610,144
Not subject to discretionary withdrawal		29,518	34,357
Total reserves	$	18,709,505	22,644,501

The following is a reconciliation of net transfers from separate accounts for the years ended December 31:

		2018	2017
Transfers as reported in the summary of operations of the Separate Accounts Statement:			
Transfers to separate accounts	$	713,299	996,586
Transfers from separate accounts		2,851,627	1,665,446
Net transfers from separate accounts before reconciling adjustments		(2,138,328)	(668,860)
Reconciling adjustments:			
Processing income		(695)	(48)
Other net		—	—
Net transfers from separate accounts	$	(2,139,023)	(668,908)

(10) Reserves for Future Policy Benefits

The reserves for future policy benefits are comprised of liabilities for life policies and contracts, accident and health (disability) policies, and annuity and other deposit funds including riders.

As discussed in Note 3, the Company has five main types of rider benefits offered with individual variable annuity contracts: GMDBs, GMIBs, GLWBs, GMABs and GMWBs. The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Variable Annuity Riders

GMDB Riders

Certain variable annuity contracts include GMDB riders with the base contract and offer additional death and income benefits through riders that can be added to the base contract. These GMDB riders typically provide that upon the death of the annuitant, the beneficiaries could receive an amount in excess of the contract value. The GMDB rider benefit could be equal to the premiums paid into the contract, the highest contract value as of a particular time, e.g., every contract anniversary, or the premiums paid into the contract times an annual interest factor. The Company assesses a charge for the GMDB riders and prices the base contracts to allow the Company to recover a charge for any built-in death benefits.

GMIB Riders

Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company’s current annuitization rates, the annuitant will automatically receive the higher monthly income. This means that the contract value could be significantly less than the guaranteed income base, but it might not provide any benefit to the policyholder or any cost to the Company. In addition, some policyholders may not be willing to give up access to their contract value that occurs with annuitization under the rider. Effective May 1, 2010, the Company discontinued offering the GMIB rider.

The Company's GMIB and GMDB riders issued prior to April 1, 2008 are reinsured with a non-affiliated reinsurer up to a certain level of coverage. The Company has reinsurance agreements in place with an affiliate for reinsurance coverage on the amounts in excess of the underlying non-affiliated reinsurance which has a $135 million deductible that must be covered by the Company before coverage is provided by the affiliate. The Company established a voluntary reserve using the AG43 stochastic computation ("CTE98") for this deductible portion.

The voluntary reserve is the difference between the stochastic CTE98 reserve for the deductible less the implicit reserve for the deductible in the reported reserve prior to adding the CTE98 reserve for the deductible. As of December 31, 2018, the implicit reserve for the deductible was $0 using the standard scenario reserve prior to increasing the deductible reserve to $99,150 using CTE98. The voluntary reserve was initially set up at December 31, 2011 with a balance of $93,158, which was recorded as a direct reduction to unassigned surplus. During 2018, the reserve decreased $7,123 from its 2017 value of $106,273. Since the change in reserve amount cannot be determined for the next three years, no deferred tax benefit was admitted.

GLWB Riders
The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. Such guaranteed withdrawals may start any time after the annuitant reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant attains a higher age band before the owner starts taking withdrawals. In some versions of GLWB riders sold in 2013 and later, there is a guaranteed minimum percentage withdrawal amount for the first 15 years of the contract; if the policyholder's account value goes to zero subsequent to the 15 year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the 10 year treasury rate from the preceding 90 calendar days, with the calculated treasury linked rate subject to a specified cap and floor.

At policy inception, the GLWB base is set at the amount of the purchase payments and it is increased by the amount of future purchase payments. It increases (roll-up) by up to eight percent simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

The GLWB may also contain a step-up feature which preserves potential market gain by ratcheting up to the contract value, if higher, on each anniversary. If the contract has both a roll-up and step-up feature, the GLWB base will be the greater of: 1) the GLWB base on the previous anniversary plus any additional purchase payments; 2) the step-up base; or 3) the roll-up base.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to two hundred percent of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

The initial GLWB riders (issued May 1, 2010 through December 31, 2010) had a built-in death benefit. This death benefit is reduced dollar for dollar for withdrawals. It differs from most of the other death benefits that decline pro rata for withdrawals. Thus, when the contract value is less than the death benefit, withdrawals will reduce the death benefit under the GLWB rider by a smaller amount than the reduction for other death benefits.

The Company also offers single life and joint life versions of the GLWB rider. Under the joint life version, if the annuitant dies after the owner has started taking withdrawals the surviving spouse may elect a spousal continuation under the rider and continue to receive the same payment. Under the single life version, the guaranteed amount that may be withdrawn could decline either because 1) the contract value is less than the GLWB base and under the single life GLWB rider the contract value then becomes the new GLWB base and/or 2) the surviving spouse is in a different age band.

(Dollars in thousands)

The GLWB riders, issued beginning January 1, 2011, are offered by the Company in both single-life and joint-life versions. In conjunction with the second generation GLWB riders, the Company also began selling new death benefit riders in both single-life and joint-life versions.

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled "GMAB."

The following tables summarize the net amount at risk, net of reinsurance, for variable annuity contracts with guarantees invested in both general and separate accounts as of December 31 (note that most contracts contain multiple guarantees):

	2018				
		Death benefits	Living benefits		
		GMDB	GMIB	GLWB	GMAB
Return of net deposit					
Net amount at risk [1]	$	56,298	-	-	865
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	188,893	-	-	98
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	28,118	-	-	-
Return of highest anniversary value					
Net amount at risk [1]	$	383,169	-	-	-
Total					
Net amount at risk [1]	$	656,478	-	-	963

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

		2017			
		Death benefits	Living benefits		
		GMDB	GMIB	GLWB	GMAB
Return of net deposit					
Net amount at risk [1]	$	7,582	-	-	24
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	130,835	-	-	-
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	8,578	-	-	-
Return of highest anniversary value					
Net amount at risk [1]	$	9,491	-	-	-
Total					
Net amount at risk [1]	$	156,486	-	-	24

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

For guarantees of benefits that are payable in the event of death (GMDB), the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable at annuitization (GMIB), the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable upon withdrawal (GLWB), the net amount at risk is generally defined as the present value of the current maximum guaranteed withdrawal available to or taken by the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the balance sheet date.

All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models, and/or have other investment restrictions. Net amount at risk represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

(Dollars in thousands)

The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2018 and 2017.

The following table summarizes account balances of variable annuity contracts with guarantees that were invested in separate accounts as of December 31:

		2018	2017
Mutual funds:			
Bond	$	5,050,601	6,034,599
Equity		12,063,381	14,851,379
Money market		804,191	921,540
Total	$	17,918,173	21,807,518

The reserves on guaranteed riders are held in the general accounts and there are no guaranteed separate accounts.

Fixed Indexed Annuity Riders

GLWB Riders
Certain fixed indexed annuity contracts include a GLWB rider. The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. There are two versions of GLWB rider offered: a single life GLWB with the annuitant as the covered person, and a joint life GLWB with the annuitant and the annuitant's spouse as the covered persons.

The rider provides for a guaranteed payment of the maximum allowable withdrawal (MAW) each index year during the lifetime withdrawal period. Such guaranteed withdrawals may start any time after the annuitant/youngest covered spouse reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant/youngest covered spouse attains a higher age band before the guarantee is elected.

At the policy's initial sweep date, the GLWB base is set at the amount of the purchase payments. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base. On each anniversary of the initial sweep date, except under excess withdrawal, the step-up GLWB base is equal to the greater of the GLWB base on the prior day, and the then current contract value, after deducting any applicable charges for the contract and credited interest. The annual credit base is the GLWB base just prior to the index year processing, plus the annual credit calculation base just prior to index processing, multiplied by an index or bonus credit rate. Upon a step-up, the annual credit calculation base will reset to the contract value at the time of step-up.

(Dollars in thousands)

For the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California, the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to AV at the time of exchange. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base.

The total account value, net of reinsurance, of the fixed indexed annuities was over $500,000. The account value, net of reinsurance, specific to the GLWB riders was over $50,000 as of December 31, 2018.

(11) Annuity Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2018:

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 1,411,371	—	1,411,371	5.6%
At book value less surrender charge	121,071	—	121,071	0.5%
At fair value*	—	18,679,987	18,679,987	74.4%
Total with adjustment or at market value	1,532,442	18,679,987	20,212,429	80.5%
At book value without adjustment	1,772,458	—	1,772,458	7.1%
Not subject to discretionary withdrawal	3,087,758	29,518	3,117,276	12.4%
Total, gross	6,392,658	18,709,505	25,102,163	100.0%
Reinsurance ceded	2,974,861	—	2,974,861	
Total, net	$ 3,417,797	18,709,505	22,127,302	

* Includes $18,679,987 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2018:

Life, accident and health Annual Statement:		
Annuities (excluding supplementary contracts with life contingencies), net	$	2,712,021
Supplementary contracts with life contingencies, net		5,114
Deposit-type contracts		700,662
Subtotal		3,417,797
Separate Accounts Annual Statement:		
Annuities, net		18,709,505
Total annuity reserves and deposit liabilities, net	$	22,127,302

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2017:

		General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:					
With market value adjustment	$	647,004	—	647,004	2.4%
At book value less surrender charge		169,725	—	169,725	0.6%
At fair value*		—	22,610,144	22,610,144	82.5%
Total with adjustment or at market value		816,729	22,610,144	23,426,873	85.5%
At book value without adjustment		1,942,321	—	1,942,321	7.1%
Not subject to discretionary withdrawal		2,010,287	34,357	2,044,644	7.4%
Total, gross		4,769,337	22,644,501	27,413,838	100.0%
Reinsurance ceded		1,512,493	—	1,512,493	
Total, net	$	3,256,844	22,644,501	25,901,345	

* Includes $22,610,144 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2017:

Life, accident and health Annual Statement:		
Annuities (excluding supplementary contracts with life contingencies), net	$	2,565,481
Supplementary contracts with life contingencies, net		4,790
Deposit-type contracts		686,573
Subtotal		3,256,844
Separate Accounts Annual Statement:		
Annuities, net		22,644,501
Total annuity reserves and deposit liabilities, net	$	25,901,345

(12) Unpaid Claim Reserves

The Company establishes unpaid claim reserves which provide an estimated cost of paying claims made under individual disability accident and health policies. These reserves include estimates for claims that have been reported and those that have been incurred but not reported. The amounts recorded for unpaid claim reserves are based on appropriate actuarial guidelines and techniques that represent the Company's best estimate based on current known facts and the actuarial guidelines. Accordingly, actual claim payouts may vary from present estimates.

The following table summarizes the disabled life unpaid claims for the years ended December 31:

		2018	2017
Claim reserves, beginning of year	$	10,345	10,837
Less reinsurance recoverables		(635)	(631)
Net claim reserves, beginning of year		9,710	10,206
Claims paid related to:			
Current year		(30)	(5)
Prior years		(1,641)	(1,320)
Total claims paid		(1,671)	(1,325)
Incurred related to:			
Current year's incurred		945	736
Current year's interest		18	14
Prior years' incurred		170	(346)
Prior years' interest		401	425
Total incurred		1,534	829
Net claim reserves, end of year		9,573	9,710
Plus reinsurance recoverables		899	635
Claims reserves, end of year	$	10,472	10,345

The change in claim reserves and liabilities for claims incurred in prior years is the result of the general maturing process of claims, including the normal fluctuation resulting from the relatively small size of the block, and continuing claim analysis.

(13) Reinsurance

The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth. The Company routinely enters into reinsurance transactions with other insurance companies, third parties, affiliates and subsidiaries. This reinsurance involves either ceding certain risks to or assuming risks from other insurance companies. The Company's statutory financial statements reflect the effects of assumed and ceded reinsurance transactions.

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 30.9% and 27.1% of gross earned life and accident and health premiums during 2018 and 2017, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB, and GLWB.

For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $276,135 and $311,231 as of December 31, 2018 and 2017, respectively.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for the Company, the Company cedes variable annuity-related risks, living and death benefits to SYRE for the GMAB, GMIB, GMDB, and GLWB riders. Additionally, to consolidate the management of such living benefit risks, the Company assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC cedes 100% of the exchange program fixed indexed annuities and associated GLWB riders to SYRE. The Company assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

As noted above, the Company cedes to SYRE variable annuity-related risks, living and death benefits consisting of GMAB, GMIB, GMDB and GLWB riders, including those riders assumed from NSLAC and fixed indexed annuity exchange policies and associated GLWB riders. The base variable annuity contracts are retained by the Company. SYRE applies a permitted practice prescribed by CIMA that allows SYRE to carry the assumed reserves of $915,555 under the reinsurance arrangement utilizing a reserve methodology that is approved by CIMA. The approved reserve methodology is based upon U.S.

(Dollars in thousands)

generally accepted accounting principles. For all GMAB riders and some GLWB riders with net settlement provisions, the reserves are calculated using the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. Topic 815 is a fair value or mark-to-market calculation required if the liability is deemed to be an embedded derivative. For all GMIB and GMDB riders, and the remaining GLWB riders without net settlement provisions, the reserves are calculated in accordance with FASB ASC Topic 944, *Financial Services - Insurance*. Topic 944 provides guidance for calculating reserves for contracts that provide additional benefits in excess of the account values and is similar to other generally accepted accounting principles reserve accounting methodologies. Topic 944 is a stochastic method that determines the percentage of the future rider charges required to fund the projected benefits. This percentage is recalculated at each valuation period. Under both of these generally accepted accounting principles calculations, the reserve calculation is measuring the reserve liability associated with the rider cash flows.

The following table is a summary of the reserves by product, rider type and valuation standard as of December 31, 2018:

	2018	2017
FASB ASC Topic 944:		
GMIB	$ 246,846	204,018
GMDB	86,575	75,222
GLWB	49,302	32,620
GMIB payout	3,805	—
Subtotal	386,528	311,860
FASB ASC Topic 815:		
GLWB embedded derivatives	20,032	16,550
GMAB embedded derivatives	1,997	(28,589)
Fixed indexed annuities	506,998	—
Subtotal	529,027	(12,039)
Total reserves	$ 915,555	299,821

As of December 31, 2018, the Company recorded a reserve credit of $1,526,208 related to the rider benefits and fixed indexed annuities ceded to SYRE. As of December 31, 2017, the Company recorded a reserve credit of $229,955 related to the rider benefits ceded to SYRE. ONFS secured letters of credit totaling $935,000 for SYRE, with ONLIC as the beneficiary in order to recognize the reserve credit. The Company also established funds withheld accounts for the benefit of SYRE that have a total carrying value of $612,811 and are recorded in reinsurance funds withheld due to affiliate, net and other liabilities on the statutory statements of admitted assets, liabilities, and capital and surplus, and assets held in trust of $7,406. The following table presents additional information regarding the nature of the collateral held:

(Dollars in thousands)

Description		Carrying Value
Cash	$	65,373
Cash equivalents		7,406
Futures		4,942
Equity put options		57,534
Bonds and mortgages		484,962
Total	$	620,217

MONT, KENW and CMGO retrocede certain term life policies through yearly renewable term agreements to the Company on a quota share basis, which the Company then cedes to external reinsurers based on certain retention levels.

The Company assumes GMIB, GMAB, and GMWB riders issued by NSLAC. As of 2015, the Company no longer assumes new business from NSLAC.

Amounts in the accompanying statutory financial statements related to reinsurance agreements with ONLAC, NSLAC, MONT, and SYRE are as follows for the years ended as of December 31:

		2018	2017
Premiums assumed	$	96,857	91,770
Benefits incurred		90,661	75,784
Commission and expense allowance		4,426	4,375
Reserves for future policy benefits		965,524	945,385
Modified coinsurance reserves		—	—
Policy and contract claims payable		13,733	10,313

Variable Annuity Rider Reinsurance Agreements with SYRE
The details of the Company’s annuity rider reinsurance agreements with SYRE are as follows:

GMIB and GMDB Riders Written After April 1, 2008

In December 2008, the Company entered into a reinsurance agreement with SYRE to reinsure Annual Reset Death Benefit Riders (“ARDBR”) and GMIB riders associated with variable annuity products written between April, 2008 and August, 2012. The treaty was amended to include new products issued beginning April 1, 2009. Under the agreement for contracts issued between April 1, 2008 and March 31, 2009, the Company retained the first 15% and reinsured to SYRE on an excess of loss basis the remaining 85% of the risk under its GMIB rider and the related ARDBR rider. For the above contracts, the

Company reinsured to SYRE 100% of the risk for all riders listed above up to $5 million per annuitant. Furthermore, SYRE was to pay a single adjusted GMIB claim amount when a GMIB policy annuitized.

Effective July 31, 2010, a treaty addendum was executed which effectively resulted in the extinguishment of the treaty above and the establishment of a new amended treaty. The new treaty resulted in the removal of the adjusted GMIB claim calculation that contains the one-time net settlement payment and in its place, a GMIB claim amount that covers the monthly GMIB benefit during the annuity payout. SYRE now accepts 100% of the risk for all GMIB and ARDBR riders up to $5 million per annuitant.

GMIB and GMDB Riders Written Prior to April 1, 2008

Effective November 30, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the claims in excess of limits established in a non-affiliated reinsurance treaty ("cap coverage") related to the GMIB riders associated with variable annuity products written on or after April 1, 2002 through March 31, 2008. Under the agreement, the cap coverage will have a deductible of $100,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was October 31, 2011.

Effective December 31, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the cap coverage related to the GMDB riders associated with variable annuity products written on or after July 1, 2005 but prior to April 1, 2008. Under the agreement, the cap coverage will have a deductible of $35,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was November 30, 2011.

GLWB Riders

Effective May 1, 2010, the Company replaced its GMIB rider with a GLWB rider (see Note 10) in connection with its variable annuity products for all new business written from this date. The Company reinsures 100% of all GLWB riders with SYRE.

GMIB, GMDB, and GLWB Riders

During December 2011, amendments were made to the SYRE reinsurance treaties for pre April 1, 2008 GMIB riders, post April 1, 2008 GMIB riders, GLWB riders and pre April 1, 2008 GMDB riders. The amendments provided SYRE with the option to convert the reinsurance treaties into a funds withheld ("FWH") arrangement in which the Company would engage in a hedging program under SYRE's direction and for the benefit of SYRE. The hedging performed by the Company for SYRE's benefit would be done in segregated FWH accounts. At the end of each quarter, SYRE will reimburse the Company for any hedging losses and expenses for operating the hedging program and SYRE will receive credit for any gains realized under the hedging program. The FWH amendments also state the responsibilities of the Company and SYRE as it relates to the margin requirements on the open derivative positions held in the FWH accounts. SYRE is responsible for reimbursing the Company for any cash held in a margin account related to a derivative program operated for the benefit of SYRE. The derivatives held by the Company for the benefit of SYRE in each segregated FWH account as well as the cash held in a margin account related to the derivative program are considered the amounts withheld and are recorded as separate funds withheld liability (or asset if the derivative positions decrease) in other liabilities (assets) on the statutory statements of admitted assets, liabilities, and capital and surplus. The change in the value of the FWH related to the derivative positions were recorded within derivative instruments in the statutory statements of income. As of December 31, 2011, the FWH option was elected by SYRE for the post April 1, 2008 GMIB riders and GLWB riders reinsurance treaties. As part of the initial FWH election, open derivative futures were sold from SYRE to the Company using the December 29, 2011 closing value of these positions of $16,095.

(Dollars in thousands)

GLWB Riders

Effective May 1, 2013, the Company began selling a new 2013 Interest Sensitive GLWB rider (IS GLWB). An amendment was made to the SYRE GLWB reinsurance treaty to add these riders to the coverage. The Company cedes 30% of the benefit for this rider to SYRE.

GMAB Riders

Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

Amounts in the accompanying statutory financial statements related to ceded variable annuity business to SYRE were as follows for the years ended December 31:

		2018	2017
Statements of Income:			
Premiums and other considerations	$	162,386	166,296
Death and other benefits		8,040	6,475
Statements of Admitted Assets, Liabilities, and Capital and Surplus:			
Other admitted assets:			
Reinsurance recoverable	$	802	408
Receivable from affiliate		2	1
Reserves for future policy benefits		943,324	229,955
Other liabilities:			
Premiums payable		13,060	13,987
FWH under reinsurance:			
Margin account		122,906	26,271
Unrealized losses derivative instrument		4,942	2,503
Capital and surplus:			
Unassigned surplus:			
Unrealized losses derivative instrument		(59,770)	36,788

(Dollars in thousands)

Fixed Indexed Annuity Reinsurance Agreements with SYRE
Effective January 2018, the Company entered into a 100% coinsurance funds withheld reinsurance agreement with SYRE to reinsure the exchange program fixed indexed annuities and associated GLWB riders offered to certain policyholders of variable annuities with the GMIB rider. This exchange program was available for the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California.

Amounts in the accompanying statutory financial statements related to ceded fixed indexed annuity business to SYRE were as follows for the year ended December 31:

		2018
Statements of Income:		
Premiums and other considerations	$	526,276
Death and other benefits		703
Statements of Admitted Assets, Liabilities, and Capital and Surplus:		
Reserves for future policy benefits	$	582,884
Other liabilities:		
Reinsurance payable		684
FWH under reinsurance:		
Assets Payable to Affiliate		484,274
Capital and surplus:		
Unassigned surplus:		
Unrealized losses derivative instrument		10,552

(14) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. In March, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

ONFS utilized $810,000 and $400,000 of this facility as of December 31, 2018 and 2017, respectively, to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $50,000, 364-Day letter of credit facility with a bank in order to finance and to support the reserve requirements of SYRE. The Company is the only beneficiary of the related letters of credit. ONFS utilized $50,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $150,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE and the Company (related to NSLAC). The Company and NSLAC are the only beneficiaries of the related letters of credit. ONFS utilized $75,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

There was no interest or fees paid by the Company on these lines of credit in 2018 and 2017.

(15) Income Taxes

On December 22, 2017, President Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, the effects of new legislation are recognized upon enactment, which (for federal legislation) is the date the President signs a bill into law. The Act reduced the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company recorded a decrease related to the gross deferred tax assets and net admitted deferred tax assets of $91,587 and $16,151, respectively, with a corresponding net adjustment to capital and surplus of $16,151 for the year ended December 31, 2017. These adjustments include deferred tax assets on unrealized gains and losses.

The Act revised the computation of life insurance tax reserves to be the greater of the net surrender value of a contract or 92.81% of statutory reserves, in general. The revised reserve computation is effective for taxable years beginning after December 31, 2017. A transition rule requires life insurers to spread the difference between the prior year end reserves computed on the old basis and those computed on the new basis over eight years as either income or a deduction. The Company recorded an estimated provision for this change by recognizing a net $26,990 increase in deferred tax assets for the year ended December 31, 2017, offset by a corresponding increase in deferred tax liabilities that will reverse over the eight year transition period. This provision has been refined to a net increase of $23,886 for the year ended December 31, 2018.

The Company provides for deferred tax assets in accordance with the NAIC issued guidance. The components of the net admitted deferred tax asset, including those certain deferred tax assets and deferred tax liabilities, recognized in the Company's statutory statements of admitted assets, liabilities, and capital and surplus as of December 31 are as follows:

(Dollars in thousands)

	Ordinary	Capital	Total
2018			
Gross deferred tax assets	$ 252,086	6,275	258,361
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	252,086	6,275	258,361
Nonadmitted deferred tax assets	(63,375)	(6,122)	(69,497)
Admitted deferred tax assets	188,711	153	188,864
Deferred tax liabilities	(56,235)	(153)	(56,388)
Admitted deferred tax assets, net	$ 132,476	—	132,476
2017			
Gross deferred tax assets	$ 233,661	3,485	237,146
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	233,661	3,485	237,146
Nonadmitted deferred tax assets	(45,362)	—	(45,362)
Admitted deferred tax assets	188,299	3,485	191,784
Deferred tax liabilities	(61,401)	(771)	(62,172)
Admitted deferred tax assets, net	$ 126,898	2,714	129,612
Change			
Gross deferred tax assets	$ 18,425	2,790	21,215
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	18,425	2,790	21,215
Nonadmitted deferred tax assets	(18,013)	(6,122)	(24,135)
Admitted deferred tax assets	412	(3,332)	(2,920)
Deferred tax liabilities	5,166	618	5,784
Admitted deferred tax assets, net	$ 5,578	(2,714)	2,864

(Dollars in thousands)

The amount of gross deferred tax assets admitted under each component and the resulting increased amount by tax character as of December 31 are as follows:

		Ordinary	Capital	Total
2018				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	133,939
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	132,476
Lesser of (1) or (2)		132,476	—	132,476
Deferred tax liabilities		56,235	153	56,388
Admitted deferred tax assets	$	188,711	153	188,864
2017				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	129,612
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	145,764
Lesser of (1) or (2)		126,127	3,485	129,612
Deferred tax liabilities		61,401	771	62,172
Admitted deferred tax assets	$	187,528	4,256	191,784
Change				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	4,327
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	(13,288)
Lesser of (1) or (2)		6,349	(3,485)	2,864
Deferred tax liabilities		(5,166)	(618)	(5,784)
Admitted deferred tax assets	$	1,183	(4,103)	(2,920)

(Dollars in thousands)

The ratios used for threshold limitation (for SSAP 101 Paragraph 11b) as of December 31 are as follows:

		2018	2017	Change
Ratio percentage used to determine the recovery period and threshold limitation amount in above adjusted gross deferred tax assets		815.12%	947.99%	(132.87%)
Amount of adjusted capital and surplus used to determine the recovery period threshold limitation amount in above adjusted gross deferred tax assets	$	969,648	1,052,457	(82,809)

The impact of tax-planning strategies as a percentage of adjusted gross and net admitted deferred tax assets as of December 31 are as follows:

	Ordinary	Capital	Total
2018			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	0.08	0.08
2017			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	1.82	1.82
Change			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	(1.74)	(1.74)

(Dollars in thousands)

The Company’s tax planning strategies do not include the use of reinsurance tax planning strategies.

There are no temporary differences for which deferred tax liabilities are not recognized.

The provisions for current tax expenses on earnings for years ended December 31 are as follows:

	2018	2017	Change
Current year federal tax expense - ordinary income	$ (9,704)	(22,489)	12,785
Current year foreign tax expense - ordinary income	—	—	—
Subtotal	(9,704)	(22,489)	12,785
Current year tax expense - net realized capital gains	910	902	8
Utilization of capital loss carry forwards	—	—	—
Other	—	—	—
Federal and foreign income taxes incurred	$ (8,794)	(21,587)	12,793

The tax effects of temporary differences that give rise to significant components of the net deferred tax assets as of December 31 are as follows:

Deferred tax assets:	2018	2017	Change
Ordinary:			
Policyholder reserves	$ 82,865	95,746	(12,881)
Investments	—	4,856	(4,856)
Deferred acquisition costs	58,980	50,637	8,343
Policyholder dividends accrued	23,561	20,428	3,133
Compensation and benefit accruals	13,881	15,158	(1,277)
Tax credit carry-forward	39,146	37,593	1,553
Section 807(f) reserves	13,419	—	13,419
Net operating loss carryforward	11,382	—	11,382
Nonadmitted asset	4,713	4,831	(118)
Other	4,139	4,412	(273)
Ordinary deferred tax assets	252,086	233,661	18,425
Statutory valuation allowance adjustment	—	—	—
Nonadmitted ordinary deferred tax assets	(63,375)	(45,362)	(18,013)
Admitted ordinary deferred tax assets	188,711	188,299	412

(Dollars in thousands)

Deferred tax assets (continued):	2018	2017	Change
Capital:			
Investments	6,275	3,485	2,790
Net capital loss carryforward	—	—	—
Capital deferred tax assets	6,275	3,485	2,790
Statutory valuation allowance adjustment	—	—	—
Nonadmitted capital deferred tax assets	(6,122)	—	(6,122)
Admitted capital deferred tax assets	153	3,485	(3,332)
Admitted deferred tax assets	188,864	191,784	(2,920)
Deferred tax liabilities:			
Ordinary:			
Investments	3,164	—	3,164
Section 807(f) reserves	13,024	17,277	(4,253)
Deferred and uncollected premium	17,881	15,416	2,465
Policyholder reserves - tax reform transition	20,901	26,990	(6,089)
Other	1,265	1,718	(453)
Ordinary deferred tax liabilities	56,235	61,401	(5,166)
Capital:			
Investments	153	771	(618)
Subtotal	153	771	(618)
Capital deferred tax liabilities	56,388	62,172	(5,784)
Admitted deferred tax assets, net	$ 132,476	129,612	2,864

There was no statutory valuation allowance adjustment to gross deferred tax assets and no net change in the total valuation allowance adjustments as of and for the periods ended December 31, 2018 and 2017.

The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for future operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of the remaining deferred tax assets.

(Dollars in thousands)

The change in the net deferred income taxes of December 31 is comprised of the following:

		2018	2017	Change
Total deferred tax assets	$	258,361	237,146	21,215
Total deferred tax liabilities		(56,388)	(62,172)	5,784
Net deferred tax assets		201,973	174,974	26,999
Statutory valuation allowance adjustment		—	—	—
Net deferred tax assets		201,973	174,974	26,999
Tax effect of unrealized losses		675	(2,055)	2,730
Statutory valuation allowance adjustment allocated to unrealized		—	—	—
Change in net deferred income taxes	$	202,648	172,919	29,729

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant tax effects causing this difference for the years ended December 31 are as follows:

		2018	2017
Income before taxes	$	(13,283)	17,469
Dividends received deduction		(11,298)	(36,591)
Interest maintenance reserve		(1,121)	(1,965)
Change in equity of subsidiaries		(6,704)	(12,293)
Prior period adjustments		—	1,563
Change in non-admitted deferred tax assets		6,760	(550)
Voluntary reserve		1,496	(1,135)
Transfer pricing		(3,923)	(2,556)
Tax credits		(10,687)	(4,969)
Tax rate change		—	90,217
Partnerships		—	5,376
Other		237	1,325
Total statutory taxes	$	(38,523)	55,891
Provision for federal income taxes	$	(9,704)	(22,489)
Tax on capital gains (losses)		910	902
Change in net deferred income tax		(29,729)	77,478
Total statutory taxes	$	(38,523)	55,891

The Company's policy for recording penalties associated with audits, claims, and adjustments is to record such amount as a component of income taxes.

Total federal income taxes received (including tax on capital gains) was $4,430 and $6,134 during the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Company has a net operating loss carryforward of $54,201. As of December 31, 2017, the Company had no net operating loss carryforward. As of December 31, 2018 and 2017, the company has no capital loss carryforwards or valuation allowances recorded. As of December 31, 2018, the Company established $2,242 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2017. As of December 31, 2018, the Company has tax credit carryforwards of $39,146 expiring in years 2023 through 2036. As of December 31, 2017, the Company established $2,153 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2017. As of December 31, 2017, the Company has tax credit carryforwards of $37,593 expiring in years 2023 through 2036. In addition, the Company has alternative minimum tax credit carryforwards of $15,334, which were reclassed to the current tax receivable after the tax reform bill (H.R. 1) was signed on December 22, 2017 and made them refundable.

There are no federal income taxes incurred that are available for recoupment in the event of future net losses.

The Company has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of reporting.

There are no aggregate federal income tax deposits under Internal Revenue Code Section 6603 and none are recorded as admitted assets.

The Company's federal income tax return is consolidated with the other life insurance companies ONLAC, NSLAC, KENW, MONT, SYRE and CMGO and then with its common parent, ONMH.

The Company is not under current examination with the Internal Revenue Service. The statute of limitations remains open for tax years 2015, 2016 and 2017 for the consolidated tax group.

The allocation of taxes between members of the federal consolidated income tax return is subject to written agreement approved by the Board of Directors. Allocations are based on separate company calculations with current credit for losses. Intercompany balances are settled at least quarterly.

(16) Pensions and Other Post-Retirement Benefit Plans

(a) Home Office Pension Plan

The Company sponsors a funded qualified defined benefit pension plan covering all home office employees hired prior to January 1, 1998. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The measurement dates were December 31, 2018 and 2017.

(b) Home Office Post-Retirement Benefit Plan

The Company currently offers eligible retirees the opportunity to participate in a post-retirement health and group life plan. This plan was amended effective July 1, 2013, to provide participants younger than age 65 a fixed portion of the health insurance contract premium and for participants age 65 and older, a fixed dollar amount which the participant must use to independently purchase their own insurance. Previously, this plan provided all participants a fixed portion of the health insurance contract premium. The portion the Company pays is periodically increased and is a function of participant service. Only home office employees hired prior to January 1, 1998 may become eligible for these benefits provided that the employee meets the retirement age and years of service requirements.

This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

(c) General Agents' Pension Plan

The Company sponsors an unfunded, nonqualified defined benefit pension plan covering its general agents hired prior to January 1, 2005. This plan provides benefits based on years of service and average compensation during the final five and ten years of service.

The measurement dates were December 31, 2018 and 2017.

(d) Agents' Post-Retirement Benefits Plan

The Company sponsors a post-retirement health and group life plan. Only agents with contracts effective prior to January 1, 1998 who meet the retirement age and service requirements are eligible for these benefits. The health and group life plan is contributory, with retirees contributing approximately 50% of premium for coverage. As with all plan participants, the Company reserves the right to change the retiree premium contribution at renewal.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

(Dollars in thousands)

(e) Obligations and Funded Status

Information regarding the funded status of the pension plans as a whole and other benefit plans as a whole as of December 31 is as follows:

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	99,168	89,781	6,764	7,918
Service cost		2,412	2,430	43	59
Interest cost		3,994	4,144	261	299
Actuarial (gain) loss		(13,714)	9,214	565	(1,146)
Benefits paid *		(13,793)	(6,401)	(1,327)	(366)
Projected benefit obligation at end of year	$	78,067	99,168	6,306	6,764

* Benefits paid include amounts paid from both funded and unfunded benefit plans.

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Change in plan assets:					
Fair value of plan assets at beginning of year	$	66,944	60,476	—	—
Plan sponsor contribution		—	3,922	—	—
Actual return on plan assets		(5,686)	8,823	—	—
Benefits and expenses paid		(10,555)	(6,277)	—	—
Fair value of plan assets at end of year	$	50,703	66,944	—	—
Funded status	$	(27,364)	(32,224)	(6,306)	(6,764)
Unrecognized net actuarial loss (gain)		29,015	35,589	1,364	856
Unrecognized prior service cost		41	195	(373)	(386)
Net prepaid (accrued) amount recognized	$	1,692	3,560	(5,315)	(6,294)

(Dollars in thousands)

		Pension benefits		Other benefits	
Funded Status:		**2018**	**2017**	**2018**	**2017**
Overfunded					
Assets (nonadmitted)					
Prepaid benefit costs	$	—	—	—	—
Overfunded plan assets		—	—	—	—
Total assets (nonadmitted)	$	—	—	—	—
Underfunded					
Liabilities recognized					
Net prepaid (accrued) amount recognized	$	1,692	3,560	(5,315)	(6,294)
Liabilities for benefits		(29,056)	(35,784)	(991)	(470)
Total liabilities recognized	$	(27,364)	(32,224)	(6,306)	(6,764)

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Amounts recognized in the statutory statements of admitted assets, liabilities, and capital and surplus consist of:					
Prepaid benefit costs	$	12,848	15,980	—	—
Overfunded plan asset		—	(15,980)	—	—
Accrued benefit costs		(11,159)	(12,420)	(5,315)	(6,294)
Surplus		(29,053)	(19,804)	(991)	(470)
Total liabilities recognized	$	(27,364)	(32,224)	(6,306)	(6,764)

(Dollars in thousands)

		Pension benefits	
		2018	**2017**
Components of net periodic benefit cost:			
Service cost	$	2,412	2,430
Interest cost		3,994	4,144
Expected return on plan assets		(4,726)	(4,375)
Amortization of prior service cost		153	260
Amortization of net loss		3,274	3,156
Net periodic benefit cost	$	5,107	5,615

		Other benefits	
		2018	**2017**
Components of net periodic benefit cost:			
Service cost	$	43	59
Interest cost		261	299
Amortization of prior service cost		(13)	(13)
Amortization of net gain		57	75
Net periodic benefit cost	$	348	420

The following is attributable to pension plans whose accumulated benefit obligation exceeds plan assets as of December 31:

		Pension benefits	
		2018	**2017**
Projected benefit obligation	$	78,067	17,458
Accumulated benefit obligation		67,132	13,812
Prepaid pension cost		—	—

(Dollars in thousands)

(f) Assumptions

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Weighted average assumptions used to determine net periodic cost at January 1:				
Discount rate	4.15%	4.70%	4.04%	4.53%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	4.12%	4.17%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	7.80%	8.53%
Age 65 and older	—	—	0.70%	1.60%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	7.70%	7.73%
Age 65 and older	—	—	0.70%	0.80%
Year that the rate reaches the ultimate trend rate	—	—	2023	2020
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	4.90%	4.15%	4.74%	4.04%
Rate of compensation increase	3.50%	4.16%	3.50%	4.25%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage point increase	1 Percentage point decrease
Effect on total of 2018 service cost and interest cost	$ 25	(21)
Effect on 2018 other post-retirement benefit obligation	452	(392)

(Dollars in thousands)

(g) Plan Assets

The following table presents the hierarchy of the Company's qualified pension plan assets at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2018				
Bond funds	$ 17,640	—	—	17,640
Stock funds	33,063	—	—	33,063
Total assets	$ 50,703	—	—	50,703
2017				
Bond funds	$ 18,496	—	—	18,496
Stock funds	48,448	—	—	48,448
Total assets	$ 66,944	—	—	66,944

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy as described in Note 5.

The assets of the Company’s Home Office Pension Plan (“Plan”) are invested in group variable annuity contracts issued by the Company offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2018 and 2017, $29,430 and $41,198, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of stocks, bonds and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan’s short-term liquidity needs and its long-term liabilities. The target allocations are currently 65% stocks and 35% bonds.

For diversification and risk control purposes, where applicable, each asset class is further divided into sub classes such as large cap, mid cap and small cap and growth, core and value for stocks and U.S. domestic, global and high yield for bonds. To the extent possible, each sub asset class utilizes multiple fund choices and no single fund contains more than 25% of the Plan assets (exclusive of any short-term increases in assets due to any Plan funding). The Plan performance is measured by a weighted benchmark consisting of stock and bond benchmarks in weights determined by the Pension Plan committee.

The overall expected long-term rate of return on assets is determined by a weighted average return of bond and stock indexes. Bond securities (including cash) make up 40% of the weighted average return and stocks make up 60% of the weighted average return.

(Dollars in thousands)

The following table shows the weighted average asset allocation by class of the Plan's assets as of December 31:

	2018	2017
Stocks	65%	72%
Bonds	35	28
Total	100%	100%

(h) Cash Flows

(i) Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2017 was $0. The Plan Sponsor contributed $0 and $3,922 to the qualified pension plan for the years ended December 31, 2018 and 2017, respectively. No contribution to the qualified pension plan is expected for the 2019 plan year.

(ii) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	Other benefits
2019	$ 5,778	507
2020	8,358	508
2021	6,687	515
2022	7,879	520
2023	7,752	524
2024-2028	37,061	2,263

(Dollars in thousands)

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) recognized in the next fiscal year as components of periodic benefit cost:				
Items not yet recognized as a component of net periodic cost - prior year	$ 35,783	34,433	470	1,678
Net transition asset or obligation recognized	—	—	—	—
Net period service cost or credit arising during the period	—	—	—	—
Net prior service cost or credit recognized	(153)	(260)	13	13
Net gain and loss arising during the period	(3,301)	4,766	565	(1,146)
Net gain and loss recognized	(3,273)	(3,156)	(57)	(75)
Items not yet recognized as a component of net periodic cost - current year	$ 29,056	35,783	991	470

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Net transition asset or obligation	$ —	—	—	—
Net prior service cost or credit	41	153	(31)	(13)
Net recognized gains and losses	2,756	3,232	138	73

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	$ —	—	—	—
Net prior service cost or credit	41	194	(373)	(386)
Net recognized gains and losses	29,015	35,589	1,364	856

(Dollars in thousands)

(i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2018 and 2017 was $6,900 and $6,450, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,891 and $2,884 in 2018 and 2017, respectively.

(j) ONFS Employees

The Company's qualified pension and post-retirement benefit plans include participants who are employees of ONFS. Participating ONFS employees are vice presidents and other executive officers of ONFS and devote substantially all of their time to service for the Company. Most of ONFS's employees were employees of the Company prior to January 1, 2001 and were participants in the benefit plan at that time.

(17) Capital and Surplus, Dividend Restrictions and Regulatory RBC

Capital and Surplus
The Company has 10,000,000 shares ($1 par value) authorized, issued and outstanding of Class A common stock as of December 31, 2018 and 2017. The Company has no preferred stock issued or outstanding.

The Company did not receive a capital contribution from its parent, ONFS, during 2018 and 2017, respectively.

Surplus notes outstanding are as follows as of December 31:

	2018	2017
Surplus notes		
6.875% fixed rate due 2042	$ 250,000	$ 250,000
5.000% fixed rate due 2031	3,979	3,939
5.800% fixed rate due 2027	5,883	5,869
8.500% fixed rate due 2026	49,836	49,814
Total	$ 309,698	$ 309,622

In June 2012, ONLIC issued a $250,000, 6.875% fixed rate surplus note due June 15, 2042. Interest on this surplus note is payable semi-annually on June 15 and December 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In December 2011, ONLIC issued a $4,500, 5% fixed rate surplus note to Security Mutual Life Insurance Company of New York ("SML"), as payment for the purchase of the additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.8% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued $50,000, 8.5% fixed rate surplus notes due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may not redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

Except as provided in Section 3901.72 of the Ohio Revised Code, the notes are not part of the legal liabilities of the Company and are not a liability or claim against the Company or any of its assets. Interest payments, scheduled semi-annually, must be approved for payment by the Department. The Company paid $22,011 in interest related to these notes in 2018 and 2017. Principal payments must also be approved by the Department. Interest expense for surplus notes is not recognized in the statutory statements of income until it has been approved by the Department.

Regulatory RBC

The NAIC has established RBC requirements to assist regulators in monitoring the financial strength and stability of life insurers and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The RBC requirements instruct every life insurer to calculate its total adjusted capital and RBC position. The formula includes components for asset risk, liability risk, interest rate exposure, and other factors. Under the NAIC requirements, each insurer must maintain its total adjusted capital and surplus above a calculated minimum threshold or take corrective measures to achieve that threshold. Based upon the December 31, 2018 and 2017 statutory financial statements, the Company exceeded all required RBC levels.

Dividend Restrictions

The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of the Company, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $102,000 may be paid by ONLIC to ONFS in 2019 without prior approval. Dividends of $60,000 and $70,000 were declared and paid by ONLIC to ONFS in 2018 and 2017, respectively.

(Dollars in thousands)

Subsidiary Dividends
The following table details the dividends received from each of the subsidiaries and included in investment income for the years:

	2018	2017
ONLAC	$ 27,000	27,000
ONII	4,000	7,200
NSLAC	-	-
ONESCO	924	924
ONEQ	-	-
	$ 31,924	35,124

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of $36,000 may be paid by ONLAC to ONLIC in 2019 without prior approval. ONLAC declared and paid dividends to ONLIC of $27,000 in both 2018 and 2017.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter where CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2018 or 2017.

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $2,000 may be paid by NSLAC to ONLIC in 2019 without prior approval. No dividends were declared or paid by NSLAC in 2018 or 2017.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2018 or 2017. No dividends were declared or paid by KENW to ONLIC in 2018 or 2017.

(Dollars in thousands)

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans and bonds of $67,661 and $75,403 as of December 31, 2018 and 2017, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the statutory financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Contingencies

The Company and all other solvent life insurance companies are periodically assessed by certain state guaranty funds to cover losses to policyholders of insolvent or rehabilitated companies. Some of these assessments are partially recoverable through a reduction in future premium taxes in some states. In addition, the Company is subject to legal and regulatory proceedings in the ordinary course of its business. These include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which the Company operates. The outcomes of these proceedings cannot be predicted due to their complexity, scope and uncertainties. The Company believes, however, that based on currently known information, the ultimate outcome of all pending legal and regulatory proceedings as well as state guaranty fund assessments are not likely to have a material adverse effect on the Company's financial condition or results of operations.

In 2018, the Company was named in two threatened class action lawsuits pertaining to the strategic announcements in September 2018. At this time, no classes have been certified. The Company plans to defend these allegations vigorously. At this time, a loss is not probable, nor estimable.

The Company leases office equipment under various noncancelable operating lease agreements that expire through June 2022. Rental expense under these leases was $342 and $318 for the years ended December 31, 2018 and 2017, respectively. The Company also leases its home office from ONFS under a noncancelable operating lease agreement that expires in September 2021. Rental expense under this lease was $2,793 for the years ended December 31, 2018 and 2017. The minimum aggregate rental commitments under these leases are as follows:

2019	$	3,147
2020		3,147
2021		2,395
2022		107
Total	$	8,796

(20) Related-Party Transactions

The Company made capital contributions of $5,000, $250, and $1,100 to CMGO, SUNR and ONEQ, respectively, during the year ended December 31, 2018.

The Company has a written agreement to provide services for personnel, data processing and supplies to ONLAC, which either party may terminate upon a thirty day notice. ONLIC primarily uses multiple bases (head counts, salaries, number of policies, field compensation, time, reserve account balances, transaction counts, etc.) and believes they are reasonable for determining the expense charges. This agreement was approved by the Department. Generally, the apportionment is based upon specifically identifying the expense to the incurring entity. Where this is not feasible, apportionment is based upon pertinent factors and ratios. The terms call for a cash settlement at least quarterly. There is no assurance that these costs would be similar if the Company had to obtain such services on its own. This agreement resulted in services charges totaling $59,927 and $50,434 in 2018 and 2017, respectively. These amounts include pension costs for the personnel furnished to the Company. At December 31, 2018 ONLIC owed ONLAC $6,999. At December 31, 2017 ONLIC owed ONLAC $272.

The Company paid $5,406 and $5,434 for rent and operating expenses on the home office to ONFS for the years ended December 31, 2018 and 2017, respectively.

ONFS provides services for executive management and data processing equipment placed in service after December 31, 2000, to ONLIC. For the years ended December 31, 2018 and 2017, ONLIC recorded expenses of $21,968 and $17,068, respectively, for these services.

The Company is a party to an agreement with ONMH and most of its direct and indirect subsidiaries whereby ONLIC maintains a common checking account. It is ONLIC's duty to maintain sufficient funds to meet the reasonable needs of each party on demand. ONLIC must account for the balances of each party daily. Such funds are deemed to be held in escrow by ONLIC for the other parties. Settlement is made daily for each party's needs from or to the common account. It is ONLIC's duty to invest excess funds in an interest bearing account and/or short-term highly liquid investments. ONLIC will credit interest monthly at the average interest earned for positive cash balances during the period or charge interest on any negative balances. Interest credited for the years ended December 31, 2018 and 2017 was $20 and $290, respectively. The parties agree to indemnify one another for any losses of any nature relating to a party's breach of its duties under the terms of the agreement. The Company held the following balances for the participating entities in payable to parent, subsidiaries and affiliates as of December 31:

(Dollars in thousands)

		2018	2017
ONMH		747	564
ONFS		19,294	18,421
ONLAC		30,067	11,197
MONT		5,684	4,453
KENW		8,126	7,018
CMGO		10,465	3,601
SYRE		41,270	86,271
ONII		7,384	7,419
ON Flight Inc.		569	503
ON Global Holdings Inc.		—	1
ONTech, LLC		6,139	1,491
ON Foreign Holdings, LLC		(19)	—
Fiduciary Capital Management, Inc.		1,436	1,646
Financial Way Realty, Inc.		552	542
Total	$	131,714	143,127

(21) Accounting Changes and Corrections of Errors

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of swap interest income. As of December 31, 2017, net investment income was overstated by $1,982. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	(1,982)
Benefit for federal income taxes		416
Correction of error, net of tax	$	(1,566)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of net investment income. As of December 31, 2017, net investment income was understated by $2,236. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	2,236
Benefit for federal income taxes		(469)
Correction of error, net of tax	$	1,767

(Dollars in thousands)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of assumed BOLI reserves. As of December 31, 2017, reserves were understated by $1,600. The events contributing to the adjustment impact surplus as follows:

Change in reserves for future policy benefits and other funds	$	(1,600)
Benefit for federal income taxes		336
Correction of error, net of tax	$	(1,264)

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of income taxes, including tax credits, primarily related to the tax credit utilization changes as a result of amended returns. The events contributing to the adjustment impact surplus as follows:

Benefit for federal income taxes	$	1,497
Correction of error, net of tax	$	1,497

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of BOLI reinsurance assumed premiums and expense allowances. As of December 31, 2016, premiums assumed and expense allowances were overstated by $215. The events contributing to the adjustment impact surplus as follows:

Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries	$	230
Commissions		(15)
Benefit for federal income taxes		(75)
Correction of error, net of tax	$	140

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of intercompany operating expenses. As of December 31, 2016, operating expenses were understated by $1,074. The events contributing to the adjustment impact surplus as follows:

General insurance expenses	$	(1,075)
Benefit for federal income taxes		376
Correction of error, net of tax	$	(699)

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording and valuation of the AVR. As of December 31, 2016, the AVR liability was overstated by $911. The events contributing to the adjustment impact surplus as follows:

Asset valuation reserve	$	(911)
Correction of error, net of tax	$	911

The cumulative prior period surplus impact of these errors is shown as a direct adjustment to surplus within the statutory statements of changes in capital and surplus. SSAP No. 3R, *Accounting Changes and Corrections of Errors*, prescribes that if a reporting entity becomes aware of a material accounting error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency, the entity shall file an amended financial statement unless otherwise directed by the domiciliary regulator. Correction of all immaterial accounting errors in previously issued financial statements, for which an amended financial statement was not filed, shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected.

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

The following is a summary of certain financial data.

Investment income earned:		
Government bonds	$	4,925
Other bonds (unaffiliated)		279,400
Bonds of affiliates		—
Preferred stocks (unaffiliated)		1,161
Preferred stocks of affiliates		—
Common stocks (unaffiliated)		2,218
Common stocks of affiliates		31,924
Mortgage loans		41,426
Real estate		1,932
Contract loans		27,261
Cash, cash equivalents and short-term investments		2,688
Other invested assets		5,156
Derivative instruments		185
Amortization of interest maintenance reserve		5,340
Aggregate write-ins for investment income		2,332
Total investment income earned	$	405,948
Real estate owned – book value less encumbrances	$	26,407
Mortgage loans – book value:		
Farm mortgages	$	—
Residential mortgages		—
Commercial mortgages		859,830
Total mortgage loans – book value	$	859,830
Mortgage loans by standing – book value:		
Good standing	$	859,830
Good standing with restructured terms		—
Interest overdue more than three months, not in foreclosure		—
Foreclosure in process		—
Other long-term assets – statement value	$	76,570
Bonds and stocks of parents, subsidiaries, and affiliates – book value:		
Bonds	$	—
Preferred stocks		—
Common stocks		361,444
Due within one year or less	$	352,893
Over 1 year through 5 years		2,198,333
Over 5 years through 10 years		3,052,005
Over 10 years through 20 years		995,622
Over 20 years		419,290
Total bonds and short-term investments by maturity - statement value	$	7,018,143

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

Bonds and short-term investments by class – statement value:		
Class 1	$	4,396,169
Class 2		2,460,039
Class 3		134,065
Class 4		22,977
Class 5		4,495
Class 6		398
Total bonds and short-term investments by class – statement value	$	7,018,143
Total bonds and short-term investments publicly traded	$	4,081,235
Total bonds and short-term investments privately placed	$	2,936,908
Preferred stocks – statement value	$	18,292
Common stocks – market value	$	399,850
Short-term investments – book value	$	—
Cash equivalents – book value	$	112,628
Financial options owned – statement value	$	—
Financial options written and in force – statement value	$	—
Financial futures contracts open – current price	$	—
Cash on deposit	$	214,802
Life insurance in force:		
Industrial	$	—
Ordinary		22,755,877
Credit life		—
Group life		5,527
Amount of accidental death insurance in force under ordinary policies	$	61,062
Life insurance policies with disability provisions in force:		
Industrial	$	—
Ordinary		26,834,072
Credit life		—
Group life		5,527
Supplementary contracts in force:		
Ordinary – not involving life contingencies:		
Amount on deposit	$	—
Income payable		6,238
Ordinary – involving life contingencies:		
Income payable		588
Group – not involving life contingencies:		
Amount on deposit		—
Income payable		—
Group – involving life contingencies:		
Income payable		—

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

Annuities:		
Ordinary:		
Immediate – amount of income payable	$	52,065
Deferred – fully paid account balance		20,871,256
Deferred – not fully paid – account balance		—
Group:		
Amount of income payable	$	11,273
Fully paid account balance		1,031,644
Not fully paid – account balance		—
Accident and health insurance – premiums in force:		
Ordinary	$	12,122
Group		—
Credit		—
Deposit funds and dividend accumulations:		
Deposit funds – account balance	$	631,218
Dividend accumulations – account balance		34,266
Claim payments:		
Group accident and health:		
2018 (incurred)	$	—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
2014 (incurred)		—
Prior (incurred)		—
Other accident and health:		
2018 (incurred)	$	30
2017 (incurred)		180
2016 (incurred)		206
2015 (incurred)		201
2014 (incurred)		132
Prior (incurred)		659
Other coverages that use developmental methods to calculate claims reserves:		
2018 (incurred)	$	—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
2014 (incurred)		—
Prior (incurred)		—

See accompanying independent auditors’ report.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2018

(Dollars in thousands)

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets excluding separate accounts as reported on page two of the Annual Statement: $10,200,951.

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of exposure		Amount	Percentage of total admitted assets
2.01	OHIO NATIONAL LIFE ASSURANCE	EQUITY	$	290,427	2.847%
2.02	MONTGOMERY RE SURPLUS NOTE	SURPLUS NOTE		75,000	0.735
2.03	NATIONAL SECURITY LIFE & ANNUITY CO	EQUITY		37,019	0.363
2.04	FEDERAL HOME LOAN BANK - CINTI	COMMON STOCK		36,552	0.358
2.05	JP MORGAN MORTGAGE TRUST	BOND		33,217	0.326
2.06	SEQUOIA MORTGAGE TRUST	BOND		31,497	0.309
2.07	FLAGSTAR MORTGAGE TRUST	BOND		27,338	0.268
2.08	CAMARGO RE INC	EQUITY		25,250	0.248
2.09	CITIGROUP INC	BOND		23,557	0.231
2.10	CMWLTH FING AUTH PA	BOND		22,243	0.218

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds				Preferred stock			
3.01	NAIC-1	$	4,396,167	43.096%	P/RP-1	$	—	—%
3.02	NAIC-2		2,460,039	24.116	P/RP-2		13,292	0.130
3.03	NAIC-3		134,065	1.314	P/RP-3		5,000	0.049
3.04	NAIC-4		22,978	0.225	P/RP-4		—	—
3.05	NAIC-5		4,495	0.044	P/RP-5		—	—
3.06	NAIC-6		398	0.004	P/RP-6		—	—

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2018

(Dollars in thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

4.02	Total admitted assets held in foreign investments	$	1,110,505	10.886%
4.03	Foreign-currency-denominated investments		8,019	0.079
4.04	Insurance liabilities denominated in that same foreign currency		—	—

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

			1	2
5.01	Countries rated NAIC – 1	$	1,008,803	9.889%
5.02	Countries rated NAIC – 2		93,284	0.914
5.03	Countries rated NAIC – 3 or below		8,418	0.083

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

			1	2
	Countries rated NAIC – 1:			
6.01	Country 1: CAYMAN ISLANDS	$	211,144	2.070%
6.02	Country 2: UNITED KINGDOM		184,603	1.810
	Countries rated NAIC – 2:			
6.03	Country 1: MEXICO		85,811	0.841
6.04	Country 2: PORTUGAL		7,473	0.073
	Countries rated NAIC – 3 or below:			
6.05	Country 1: BAHAMAS		6,230	0.061
6.06	Country 2: BARBADOS		1,396	0.014

7. Aggregate unhedged foreign currency exposure:

	1	2
$	—	—%

(Continued)

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8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC – 1	$ —	—%
8.02	Countries rated NAIC – 2	—	—
8.03	Countries rated NAIC – 3 or below	—	—

9. Largest unhedged foreign currency exposures by country, categorized by NAIC sovereign rating:

		1	2
	Countries rated NAIC – 1:		
9.01	Country:	$ —	—%
9.02	Country:	—	—
	Countries rated NAIC – 2:		
9.03	Country:	—	—
9.04	Country:	—	—
	Countries rated NAIC – 3 or below:		
9.05	Country:	—	—
9.06	Country:	—	—

10. Ten largest nonsovereign (i.e. nongovernmental) foreign issues:

	1 Issuer	2 NAIC rating	1	2
10.01	BROOKFIELD WA RAIL PTY LTD	2	$ 17,500	0.172%
10.02	PETROLEOS MEXICANOS	2	17,002	0.167
10.03	AXA	2	16,466	0.161
10.04	VOYA CLO LTD	1	15,400	0.151
10.05	STANDARD CHARTERED BANKK	2	15,362	0.151
10.06	TRANSPOWER NEW ZEALAND LTD	1	14,712	0.144
10.07	UPLAND CLO LTD	1	14,500	0.142
10.08	BABSON CLO LTD	1	14,000	0.137
10.09	HOFER FINANCIAL SERVICES GMBH	1	14,000	0.137
10.10	SAUDI INTERNATIONAL BOND	1	13,859	0.136

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11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 11.01 above is yes, detail is not required for remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 12.01 above is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [ ]   No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02	OHIO NATIONAL LIFE ASSURANCE	$ 290,427	2.847%
13.03	NATIONAL SECURITY LIFE & ANNUITY CO	37,019	0.363
13.04	FEDERAL HOME LOAN BANK - CINTI	36,552	0.358
13.05	CAMARGO RE INC	25,250	0.248
13.06	THE ON EQUITY SALES CO	6,504	0.064
13.07	PUBLIC STORAGE PFD SERIES Y	5,196	0.051
13.08	MORGAN STANLEY SSERIES I PFD	5,000	0.049
13.09	M&T BANK CORPORATION PFD SER C 5%	4,000	0.039
13.10	BANK OF AMERICA CORP SERIES V PREFERRED	3,000	0.029
13.11	OHIO NATIONAL EQUITIES INC	1,994	0.020

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14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 **Type (residential, commercial, agricultural)**	**2**	**3**
16.02	COMMERCIAL	$ 23,636	0.232%
16.03	COMMERCIAL	23,257	0.228
16.04	COMMERCIAL	10,567	0.104
16.05	COMMERCIAL	10,377	0.102
16.06	COMMERCIAL	9,935	0.097
16.07	COMMERCIAL	8,532	0.084
16.08	COMMERCIAL	8,125	0.080
16.09	COMMERCIAL	7,246	0.071
16.10	COMMERCIAL	7,198	0.071
16.11	COMMERCIAL	7,060	0.069

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(Dollars in thousands)

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans		
16.12	Construction loans	$	—	—%
16.13	Mortgage loans over 90 days past due		—	—
16.14	Mortgage loans in the process of foreclosure		—	—
16.15	Mortgage loans foreclosed		—	—
16.16	Restructured mortgage loans		—	—

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-value	Residential		Commercial		Agricultural	
17.01	Above 95%	$ —	—%	$ 766	0.008%	$ —	—%
17.02	91% to 95%	—	—	5,178	0.051	—	—
17.03	81% to 90%	—	—	9,791	0.096	—	—
17.04	71% to 80%	—	—	82,425	0.808	—	—
17.05	Below 70%	—	—	761,670	7.467	—	—

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

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Investment Risks Interrogatories

Year ended December 31, 2018

(Dollars in thousands)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At year-end		At end of each quarter		
				1st Qtr.	2nd Qtr.	3rd Qtr.
		1	2	3	4	5
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ 233,155	2.188%	277,020	293,768	266,633
20.02	Repurchase agreements	—	—	—	—	—
20.03	Reverse repurchase agreements	—	—	—	—	—
20.04	Dollar repurchase agreements	—	—	—	—	—
20.05	Dollar reverse repurchase agreements	—	—	—	—	—

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ —	—%	$ —	—%
21.02	Income generation	—	—	—	—
21.03	Other	—	—	—	—

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At year-end		At end of each quarter		
				1st Qtr.	2nd Qtr.	3rd Qtr.
		1	2	3	4	5
22.01	Hedging	$ 110	0.001%	$ 117	114	112
22.02	Income generation	—	—	—	—	—
22.03	Replications	—	—	—	—	—
22.04	Other	—	—	736	780	830

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23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

		At year-end		At end of each quarter		
				1st Qtr.	2nd Qtr.	3rd Qtr.
		1	2	3	4	5
23.01	Hedging	$ —	—%	$ —	—	—
23.02	Income generation	—	—	—	—	—
23.03	Replications	—	—	—	—	—
23.04	Other	21,406	0.210%	40,932	37,678	29,014

See accompanying independent auditors' report.

Schedule 3

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Summary of Investments

December 31, 2018

(Dollars in thousands)

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage	Admitted assets as reported in Annual Statement Amount	Admitted assets as reported in Annual Statement Percentage
Bonds:				
U.S. Treasury securities	$ 9,872	0.10 %	$ 9,872	0.10 %
U.S. government agency and corporate obligations (excluding mortgage backed securities):				
Issued by U.S. government agencies	71,673	0.74	71,673	0.74
Issue by U.S. government-sponsored agencies	39,420	0.41	39,420	0.41
Foreign government (including Canada, excluding mortgage-backed securities)	30,799	0.32	30,799	0.32
Securities issued by states, territories, and possessions and political subdivisions general obligations:				
State, territory, and possession general obligations	572,645	5.90	572,645	5.90
Political subdivisions of states, territories, and possessions political subdivisions general obligations	15,279	0.16	15,279	0.16
Revenue and assessment obligations	19,149	0.20	19,149	0.20
Industrial development and similar obligations	1,993	0.02	1,993	0.02
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	86,614	0.89	86,614	0.89
Issued or guaranteed by FNMA and FHLMC	66,547	0.69	66,547	0.69
All other privately issued	33,894	0.35	33,894	0.35
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	218,032	2.25	218,032	2.25
Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies	9,641	0.10	9,641	0.10
All other privately issued	185,687	1.91	185,687	1.91
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	4,522,703	46.61	4,522,703	46.61
Unaffiliated foreign securities	1,131,603	11.66	1,131,603	11.66
Affiliated securities	2,592	0.03	2,592	0.03
Equity interests:				
Investments in mutual funds	—	—	—	—
Preferred stocks:				
Affiliated	—	—	—	—
Unaffiliated	18,292	0.19	18,292	0.19
Publicly traded equity securities (excluding preferred stocks):				
Affiliated	—	—	—	—
Unaffiliated	1,854	0.02	1,854	0.02
Other equity securities:				
Affiliated	361,444	3.73	361,444	3.73
Unaffiliated	36,552	0.38	36,552	0.38
Other equity interests including tangible personal property under lease:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Mortgage loans:				
Construction and land development	—	—	—	—
Agricultural	—	—	—	—
Single family residential properties	—	—	—	—
Multifamily residential properties	—	—	—	—
Commercial loans	859,830	8.86	859,830	8.86
Mezzanine real estate loans	—	—	—	—
Real estate investments:				
Property occupied by company	—	—	—	—
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	26,407	0.27	26,407	0.27
Property held for sale (includes $0 of property acquired in satisfaction of debt)	—	—	—	—
Contract loans	638,824	6.58	638,824	6.58
Derivatives	107,064	1.10	107,064	1.10
Receivables for securities	136	0.00	136	0.00
Securities lending	230,305	2.37	230,305	2.37
Cash and short-term investments	327,430	3.37	327,430	3.37
Write-in for invested assets	76,570	0.79	76,570	0.79
Total invested assets	$ 9,702,851	100.00 %	$ 9,702,851	100.00 %

* Gross investment holdings as valued in compliance with NAIC accounting practices and procedures.

See accompanying independent auditors' report.