

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

Statutory Financial Statements and Supplementary Information

December 31, 2020, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 3400  
312 Walnut Street  
Cincinnati, OH 45202

## 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, 2020 and 2019, and the related statutory statements of operations, changes in capital and surplus, and cash flow for each of the years in the three-year period ended December 31, 2020, 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 described in Note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.



*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, 2020 and 2019, or the results of its operations or its cash flows for each of the years in the three-year period ended December 31, 2020.

*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, 2020 and 2019, and the results of its operations and its cash flow for each of the years in the three-year period ended December 31, 2020, in accordance with statutory accounting practices prescribed or permitted by the Department described in Note 2.

*Emphasis of Matter*

As discussed in Note 3 to the financial statements, effective January 1, 2020, the Company adopted new accounting guidance pursuant to section 21 of the Valuation Manual (VM-21), which revised the valuation of variable annuity and other contracts. Our opinion is not modified with respect to this matter.

*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 *Schedule 1 Supplemental Insurance Information*, *Schedule 2 Investment Risk Interrogatories*, *Schedule 3 Summary of Investments* and *Schedule 4 Reinsurance Risk Interrogatories* 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*

Cincinnati, Ohio  
March 26, 2021

**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, 2020 and 2019  
(Dollars in thousands, except share amounts)

<b>Admitted Assets</b>	<b>2020</b>	<b>2019</b>
Investments:		
Bonds	\$ 5,398,199	5,382,681
Preferred stocks	7,101	5,101
Common stocks at fair value (cost \$45,931 in 2020 and \$42,492 in 2019)	45,414	41,721
Common stock of unconsolidated life insurance subsidiaries at statutory equity (cost \$181,082 in 2020 and 2019)	302,363	323,640
Common stocks of nonlife insurance subsidiaries at statutory equity (cost \$10,830 in 2020 and 2019)	8,979	9,049
Mortgage loans on real estate	970,773	930,632
Real estate, at cost less accumulated depreciation	24,757	25,758
Contract loans	835,945	744,593
Cash, cash equivalents and short-term investments	648,526	397,382
Receivables for securities	510	528
Derivatives	115,488	111,721
Other invested assets	489,176	251,659
Securities lending reinvested collateral assets	281,976	172,498
Receivable for collateral	1,200	26,000
Total investments	9,130,407	8,422,963
Premiums and other considerations deferred and uncollected	97,259	90,293
Accrued investment income	49,473	48,870
Current federal income tax recoverable	7,813	—
Deferred tax asset, net	111,546	121,096
Other assets	210,015	285,765
Separate Account assets	18,793,793	19,255,771
Total admitted assets	\$ 28,400,306	28,224,758
<b>Liabilities and Capital and Surplus</b>		
Reserves for future policy benefits:		
Life policies and contracts	\$ 6,438,887	5,884,659
Accident and health policies	26,793	27,437
Annuity and other deposit funds	658,260	663,946
Contract claims	23,562	19,593
Other policyholders' funds:		
Policyholders' dividend accumulations	31,680	32,964
Provision for policyholders' dividends payable in following year	101,828	109,863
Other	1,575	1,498
Current federal income taxes	—	4,072
Payable to parent, subsidiaries and affiliates	155,195	202,678
Interest maintenance reserve	19,457	20,020
Asset valuation reserve	52,098	40,774
Transfers to Separate Accounts due or accrued, net	(109,994)	(123,076)
Payable for securities	9,027	4,556
Payable for securities lending	281,976	172,498
Reinsurance funds withheld due to affiliate, net	481,935	492,467
Other liabilities	355,728	395,175
Separate Account liabilities	18,793,792	19,255,771
Total liabilities	27,321,799	27,204,895
Capital and surplus:		
Class A common stock, \$1 par value. Authorized, issued, and outstanding 10,000,000 shares	10,000	10,000
Surplus notes	309,851	309,775
Gross paid in and contributed surplus	283,297	283,297
Aggregate write-ins for special surplus funds	35,826	35,826
Unassigned surplus	439,533	380,965
Total capital and surplus	1,078,507	1,019,863
Total liabilities and capital and surplus	\$ 28,400,306	28,224,758

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, 2020, 2019 and 2018

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Premiums and other considerations:			
Life and annuity	\$ 1,308,065	1,047,377	2,222,765
Accident and health	5,373	5,773	5,981
Total premiums and other considerations	<u>1,313,438</u>	<u>1,053,150</u>	<u>2,228,746</u>
Investment income:			
Interest on bonds	221,515	264,249	284,323
Dividends on stocks	1,317	2,734	3,380
Dividends from subsidiaries	18,950	112,750	31,924
Interest on mortgage loans	45,344	44,104	41,426
Real estate income	2,016	1,829	1,932
Interest on contract loans	35,553	32,065	27,261
Other income	15,327	14,700	15,702
Total investment income	<u>340,022</u>	<u>472,431</u>	<u>405,948</u>
Less investment expenses	<u>32,339</u>	<u>32,235</u>	<u>33,856</u>
Net investment income	<u>307,683</u>	<u>440,196</u>	<u>372,092</u>
Total income	<u>1,621,121</u>	<u>1,493,346</u>	<u>2,600,838</u>
Death and other benefits:			
Death benefits	62,313	45,566	98,072
Accident and health benefits	1,732	1,405	2,178
Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries	<u>2,541,039</u>	<u>3,538,173</u>	<u>3,383,480</u>
Total death and other benefits	<u>2,605,084</u>	<u>3,585,144</u>	<u>3,483,730</u>
Change in reserves for future policy benefits and other funds	611,430	639,895	669,329
Commissions	172,865	186,543	318,169
General insurance expenses	131,297	143,920	170,690
Insurance taxes, licenses, and fees	17,516	19,851	18,860
Net transfers from Separate Accounts	<u>(2,118,476)</u>	<u>(3,027,908)</u>	<u>(2,139,023)</u>
Total expenses	<u>1,419,716</u>	<u>1,547,445</u>	<u>2,521,755</u>
Income (loss) before dividends to policyholders, expense (benefit) for federal income taxes, and net realized capital (gains) losses	201,405	(54,099)	79,083
Dividends to policyholders	<u>105,865</u>	<u>112,994</u>	<u>116,431</u>
Income (loss) before expense (benefit) for federal income taxes and net realized capital gains (losses)	95,540	(167,093)	(37,348)
Expense (benefit) for federal income taxes	<u>33,016</u>	<u>(88,213)</u>	<u>(9,704)</u>
Income (loss) before net realized capital gains (losses)	62,524	(78,880)	(27,644)
Net realized capital gains (losses), net of interest maintenance reserve and income taxes	<u>72,355</u>	<u>(4,935)</u>	<u>(27,776)</u>
Net income (loss)	<u>\$ 134,879</u>	<u>(83,815)</u>	<u>(55,420)</u>

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, 2020, 2019 and 2018

(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, 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 gain	—	—	—	—	(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
Net loss	—	—	—	—	(83,815)	(83,815)
Amortization of surplus note	—	77	—	—	—	77
Change in net unrealized capital gains	—	—	—	—	41,436	41,436
Change in net unrealized foreign exchange capital gain	—	—	—	—	(1)	(1)
Change in net deferred income tax	—	—	—	—	(16,822)	(16,822)
Change in nonadmitted assets and related items	—	—	—	—	16,728	16,728
Change in asset valuation reserve	—	—	—	—	(38,352)	(38,352)
Correction of an error, net of tax	—	—	—	—	(1,446)	(1,446)
Deferred coinsurance gain	—	—	—	—	40,784	40,784
Benefit plan adjustment	—	—	—	—	(366)	(366)
Voluntary reserve	—	—	—	4,409	93,158	97,567
Segregated special surplus for the benefit of affiliate	—	—	—	35,826	(35,826)	—
Dividends to stockholder	—	—	—	—	(55,000)	(55,000)
Balance at December 31, 2019	10,000	309,775	283,297	35,826	380,965	1,019,863
Net income	—	—	—	—	134,879	134,879
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	(44,627)	(44,627)
Change in net deferred income tax	—	—	—	—	10,885	10,885
Change in nonadmitted assets and related items	—	—	—	—	(24,770)	(24,770)
Change in asset valuation reserve	—	—	—	—	(11,323)	(11,323)
Change in reserve valuation basis	—	—	—	—	63,050	63,050
Correction of an error, net of tax	—	—	—	—	(195)	(195)
Deferred coinsurance gain	—	—	—	—	(22,921)	(22,921)
Benefit plan adjustment	—	—	—	—	(6,410)	(6,410)
Dividends to stockholder	—	—	—	—	(40,000)	(40,000)
Balance at December 31, 2020	\$ 10,000	309,851	283,297	35,826	439,533	1,078,507

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, 2020, 2019 and 2018

(Dollars in thousands)

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash flow from operations:			
Premiums, other considerations, and fund deposits	\$ 980,931	1,087,409	1,847,775
Investment income	309,036	441,010	372,370
	1,289,967	1,528,419	2,220,145
Less:			
Death and other benefits	2,198,713	3,368,750	2,614,046
Commissions, taxes, and other expenses	397,424	288,797	445,230
Dividends paid to policyholders	114,097	115,392	100,620
Net transfers from separate accounts	(2,131,558)	(3,078,812)	(2,216,518)
	578,676	694,127	943,378
Net cash provided by operations	711,291	834,292	1,276,767
Cash flow from investing activities:			
Proceeds from investments sold, matured, or repaid:			
Bonds	937,751	753,192	919,511
Stocks	—	16,952	4,851
Mortgage loans on real estate	92,223	107,996	124,424
Real estate	16	—	—
Other	29,863	3,106	2,435
	1,059,853	881,246	1,051,221
Less cost of investments acquired:			
Bonds	1,011,681	1,010,788	2,016,210
Stocks	5,439	7,534	6,426
Mortgage loans on real estate	132,165	181,512	180,882
Real estate	—	382	2,546
Other	337,823	65,584	63,326
	1,487,108	1,265,800	2,269,390
Less increase in contract loans	91,384	105,791	95,801
Net cash used in investing activities	(518,639)	(490,345)	(1,313,970)
Cash flow from financing and other miscellaneous sources:			
Deposits on deposit-type contracts and other liabilities	169,681	119,313	122,022
Withdrawals on deposit-type contracts and other liabilities	(198,841)	(145,228)	(131,929)
Dividends to stockholder	(40,000)	(55,000)	(60,000)
Other, net	127,652	(193,080)	(8,754)
	58,492	(273,995)	(78,661)
Net cash used in financing	58,492	(273,995)	(78,661)
Net increase (decrease) in cash, cash equivalents and short-term investments	251,144	69,952	(115,864)
Cash, cash equivalents and short-term investments:			
Beginning of year	397,382	327,430	443,294
End of year	\$ 648,526	397,382	327,430
Supplemental disclosures of cash flow information for non-cash transactions:			
Change in securities lending collateral	\$ 109,478	(57,807)	229,772
Funds held under fixed indexed annuity reinsurance agreement, net	(41,443)	(40,411)	482,442
Capital contribution to affiliate	—	80,000	—
Affiliate reinsurance agreements, net	—	(378,976)	—
Coinsurance reinsurance agreement	—	(1,694,934)	—
Deferred gain on coinsurance reinsurance agreements	22,921	12,061	—

See accompanying notes to statutory financial statements.

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

Notes to Statutory Financial Statements

December 31, 2020, 2019 and 2018

(Dollars in thousands)

**(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”), an Ohio authorized reinsurer; 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 would exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision followed 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 variable annuities or new retirement plans but will continue to service and support existing clients in both product lines. During the second quarter of 2020, the Company made the strategic decision to relaunch its fixed indexed annuity product.

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. The Company paid approximately \$115,000 and \$58,000 related to the buy-back during 2019 and 2018, respectively, which is included in benefits and claims on the corresponding statements of operations. A second phase of the buy-back was offered in late 2020 and into 2021. The Company paid approximately \$12,000 related to the buy-back in 2020, which is included in benefits and claims on the corresponding statements of operations.



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

Notes to Statutory Financial Statements

December 31, 2020, 2019 and 2018

(Dollars in thousands)

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, 2020 and 2019. ONLIC’s wholly-owned Vermont 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.

The Company’s subsidiary, SUNR, applies a prescribed practice which values assumed guaranteed minimum death benefit (“GMDB”) and guaranteed lifetime withdrawal benefit (“GLWB”) risks on variable annuity contracts from the Company using a separate alternative reserve basis pursuant to Ohio Revised Code Chapter 3964 and approved by the Department. The prescribed practice related to the Company’s guaranteed risks changed the Company’s carrying value of SUNR, included in other invested assets on the statutory statements of admitted assets, liabilities, capital and surplus, by \$186,173 and (\$164,187) as of December 31, 2020 and 2019, respectively. If the prescribed practices were not applied, the Company’s risk-based capital would continue to be above regulatory action levels.

A reconciliation of the Company’s net loss and capital and surplus between NAIC SSAP and practices prescribed by the State of Ohio are shown below:

	<u>2020</u>	<u>2019</u>
<b>Net Income</b>		
Company state basis	\$ 134,879	(83,815)
State prescribed practices that are an increase/(decrease) from NAIC SAP	—	—
NAIC SAP	<u>\$ 134,879</u>	<u>(83,815)</u>
<b>Surplus</b>		
Company state basis	\$ 1,078,507	1,019,863
State prescribed practices that are an increase/(decrease) from NAIC SAP		
Subsidiary valuation - SUNR	186,173	(164,187)
NAIC SAP	<u>\$ 892,334</u>	<u>1,184,050</u>

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Notes to Statutory Financial Statements

December 31, 2020, 2019 and 2018

(Dollars in thousands)

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 (loss) on a GAAP basis versus capital and surplus and net income (loss) 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; 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;

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December 31, 2020, 2019 and 2018

(Dollars in thousands)

- 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;
- certain annuity related contracts give rise to embedded derivatives for GAAP while STAT does not recognize these embedded derivatives; and
- on a statutory basis only, the correction of immaterial prior period errors are recorded directly to surplus.

The effects of the foregoing variances from GAAP on the accompanying statutory basis financial statements have not been determined, but are presumed to be material.

**(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, 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**

Investment Income

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

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Notes to Statutory Financial Statements

December 31, 2020, 2019 and 2018

(Dollars in thousands)

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.

Bonds

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 utilizing 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 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 value of SUNR’s statutory surplus, adjusted for the prescribed practice described in Note 2. 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 ONIL, a noninsurance subsidiary, as it does not have audited GAAP financial statements for 2020, 2019 and 2018.

Management reviews its investments in subsidiary, controlled, and affiliated entities for impairment based upon the probability that the Company will be able to recover the carrying amount of the investment or if

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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 date of the statutory statement of admitted assets, liabilities, and capital and surplus 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.

Mortgage loans 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. In response to the Coronavirus ("COVID-19") pandemic, there was an increase in the volume of loan modifications in the Company's mortgage portfolio. The COVID-19 related modifications were primarily in the form of principal and/or interest deferrals in accordance with the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus and in accordance with the interpretation issued by the NAIC, INT 20-03 *Troubled Debt Restructuring Due to COVID-19*, during the year ended December 31, 2020. Accordingly, these loans were not categorized as a TDR.

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 \$6,134 and \$5,133 as of December 31, 2020 and 2019, 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,

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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 the 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 external and inter-company surplus notes, accounted for at amortized cost for NAIC ratings 1 or 2 or the lessor of amortized cost or fair value for NAIC ratings 3 through 6, and the Company's investment in SUNR.

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) Segregated Special Surplus Fund**

The Company has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with a reinsurance agreement undertaken during 2019. The assets are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 200% of its authorized control level risk based capital. The segregated special surplus fund is held in a custodial

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account. At December 31, 2020 and 2019, the required amount to be segregated was \$35,826 recorded in the aggregate write-ins for special surplus funds on the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus and the Statutory Statements of Changes in Capital and Surplus. Total value of the custodial account was \$39,325 and \$36,437, at December 31, 2020 and 2019, respectively, which was invested in the following:

		<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$	877	3,090
Securities available-for-sale, at fair value:			
Fixed maturity securities		32,612	25,579
Mortgage loans on real estate, net		5,836	7,768
Total custodial account value	\$	39,325	36,437

**(e) 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.

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***(f) 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.

***(g) Reserves for Future Policy Benefits***

***Life Policies and Contracts***

For traditional life policies issued prior to January 1, 2020, reserves are based on statutory mortality and interest requirements without consideration for withdrawals. The mortality table and interest assumptions used for the majority of new policies issued was the 2017 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 5.5%, 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%. For policies issued January 1, 2020 and after, reserves are calculated as prescribed in section 20 of the Valuation Manual (“VM-20”) using principles based reserves (“PBR”). The assumptions used in the calculations are a combination of prescribed assumptions and company experience.

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 \$6,897,979 and \$6,695,902 of individual life insurance in force as of December 31, 2020 and 2019, respectively, and \$1,250,881 and \$1,100,703 of related reserves as of December 31, 2020 and 2019, 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.



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*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). Beginning January 1, 2020, the disability reserve calculations for new policies also incorporate the 2013 Individual Disability Insurance table and its associated modifiers as required by Actuarial Guideline 50.

*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. The fixed indexed annuity contracts issued beginning in 2020 do not include the GLWB rider.

Effective January 1, 2020, the Company began reserving for variable annuity policies in force under section 21 of the Valuation Manual ("VM-21"). VM-21 sets forth requirements for the valuation of PBR for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. VM-21 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve but rather on the policy as a whole. The requirement applies the principles of asset adequacy analysis directly to the risks associated with these products and guarantees. The VM-21 liability is evaluated with both company assumptions and prescribed assumptions under stochastic scenarios net of currently held applicable hedge asset cash flows. The Company holds the reserve liability valuation at the Conditional Tail Expectation ("CTE") 70 level of the company assumptions value plus any additional standard projection amount and is subject to a floor of cash surrender value. These guarantee reserves are included in the general account reserves. Prior to 2020, these policies were reserved under Actuarial Guideline 43 ("AG43").

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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 but rather on the policy as a whole. The reserves for both the base policy and the rider guarantees 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 rate credited on these annuity policies was 2.77% for the years ended December 31, 2020, 2019 and 2018. 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 1.00% to 5.5%). 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 1.50% to 7.00%).

***(h) Participating Business/Policyholders’ Dividends***

Participating business, which refers to policies that participate in profits through policyholders’ dividends, represents 22.4% and 20.5% of the Company’s ordinary life insurance in force at December 31, 2020 and 2019, 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.

***(i) 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.

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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.

***(j) 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 those 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 were 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 agreements. 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.

***(k) 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 \$395,000 and \$350,000 as of December 31, 2020 and 2019, respectively, 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.

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

	<u>2020</u>	<u>2019</u>
Membership stock - Class B	\$ 30,000	30,000
Activity stock	13,552	11,552
Total	<u>\$ 43,552</u>	<u>41,552</u>
Actual or estimated borrowing capacity as determined by the insurer	\$ 451,743	577,615

Membership stock eligible and not eligible for redemption at December 31, 2020 is as follows:

<u>Membership stock</u>	<u>Current year total</u>	<u>Not eligible for redemption</u>	<u>Less than 6 months</u>	<u>6 months to less than 1</u>	<u>1 to less than 3 years</u>	<u>3 to 5 years</u>
Class B	\$ 30,000	30,000	—	—	—	—

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

	<u>2020</u>	<u>2019</u>
Total collateral pledged:		
Fair value	\$ 471,603	394,748
Carrying value	445,609	380,273
Total borrowing	395,000	350,000

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

	<u>2020</u>	<u>2019</u>
Maximum amount pledged:		
Fair value	\$ 533,387	400,134
Carrying value	503,794	400,032
Total borrowing	450,000	350,000

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

	<b>General account</b>	<b>Funding agreements reserves established</b>
<b>2020</b>		
Funding agreements \$	395,000	395,000
<b>2019</b>		
Funding agreements \$	350,000	350,000

The maximum amount available during the reporting period ended December 31, 2020 is \$450,000 and is only applicable to the general account.

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

**(l) 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 operations 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 capital and surplus. Limitations of deferred income taxes are recorded in 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 tax balances are settled quarterly.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was enacted and signed into law. The CARES Act includes, among other items, measures concerning income tax, payroll tax credits, and loan programs. The CARES Act permits net operating loss (“NOL”) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to generate a refund of previously paid income taxes. The Company does not anticipate the NOL changes to impact income taxes. The Company did not participate in any of the CARES payroll tax credits or loan programs.

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***(m) 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.

***(n) 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.

***(o) 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.

***(p) New Accounting Standards***

In May 2020, the NAIC adopted revisions to disclosures for SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which is effective as of December 31, 2020 and applied on a prospective basis. These revisions did not have an impact on the Company's statutory financial statements; however, the new disclosures were included in Schedule 4.

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In July 2020, the NAIC issued revisions to SSAP No. 32R, *Preferred Stock*. These revisions update the definitions, measurement and impairment guidance for all preferred stock. With adoption of SSAP No. 32R, all perpetual preferred stock is to be valued at fair value, not to exceed any currently effective call price. This guidance is effective January 1, 2021. Management does not expect that this guidance will have a material impact on its statutory financial statements.

In July 2020, the NAIC issued revisions to SSAP No. 86, *Financing Derivatives*. These revisions ensure reporting consistency in that derivatives are reported "gross," i.e., without the inclusion of financing components. Additionally, amounts owed to/from the reporting entity from the acquisition or writing of derivatives shall be separately reflected. This guidance is effective January 1, 2021. Management does not expect that this guidance will have a material impact on its statutory financial statements.

In July 2020, the NAIC issued revisions to SSAP No.26R, *Bonds*. These revisions are effective as of January 1, 2021 and clarify that the accounting and reporting of investment income and capital gains/loss, due to the early liquidation either through a called bond or a bond tender offer, shall be similarly applied. The Company is in the process of assessing the impact of this standard on its statutory financial statements.

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 adoption of this guidance did not impact the Company's statutory financial statements.

**(q) Subsequent Events**

The Company has evaluated subsequent events through March 26, 2021, the date the statutory financial statements were available to be issued.

The Company has paid approximately \$24,000 related to the buy-back program mentioned in Note 1 for the year 2021 through March 26, 2021

On March 22, 2021, the Board of ONMH unanimously approved an agreement to enter into a strategic transaction with Constellation Insurance Holdings, Inc. ("Constellation") whereby Constellation will acquire ONMH. The agreement was signed on March 22, 2021.

ONMH entered into the transaction to strengthen its financial position, enhance its market position, and enable it to become a stronger, more responsive and innovative financial services company. Constellation will build off ONMH's strengths and infrastructure to grow its insurance business going forward.

The transaction will be structured as a sponsored demutualization, which means ONMH will convert to a stock company and will be indirectly owned by Constellation upon closing of the transaction. The conversion requires a vote by eligible members as well as regulatory review and approval. Eligible

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members will be compensated for the extinguishment of their membership interests with additional policy benefits, or cash, as applicable. In addition to member compensation, Constellation has committed a \$500 million capital infusion into ONMH over a four-year period following the closing of the transaction.

The transaction is subject to regulatory and member approval. Upon completion of the transaction, ONMH will be a private stock company owned by Constellation.

**(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.

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.

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 14% and 13% of total individual annuity reserves as of December 31, 2020 and 2019, respectively. 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 agreements 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 its competitors, the Company's ability to market products to new customers could be harmed, and the Company could potentially lose existing customers. The Company



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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.

*Cyber Risk* is the potential for information and systems to be vulnerable to adverse events, such as breaches, thefts, compromised integrity, damage, fraud, or business disruption, caused by internal, external or third parties. The loss of confidentiality, integrity or availability for information and systems could disrupt operations, result in the loss of business, materially affect profitability and negatively impact the Company’s reputation. The Company utilizes a defense in depth approach to physically, administratively and technically mitigate cyber risk. Multiple layers of security controls provide redundancy in the event a security control fails or a vulnerability is exploited. Despite these efforts, there is still a risk a cyber incident could happen.

*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, which could affect 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, effective July 1, 2019, the Company has reinsured the majority of the block of business with a third party under a coinsurance agreement.

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

*Coronavirus (“COVID-19”) Risk* is the potential risk the Company is exposed to with the ongoing COVID-19 pandemic. Depending on the scope, severity and duration of the crisis, the Company could experience potential disruptions to business operations resulting from quarantines of employees, policyholders, or its distribution. Further, new and potentially unforeseen risks beyond those described above may arise as a result of the COVID-19 pandemic and the actions taken by governmental and regulatory authorities to mitigate its impact. Even after the crisis subsides, it is possible that the U.S. and other major economies will experience a prolonged recession or a prolonged economic recovery, in which event the Company’s businesses, results of operations and financial condition could be materially and adversely affected. Deterioration of economic conditions, geopolitical tensions or weakening in global capital markets may materially affect the Company’s businesses, results of operations, financial condition and liquidity.

The Company has business continuity plans in place to attempt to mitigate the risk posed to business operations by disruptive incidents such as these. The Company is continuing to evaluate the potential long-term impact of the crisis to its operations and financial condition.

**(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.

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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, other invested assets, 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, common stocks, other invested assets and derivative securities.

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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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2020</b>				
Assets:				
Investments:				
Bonds	\$ —	178	—	178
Common stocks	—	43,695	1,719	45,414
Cash, cash equivalents and short-term investments	647,649	877	—	648,526
Derivatives	—	115,488	—	115,488
Other invested assets	—	—	5,557	5,557
Securities lending reinvested collateral assets	—	281,976	—	281,976
Other assets:				
Separate account assets	18,793,793	—	—	18,793,793
Total assets	<u>\$ 19,441,442</u>	<u>442,214</u>	<u>7,276</u>	<u>19,890,932</u>
Liabilities:				
Other liabilities:				
Derivatives	\$ 3,866	33,416	—	37,282
Total liabilities	<u>\$ 3,866</u>	<u>33,416</u>	<u>—</u>	<u>37,282</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2019</b>				
Assets:				
Investments:				
Bonds	\$ —	278	—	278
Common stocks	—	41,721	—	41,721
Cash, cash equivalents and short-term investments	359,332	38,067	—	397,399
Derivatives	98	111,623	—	111,721
Securities lending reinvested collateral assets	—	172,498	—	172,498
Other assets:				
Separate account assets	19,255,771	—	—	19,255,771
Total assets	<u>\$ 19,615,201</u>	<u>364,187</u>	<u>—</u>	<u>19,979,388</u>
Liabilities:				
Other liabilities:				
Derivatives	\$ 2,143	56,756	—	58,899
Total liabilities	<u>\$ 2,143</u>	<u>56,756</u>	<u>—</u>	<u>58,899</u>

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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.

<b>2020</b>	<b>Carrying amount</b>	<b>NAIC estimated fair value</b>	<b>Fair value hierarchy level</b>		
			<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets:					
Investments:					
Bonds	\$ 5,398,199	5,867,959	10,640	5,660,532	196,787
Preferred stocks	7,101	8,033	—	8,033	—
Common stocks, other than investments in affiliates	45,414	45,414	—	43,695	1,719
Mortgage loans on real estate	970,773	1,019,181	—	—	1,019,181
Contract loans	835,945	976,803	—	—	976,803
Cash, cash equivalents and short-term investments	648,526	648,526	647,649	877	—
Derivatives	115,488	115,488	—	115,488	—
Other invested assets	489,176	501,282	—	153,005	348,277
Securities lending reinvested collateral assets	281,976	281,979	—	281,979	—
Other assets:					
Separate account assets	18,793,793	18,793,793	18,793,793	—	—
Liabilities:					
Guaranteed investment contracts	\$ 509,350	496,834	—	496,834	—
Individual deferred annuities	580,634	571,575	—	571,575	—
Immediate and other annuity deposits	1,474,565	1,206,221	—	1,206,221	—
Other policyholder funds	133,508	133,508	133,508	—	—
Derivatives	37,282	37,282	3,866	33,416	—
Separate account liabilities	18,793,792	18,793,792	18,793,792	—	—

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2019	Carrying amount	NAIC estimated fair value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
Assets:					
Investments:					
Bonds	\$ 5,382,681	5,654,920	10,568	5,590,437	53,915
Preferred stocks	5,101	5,759	—	5,759	—
Common stocks, other than investments in affiliates	41,721	41,721	—	41,721	—
Mortgage loans on real estate	930,632	956,016	—	—	956,016
Contract loans	744,593	829,205	—	—	829,205
Cash, cash equivalents and short-term investments	397,382	397,399	265,649	38,067	—
Derivatives	111,721	111,721	98	111,623	—
Other invested assets	251,659	257,288	—	85,986	171,302
Securities lending reinvested collateral assets	172,498	172,503	—	172,503	—
Other assets:					
Separate account assets	19,255,771	19,255,771	19,255,771	—	—
Liabilities:					
Guaranteed investment contracts	\$ 511,969	497,711	—	497,711	—
Individual deferred annuities	629,201	625,599	—	625,599	—
Immediate and other annuity deposits	1,398,661	1,388,538	—	1,388,538	—
Other policyholder funds	142,827	142,827	142,827	—	—
Derivatives	58,899	58,899	2,143	56,756	—
Separate account liabilities	19,255,771	19,255,771	19,255,771	—	—

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.

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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 and approximates fair value. The FHLB stock is not traded on an active market and is classified as a Level 2 asset.

In some instances, common stocks are being carried based on valuation metrics obtained from a third party valuation report. These common stocks are classified as Level 3 assets.

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

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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 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.



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*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.

Included in other invested assets are unaffiliated surplus notes. Estimated fair values for these are determined from market prices published by the SVO. The Company has classified these fair values as Level 2 since the valuation inputs are based on market observable information.

The carrying amount reported in the statutory financial statements of unaffiliated joint ventures or partnership interests is based on valuation metrics obtained from a third party valuation report. These unaffiliated joint ventures or partnership interests are classified as Level 3 assets.

The carrying amount reported in the statutory financial statements of the Company’s investment in SUNR, an affiliated subsidiary, was \$342,720 and \$171,302 at December 31, 2020 and 2019, respectively. This amount is included in other invested assets, and the Company has classified the fair value 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.

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*Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)*

The following tables summarize the reconciliation of the beginning and ending balances and related changes in fair value measurements for which significant unobservable inputs were used in determining the estimated fair value for the years ended December 31:

Assets	Common Stocks	Other Invested Assets	Total Assets
<b>December 31, 2019</b>	\$ —	—	—
Net investment gains/(losses):			
In earnings (realized and unrealized)	—	(1,258)	(1,258)
Unrealized in surplus	280	—	280
Purchases	1,439	2,030	3,469
Settlements	—	(572)	(572)
Transfers into Level 3	—	5,357	5,357
<b>December 31, 2020</b>	<u>\$ 1,719</u>	<u>5,557</u>	<u>7,276</u>
Change in unrealized gains (losses):			
Still held at December 31:			
2019	\$ —	—	—
2020	\$ —	—	—

*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.

During the year ended December 31, 2020, the Company transferred investments in limited partnerships totaling \$5,357 into Level 3 from Level 2 as a result of lack of visibility to observe inputs to price. The Company had no transfers between levels in 2019 or 2018.

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*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, 2020 and 2019, no non-life insurance subsidiary's common stock exceeded 10% of the Company's admitted assets.

<u>Description of SCA Investment</u>	<u>12/31/2019 Admitted Asset Amount</u>	<u>Date of Filing to NAIC</u>	<u>Type of NAIC Filing (Sub 1 or Sub 2)</u>	<u>NAIC Response Received (Yes/No)</u>	<u>NAIC Valuation (Amount)</u>	<u>NAIC Disallowed Valuation Method (Yes/No)</u>
ONEQ	\$ 1,346	6/30/2020	Sub 2	Yes	1,346	No
ONESCO	7,703	6/30/2020	Sub 2	Yes	7,703	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, NSLAC, and SUNR. 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. At December 31, 2020 and 2019, 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.

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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.

*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:

	<b>2020</b>			
	<b>Carrying value*</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>NAIC estimated fair value</b>
Bonds:				
U.S. government	\$ 74,927	5,033	(60)	79,900
States, territories and possessions	771,358	53,372	(410)	824,320
Political subdivisions of states	7,335	614	—	7,949
Special revenue and assessment	325,044	21,616	—	346,660
Industrial and miscellaneous	4,216,535	400,558	(11,314)	4,605,779
Hybrid securities	3,000	351	—	3,351
Total bonds	<u>\$ 5,398,199</u>	<u>481,544</u>	<u>(11,784)</u>	<u>5,867,959</u>
Preferred stocks	<u>\$ 7,101</u>	<u>932</u>	<u>—</u>	<u>8,033</u>
Common stocks	<u>\$ 45,931</u>	<u>299</u>	<u>(816)</u>	<u>45,414</u>

\* Represents cost for Common stocks

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	<b>2019</b>			
	<b>Carrying value*</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>NAIC estimated fair value</b>
Bonds:				
U.S. government	\$ 92,570	4,108	(115)	96,563
States, territories and possessions	564,504	23,397	(1,969)	585,932
Political subdivisions of states	7,605	410	—	8,015
Special revenue and assessment	389,967	15,398	(527)	404,838
Industrial and miscellaneous	4,325,035	238,416	(7,117)	4,556,334
Hybrid securities	3,000	238	—	3,238
Total bonds	\$ 5,382,681	281,967	(9,728)	5,654,920
Preferred stocks	\$ 5,101	658	—	5,759
Common stocks	\$ 42,492	19	(790)	41,721

\* Represents cost for Common stocks

Included in the tables above 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 \$8,435 and \$8,574 were on deposit with various regulatory agencies as required by law as of December 31, 2020 and 2019, respectively.

Maturities of Bonds

The carrying value and the NAIC estimated fair value of bonds at December 31, 2020, 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.

	<b>Carrying value</b>	<b>NAIC estimated fair value</b>
Due in one year or less	\$ 478,015	519,613
Due after one year through five years	1,797,550	1,953,976
Due after five years through ten years	1,558,419	1,694,035
Due after ten years	1,564,215	1,700,335
Total	\$ 5,398,199	5,867,959

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*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:

	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
<b>2020</b>						
Bonds:						
U.S. government	\$ 4,518	(52)	1,131	(8)	5,649	(60)
States, territories and possessions	14,052	(77)	2,667	(333)	16,719	(410)
Industrial and miscellaneous	288,678	(9,662)	42,349	(1,652)	331,027	(11,314)
Total bonds	<u>307,248</u>	<u>(9,791)</u>	<u>46,147</u>	<u>(1,993)</u>	<u>353,395</u>	<u>(11,784)</u>
Preferred and common stocks	<u>—</u>	<u>—</u>	<u>115</u>	<u>(816)</u>	<u>115</u>	<u>(816)</u>
Total	<u>\$ 307,248</u>	<u>(9,791)</u>	<u>46,262</u>	<u>(2,809)</u>	<u>353,510</u>	<u>(12,600)</u>
<b>2019</b>						
Bonds:						
U.S. government	\$ 14,660	(57)	2,178	(58)	16,838	(115)
States, territories and possessions	115,741	(1,677)	2,708	(292)	118,449	(1,969)
Special revenue and assessment	34,669	(233)	21,621	(294)	56,290	(527)
Industrial and miscellaneous	301,704	(3,224)	75,955	(3,893)	377,659	(7,117)
Total bonds	<u>466,774</u>	<u>(5,191)</u>	<u>102,462</u>	<u>(4,537)</u>	<u>569,236</u>	<u>(9,728)</u>
Preferred and common stocks	<u>—</u>	<u>—</u>	<u>141</u>	<u>(790)</u>	<u>141</u>	<u>(790)</u>
Total	<u>\$ 466,774</u>	<u>(5,191)</u>	<u>102,603</u>	<u>(5,327)</u>	<u>569,377</u>	<u>(10,518)</u>

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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:

	<u>Less than 12 months</u>	<u>12 months or longer</u>	<u>Total</u>
<b>2020</b>			
99.9%-80%:			
U.S. government	\$ (52)	(8)	(60)
States, territories and possessions	(77)	(333)	(410)
Industrial and miscellaneous	<u>(9,662)</u>	<u>(1,652)</u>	<u>(11,314)</u>
Total	<u>\$ (9,791)</u>	<u>(1,993)</u>	<u>(11,784)</u>
<b>2019</b>			
99.9%-80%:			
U.S. government	\$ (57)	(58)	(115)
States, territories and possessions	(1,677)	(292)	(1,969)
Special revenue and assessment	(233)	(294)	(527)
Industrial and miscellaneous	(3,224)	(2,352)	(5,576)
Below 80%:			
Industrial and miscellaneous	<u>—</u>	<u>(1,541)</u>	<u>(1,541)</u>
Total	<u>\$ (5,191)</u>	<u>(4,537)</u>	<u>(9,728)</u>

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 is prepared 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 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;

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- 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 evaluates 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, 2020, 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 \$176,258. Loan-backed and structured securities in an unrealized loss position for less than 12 months had a fair value of \$144,231 and unrealized losses of \$4,158. Loan-backed and structured securities in an unrealized loss position for greater than 12 months had a fair value of \$32,027 and unrealized losses of \$1,007. 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, 2020 and 2019 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, 2019 to December 31, 2020 due to wider credit spreads on certain bond holdings in the energy and airline industries that were negatively affected by the recession caused by the COVID-19 crisis. No write-downs were deemed necessary for these securities as



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prices are expected to increase as the economy continues its recovery. 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, 2020 and 2019 were \$970,773 and \$930,632, respectively.

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

	<u>2020</u>	<u>2019</u>
Minimum	3.0%	3.8%
Maximum	4.1%	5.1%

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 15.5% of the total portfolio as of December 31, 2020 or 2019.

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

	<u>2020</u>	<u>2019</u>
Texas	\$ 150,068	113,405
Ohio	123,837	137,753
California	120,926	117,533

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.

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The following table summarizes the 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.

LTV	DSC						Total
	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	
<b>2020</b>							
0% - 50%	\$ 187,912	89,963	95,291	97,236	49,608	8,331	528,341
50% - 60%	26,252	11,054	47,070	42,467	26,283	—	153,126
60% - 70%	3,095	—	55,571	68,645	16,676	—	143,987
70% - 80%	—	—	—	56,158	11,959	5,461	73,578
80% and greater	—	—	5,343	33,939	25,665	6,794	71,741
Total	\$ 217,259	101,017	203,275	298,445	130,191	20,586	970,773
<b>2019</b>							
0% - 50%	\$ 188,656	47,845	103,410	98,764	43,610	4,064	486,349
50% - 60%	30,622	11,576	69,841	60,525	33,348	843	206,755
60% - 70%	—	—	20,387	106,108	10,340	3,002	139,837
70% - 80%	—	—	3,899	21,224	23,648	4,078	52,849
80% and greater	—	—	—	4,922	15,458	24,462	44,842
Total	\$ 219,278	59,421	197,537	291,543	126,404	36,449	930,632

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%. The Company's corporate policy directs that the 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 2020 and 2019.

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.

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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
2020	\$ —	—	—	—	970,773	970,773	—
2019	\$ —	—	—	—	930,632	930,632	—

Performance, Impairment and Foreclosures

The Company had no mortgage loans in the process of foreclosure at December 31, 2020 or 2019. There were no mortgage loan write-downs in 2020, 2019 or 2018. The Company did not have an allowance for credit losses at December 31, 2020 or 2019.

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, 2020 or 2019.

The Company did not have any significant troubled debt restructurings of mortgage loans during 2020, 2019 or 2018.

The Company had no recorded investments in, or unpaid principal balance of, impaired commercial loans at December 31, 2020 or 2019.

No mortgages were sold to ONFS in 2020, 2019 or 2018.

The Company has a mortgage loan receivable from ONFS of \$21,675 and \$22,482 as of December 31, 2020 and 2019, 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.

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*Securities Lending*

As of December 31, 2020 and 2019, the Company received \$281,976 and \$172,498, 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, 2020 and 2019. The estimated fair value of loaned securities was \$276,706 and \$168,640 as of December 31, 2020 and 2019, 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	
		2020	2019	2020	2019	2020	2019
Bonds	\$	2	2	1,429	1,848	1,433	1,858

*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:

		Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
<b>2020</b>				
Bonds	\$	(6,442)	10	(6,432)
Common stocks		—	(22,140)	(22,140)
Real estate		16	—	16
Derivative instruments		80,652	(24,079)	56,573
Other		(383)	1,582	1,199
Total		73,843	(44,627)	29,216
Less amount credited to interest maintenance reserve		3,519	—	3,519
Net (losses) gains before tax		70,324	(44,627)	25,697
Taxes on investment losses/gains		2,031	6,345	8,376
Admitted deferred tax asset		—	(6,345)	(6,345)
Net (losses) gains after tax	\$	72,355	(44,627)	27,728

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	<u>Realized gains (losses)</u>	<u>Change in unrealized gains (losses)</u>	<u>Total investment gains (losses)</u>
<b>2019</b>			
Bonds <sup>1</sup>	\$ 129,862	(3)	129,859
Common stocks	1,244	(29,687)	(28,443)
Derivative instruments	(5,333)	36,651	31,318
Other	(202)	34,475	34,273
Total	125,571	41,436	167,007
Less amount credited to interest maintenance reserve <sup>2</sup>	132,388	—	132,388
Net (losses) gains before tax	(6,817)	41,436	34,619
Taxes on investment losses/gains	1,882	(9,428)	(7,546)
Admitted deferred tax asset	—	9,428	9,428
Net (losses) gains after tax	\$ (4,935)	41,436	36,501

<sup>1</sup> Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13.

<sup>2</sup> Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13.

\$109,964 became a component of the initial deferred gain for this reinsurance treaty.

	<u>Realized gains (losses)</u>	<u>Change in unrealized gains (losses)</u>	<u>Total investment gains (losses)</u>
<b>2018</b>			
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) gains before tax	(27,122)	4,266	(22,856)
Taxes on investment losses/gains	(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 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.

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Realized capital losses on investments, as shown in the tables above, include write-downs for OTTI of \$7,336, \$2,810 and \$1,552 for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, securities with a carrying value of \$31,513 which had a cumulative write-down of \$10,957 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 \$633, \$192 and \$1,552 for 2020, 2019 and 2018, respectively. The table below lists each security that recognized OTTI impairment in 2020 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	<b>Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI</b>	<b>Projected Cash Flows</b>	<b>Recognized OTTI in Current Period</b>	<b>Amortized Cost After OTTI</b>	<b>Fair Value</b>	<b>Date of Financial Statement When Reported</b>
12489WGE8 \$	793	585	208	585	776	3/31/2020
759950CU0	3,890	3,709	181	3,709	3,877	3/31/2020
92922FJJ8	361	208	154	208	347	3/31/2020
12699GC82	756	666	90	666	730	6/30/2020
Total \$	<u>5,800</u>	<u>5,168</u>	<u>633</u>	<u>5,168</u>	<u>5,730</u>	

Sales of Bonds

Proceeds from sales of investments in bonds, excluding calls, during 2020, 2019 and 2018 were \$736,779, \$954,114 and \$662,441, respectively. Gross gains of \$6,238, \$139,017 and \$4,970 and gross losses of \$5,130, \$6,218 and \$2,564 were realized on those transactions in 2020, 2019 and 2018, 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.

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

	<u>Assets</u>		<u>Liabilities</u>	
	<u>Carrying value*</u>	<u>Notional amount</u>	<u>Carrying value**</u>	<u>Notional amount</u>
<b>2020</b>				
Currency futures	\$ —	—	3,866	262,631
Equity puts	40,813	1,901,467	33,416	578,983
Equity index call options	47,729	1,777,225	—	—
Currency swap	440	9,038	—	—
Swaption	26,506	3,600,000	—	—
Total	<u>\$ 115,488</u>	<u>7,287,730</u>	<u>37,282</u>	<u>841,614</u>
<b>2019</b>				
Currency futures	\$ 98	53,739	2,143	215,305
Equity puts	9	5,312	56,756	1,587,313
Equity index call options	50,225	1,827,082	—	—
Equity swap	—	—	—	—
Currency swap	1,177	9,038	—	—
Swaption	60,212	2,600,000	—	—
Total	<u>\$ 111,721</u>	<u>4,495,171</u>	<u>58,899</u>	<u>1,802,618</u>

\* 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.

See note 13 for additional details related to credit risks associated with reinsurance agreements.

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.

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**(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:

	2020		2019	
	Gross	Net of loading	Gross	Net of loading
Ordinary new business	\$ 10,891	1,506	15,503	2,831
Ordinary renewal	125,388	95,753	114,399	87,462
Total	\$ 136,279	97,259	129,902	90,293

**(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.

As of December 31, 2020 and 2019, the Company's separate account statement included legally insulated assets of \$18,793,793 and \$19,255,771, respectively. The assets legally insulated from the general account as of December 31, are attributed to the following:

	2020	2019
Variable individual annuities	\$ 18,132,839	18,406,791
Variable group annuities	622,728	815,371
Variable immediate annuities	38,226	33,609
Total	\$ 18,793,793	19,255,771

At December 31, 2020 and 2019, 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, 2020 and 2019, the general account of the Company had a maximum guarantee for separate account liabilities of \$1,333 and \$1,610, respectively.



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

	<u>Risk charges</u>
2020	\$ 223,002
2019	230,543
2018	248,184
2017	244,227
2016	230,772

As of December 31, 2020, 2019 and 2018, the general account of the Company had paid \$115,542, \$102,471 and \$68,604, respectively, towards separate account guarantees.

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Premiums, considerations or deposits at year end	\$ <u>147,147</u>	<u>155,907</u>	<u>712,604</u>
Reserves at year end for accounts with assets at:		<u>2020</u>	<u>2019</u>
Market value	\$ 18,505,534	18,976,270	
Amortized cost	178,264	<u>156,425</u>	
Total reserves	\$ <u>18,683,798</u>	<u>19,132,695</u>	
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	18,645,088	19,098,968	
At book value without market value adjustment and with current surrender charge of less than 5%	—	—	
Subtotal	18,645,088	19,098,968	
Not subject to discretionary withdrawal	<u>38,710</u>	<u>33,727</u>	
Total reserves	\$ <u>18,683,798</u>	<u>19,132,695</u>	

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

	2020	2019	2018
Transfers as reported in the summary of operations of the Separate Accounts Statement:			
Transfers to separate accounts	\$ 147,530	155,883	713,299
Transfers from separate accounts	2,265,624	3,183,815	2,851,627
Net transfers from separate accounts before reconciling adjustments	(2,118,094)	(3,027,932)	(2,138,328)
Reconciling adjustments:			
Processing income	(382)	24	(695)
Other net	—	—	—
Net transfers from separate accounts	\$ (2,118,476)	(3,027,908)	(2,139,023)

**(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

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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 GMDDB 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. Effective April 1, 2019, the Company has reinsured all amounts in excess of the non-affiliated reinsurance to an affiliate, SUNR; therefore this voluntary reserve has been released.

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 fifteen years of the contract; if the policyholder's account value goes to zero subsequent to the fifteen year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the ten year treasury rate from the preceding ninety 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 8% 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.

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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 200% 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.

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."

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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):

	<b>2020</b>			
	<b>Death</b>	<b>Living benefits</b>		
	<b>benefits</b>			
	<b>GMDB</b>	<b>GMIB</b>	<b>GLWB</b>	<b>GMAB</b>
<b>Return of net deposit</b>				
Net amount at risk <sup>1</sup>	\$ 115	—	—	—
<b>Return of net deposits accrued at a stated rate</b>				
Net amount at risk <sup>1</sup>	\$ 1,518	—	—	—
<b>Highest of return of net deposits accrued at a stated rate and return of highest anniversary value</b>				
Net amount at risk <sup>1</sup>	\$ 22	—	—	—
<b>Return of highest anniversary value</b>				
Net amount at risk <sup>1</sup>	\$ 3,522	—	—	—
<b>Total</b>				
Net amount at risk <sup>1</sup>	\$ 5,177	—	—	—

<sup>1</sup> Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

	<b>2019</b>			
	<b>Death</b>	<b>Living benefits</b>		
	<b>benefits</b>			
	<b>GMDB</b>	<b>GMIB</b>	<b>GLWB</b>	<b>GMAB</b>
<b>Return of net deposit</b>				
Net amount at risk <sup>1</sup>	\$ 28	—	—	—
<b>Return of net deposits accrued at a stated rate</b>				
Net amount at risk <sup>1</sup>	\$ 1,019	—	—	—
<b>Highest of return of net deposits accrued at a stated rate and return of highest anniversary value</b>				
Net amount at risk <sup>1</sup>	\$ 340	—	—	—
<b>Return of highest anniversary value</b>				
Net amount at risk <sup>1</sup>	\$ 223	—	—	—
<b>Total</b>				
Net amount at risk <sup>1</sup>	\$ 1,610	—	—	—

<sup>1</sup> Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

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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 date of the statement of admitted assets, liabilities, and capital surplus.

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 date of the statement of admitted assets, liabilities, and capital surplus.

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 date of the statement of admitted assets, liabilities, and capital surplus.

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 date of the statement of admitted assets, liabilities, and capital surplus.

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.

The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2020, 2019 or 2018.

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

	<u>2020</u>	<u>2019</u>
Mutual funds:		
Bond	\$ 5,023,892	5,128,733
Equity	12,537,342	12,586,572
Money market	571,538	691,507
Total	<u>\$ 18,132,772</u>	<u>18,406,812</u>

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

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*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 greater 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.

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 account value at the time of exchange. After the initial sweep date, the GLWB base will be the greater 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 \$575,000 as of December 31, 2020 and 2019. The account value, net of reinsurance, specific to the GLWB riders was over \$70,000 as of December 31, 2020 and 2019.

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**(11) Annuity Reserves and Deposit Liabilities by Withdrawal Characteristics**

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2020:

**Individual Annuities**

	<u>General account</u>	<u>Separate account non-guaranteed</u>	<u>Total</u>	<u>% of Total</u>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 1,149,464	—	1,149,464	4.8%
At book value less surrender charge	8,403	—	8,403	0.0%
At fair value*	—	18,022,674	18,022,674	75.3%
Total with adjustment or at market value	1,157,867	18,022,674	19,180,541	80.1%
At book value without adjustment	1,525,756	—	1,525,756	6.4%
Not subject to discretionary withdrawal	3,211,395	8,556	3,219,951	13.5%
Total, gross	5,895,018	18,031,230	23,926,248	100.0%
Reinsurance ceded	4,145,322	—	4,145,322	
Total, net	\$ 1,749,696	18,031,230	19,780,926	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	\$ 5,772	—	5,772	

\* Includes \$18,022,674 of individual and variable deferred Annuity held in Separate Accounts that are surrenderable at market value less a surrender charge.



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**Group Annuities**

	<u>General account</u>	<u>Separate account non-guaranteed</u>	<u>Total</u>	<u>% of Total</u>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 62,853	—	62,853	7.7%
At book value less surrender charge	—	—	—	0.0%
At fair value	—	622,729	622,729	76.6%
Total with adjustment or at market value	62,853	622,729	685,582	84.3%
At book value without adjustment	—	—	—	0.0%
Not subject to discretionary withdrawal	97,668	29,839	127,507	15.7%
Total, gross	160,521	652,568	813,089	100.0%
Reinsurance ceded	—	—	—	
Total, net	\$ 160,521	652,568	813,089	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	\$ —	—	—	

**Deposit-Type Contracts**

	<u>General account</u>	<u>Separate account non-guaranteed</u>	<u>Total</u>	<u>% of Total</u>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 114,350	—	114,350	16.6%
At book value less surrender charge	—	—	—	0.0%
At fair value	—	—	—	0.0%
Total with adjustment or at market value	114,350	—	114,350	16.6%
At book value without adjustment	35,609	—	35,609	5.1%
Not subject to discretionary withdrawal	539,981	—	539,981	78.3%
Total, gross	689,940	—	689,940	100.0%
Reinsurance ceded	—	—	—	
Total, net	\$ 689,940	—	689,940	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	\$ —	—	—	

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The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2020:

Life, accident and health Annual Statement:

Annuities (excluding supplementary contracts with life contingencies), net	\$ 1,904,925
Supplementary contracts with life contingencies, net	5,292
Deposit-type contracts	<u>689,940</u>
Subtotal	2,600,157

Separate Accounts Annual Statement:

Annuities, net	<u>18,683,798</u>
Total annuity reserves and deposit liabilities, net	<u>\$ 21,283,955</u>

As of December 31, 2020, withdrawal characteristics of life actuarial reserves were as follows:

	General account			Separate account - guaranteed and non-guaranteed		
	Account value	Cash value	Reserve	Account value	Cash value	Reserve
Subject to discretionary withdrawal, surrender values or policy loans:						
Term policies with cash value	\$ —	—	—	—	—	—
Universal life	908,090	908,090	910,551	—	—	—
Universal life with secondary guarantees	—	—	565	—	—	—
Indexed universal life with secondary guarantees	—	—	—	—	—	—
Other permanent cash value life insurance	3,875,608	3,875,608	4,515,496	—	—	—
Variable life	—	—	—	—	—	—
Variable universal life	—	—	—	—	—	—
Miscellaneous reserves	—	—	12,244	—	—	—
Not subject to discretionary withdrawal or no cash values						
Term policies without cash value	XXX	XXX	11,564	XXX	XXX	—
Accidental death benefits	XXX	XXX	—	XXX	XXX	—
Disability - active lives	XXX	XXX	27,714	XXX	XXX	—
Disability - disabled lives	XXX	XXX	11,781	XXX	XXX	—
Miscellaneous reserves	XXX	XXX	1,562	XXX	XXX	—
Total, gross	<u>4,783,698</u>	<u>4,783,698</u>	<u>5,491,477</u>	<u>—</u>	<u>—</u>	<u>—</u>
Reinsurance ceded	765,612	765,612	962,808	—	—	—
Total, net	<u>\$ 4,018,086</u>	<u>4,018,086</u>	<u>4,528,669</u>	<u>—</u>	<u>—</u>	<u>—</u>

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The following is the reconciliation of life actuarial reserves as of December 31, 2020:

Life, accident and health Annual Statement:	
Life insurance, net	\$ 4,528,669
Separate Accounts Annual Statement:	
Life insurance, net	—
Total life reserves, net	<u>\$ 4,528,669</u>

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2019:

**Individual Annuities**

	<u>General account</u>	<u>Separate account non-guaranteed</u>	<u>Total</u>	<u>% of Total</u>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 1,141,780	—	1,141,780	4.9%
At book value less surrender charge	83,851	—	83,851	0.4%
At fair value*	—	18,283,597	18,283,597	79.1%
Total with adjustment or at market value	1,225,631	18,283,597	19,509,228	84.4%
At book value without adjustment	1,584,098	—	1,584,098	6.8%
Not subject to discretionary withdrawal	2,021,179	5,627	2,026,806	8.8%
Total, gross	4,830,908	18,289,224	23,120,132	<u>100.0%</u>
Reinsurance ceded	3,134,900	—	3,134,900	
Total, net	<u>\$ 1,696,008</u>	<u>18,289,224</u>	<u>19,985,232</u>	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	<u>\$ 77,968</u>	—	<u>77,968</u>	

\* Includes \$18,283,597 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

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**Group Annuities**

	<b>General account</b>	<b>Separate account non-guaranteed</b>	<b>Total</b>	<b>% of Total</b>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 89,030	—	89,030	8.7%
At book value less surrender charge	—	—	—	0.0%
At fair value*	—	815,371	815,371	79.4%
Total with adjustment or at market value	89,030	815,371	904,401	88.1%
At book value without adjustment	—	—	—	0.0%
Not subject to discretionary withdrawal	93,822	28,100	121,922	11.9%
Total, gross	182,852	843,471	1,026,323	100.0%
Reinsurance ceded	—	—	—	
Total, net	\$ 182,852	843,471	1,026,323	

Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date

\$ — — —

\* Includes \$815,371 of variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

**Deposit-Type Contracts**

	<b>General account</b>	<b>Separate account non-guaranteed</b>	<b>Total</b>	<b>% of Total</b>
Subject to discretionary withdrawal:				
With market value adjustment	\$ 161,969	—	161,969	23.2%
At book value less surrender charge	—	—	—	0.0%
At fair value	—	—	—	0.0%
Total with adjustment or at market value	161,969	—	161,969	23.2%
At book value without adjustment	35,939	—	35,939	5.2%
Not subject to discretionary withdrawal	499,002	—	499,002	71.6%
Total, gross	696,910	—	696,910	100.0%
Reinsurance ceded	—	—	—	
Total, net	\$ 696,910	—	696,910	

Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date

\$ — — —

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The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2019:

Life, accident and health Annual Statement:

Annuities (excluding supplementary contracts with life contingencies), net	\$ 1,873,188
Supplementary contracts with life contingencies, net	5,672
Deposit-type contracts	696,910
Subtotal	2,575,770

Separate Accounts Annual Statement:

Annuities, net	19,132,695
Total annuity reserves and deposit liabilities, net	\$ 21,708,465

As of December 31, 2019, withdrawal characteristics of life actuarial reserves were as follows:

	General account			Separate account - guaranteed and non-guaranteed		
	Account value	Cash value	Reserve	Account value	Cash value	Reserve
Subject to discretionary withdrawal, surrender values or policy loans:						
Term policies with cash value	\$ —	—	—	—	—	—
Universal life	905,715	905,715	907,921	—	—	—
Universal life with secondary guarantees	—	—	518	—	—	—
Indexed universal life with secondary guarantees	—	—	—	—	—	—
Other permanent cash value life insurance	3,392,843	3,392,843	3,984,215	—	—	—
Variable life	—	—	—	—	—	—
Variable universal life	—	—	—	—	—	—
Miscellaneous reserves	—	—	14,535	—	—	—
Not subject to discretionary withdrawal or no cash values						
Term policies without cash value	XXX	XXX	11,326	XXX	XXX	—
Accidental death benefits	XXX	XXX	—	XXX	XXX	—
Disability - active lives	XXX	XXX	26,054	XXX	XXX	—
Disability - disabled lives	XXX	XXX	10,744	XXX	XXX	—
Miscellaneous reserves	XXX	XXX	1,840	XXX	XXX	—
Total, gross	4,298,558	4,298,558	4,957,153	—	—	—
Reinsurance ceded	760,781	760,781	951,354	—	—	—
Total, net	\$ 3,537,777	3,537,777	4,005,799	—	—	—

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The following is the reconciliation of life actuarial reserves as of December 31, 2019:

Life, accident and health Annual Statement:		
Life insurance, net	\$	4,005,799
Separate Accounts Annual Statement:		
Life insurance, net		—
Total life reserves, net	\$	<u><u>4,005,799</u></u>

**(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 claims 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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Claim reserves, beginning of year	\$ 8,985	10,472	10,345
Less reinsurance recoverables	<u>(3,296)</u>	<u>(899)</u>	<u>(635)</u>
Net claim reserves, beginning of year	<u>5,689</u>	<u>9,573</u>	<u>9,710</u>
Claims paid related to:			
Current year	17	26	(30)
Prior years	<u>1,807</u>	<u>(3,139)</u>	<u>(1,641)</u>
Total claims paid	<u>1,824</u>	<u>(3,113)</u>	<u>(1,671)</u>
Incurred related to:			
Current year's incurred	691	445	945
Current year's interest	13	9	18
Prior years' incurred	<u>(1,165)</u>	<u>(1,629)</u>	<u>170</u>
Prior years' interest	<u>345</u>	<u>404</u>	<u>401</u>
Total incurred	<u>(116)</u>	<u>(771)</u>	<u>1,534</u>
Net claim reserves, end of year	7,397	5,689	9,573
Plus reinsurance recoverables	<u>970</u>	<u>3,296</u>	<u>899</u>
Claims reserves, end of year	<u><u>\$ 8,367</u></u>	<u><u>8,985</u></u>	<u><u>10,472</u></u>

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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 46.5%, 42.8% and 30.9% of gross earned life and accident and health premiums during 2020, 2019 and 2018, 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 \$181,278 and \$198,598 as of December 31, 2020 and 2019, respectively.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce Bank Owned Life Insurance ("BOLI") and Single Premium Deferred Annuity ("SPDA") blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio. As a result of the transaction, bonds carried at the amount of \$1,554,453 were transferred to the reinsurer, resulting in a pre-tax realized gain of \$126,291 for the year ended December 31, 2019. This transaction resulted in IMR of \$109,964 being transferred to the reinsurer by the Company and a deferred reinsurance gain of \$52,844, which was recorded in surplus at the contract's inception.

The Company manages its risks related to certain reinsurance agreements by monitoring the credit ratings of the reinsurer. Reinsurance with unauthorized reinsurers is secured by either letter of credit or assets held in trust for the benefit of the Company in accordance with the requirements in Appendix A-785 of the NAIC Statutory Accounting Practices and Procedures Manual. As of December 31, 2020 and 2019, a non-affiliated reinsurer held assets in trust with an estimated fair value of \$751,651 and \$953,387, respectively, and a letter of credit of \$702,976 and \$178,888, respectively.

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*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 SUNR for the GMAB, GMIB, GMDB, and GLWB riders, and from SUNR to Sycamore Re, Ltd (“SYRE”), an affiliated company, for certain GMIB and GMDB riders. Additionally, to consolidate the management of such living benefit risks, the Company assumes GMAB, GMIB, GMDB, and GLWB riders issued by NSLAC, which are correspondingly retroceded to SYRE. The base variable annuity contracts are retained by the Company, however the excess death benefit rider risk on the base contract is ceded to SUNR. 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 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 \$501,949 under the reinsurance arrangement utilizing a reserve methodology that is approved by CIMA. The approved reserve methodology is based upon U.S. 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.



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

	<u>2020</u>	<u>2019</u>
FASB ASC Topic 944:		
GMIB	\$ 3,806	2,936
GMDB	12	1
GLWB	<u>25,623</u>	<u>13,011</u>
Subtotal	29,441	15,948
FASB ASC Topic 815:		
GMAB embedded derivatives	519	(511)
Fixed indexed annuities	<u>471,989</u>	<u>504,332</u>
Subtotal	<u>472,508</u>	<u>503,821</u>
Total reserves	<u>\$ 501,949</u>	<u>519,769</u>

As of December 31, 2020, the Company recorded a reserve credit of \$2,073,575 related to the rider benefits and fixed indexed annuities ceded to SUNR and SYRE. As of December 31, 2019, the Company recorded a reserve credit of \$1,039,125 related to the rider benefits and fixed indexed annuities ceded to SUNR and SYRE. ONFS secured letters of credit totaling \$110,000 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 \$481,935 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 \$35,770 as of December 31, 2020.

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. As the Company was neither authorized nor accredited as a reinsurer in the State of New York, a reinsurance trust was created and funded by the Company. As of December 31, 2020 and 2019, assets held in trust for the benefit of NSLAC are \$135,641 and \$77,408, respectively.

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Premiums assumed	\$ 109,617	105,476	96,857
Benefits incurred	93,829	100,154	90,661
Commission and expense allowance	4,440	4,441	4,426
	<b>2020</b>	<b>2019</b>	
Reserves for future policy benefits	\$ 973,770	943,738	
Policy and contract claims payable	17,500	15,883	

*Variable Annuity Rider Reinsurance Agreements with SYRE and SUNR*

The details of the Company's annuity rider reinsurance agreements with SYRE and SUNR 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.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

*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 agreement ("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 one-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was October 31, 2011.

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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 one-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was November 30, 2011.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued cap coverage previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

*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.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

*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.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business. These simultaneous transactions settled the remaining balances from

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the original SYRE treaty and amendments. The treaty between the Company and SUNR continues to contain a FWH arrangement.

*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 agreement to add these riders to the coverage. The Company cedes 30% of the benefit for this rider to SYRE for policies issued before January 1, 2018.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE.

Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure 30% of the benefit for policies issued before January 1, 2018 and 100% of the benefit for policies issued on or after January 1, 2018.

*GMDB Riders*

Effective April 1, 2019, the Company entered into an agreement with SUNR to reinsure all death benefit riders associated with variable annuity products, issued on or after January 1, 2001 that were not previously mentioned above. This excludes the Gain Enhancement Benefit (GEB and GEB Plus) riders.

*GMAB/GPP 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.

Effective April 1, 2019, the Company entered into an agreement with SUNR to reinsure all Guaranteed Principal Protection Riders (GPP) associated with variable annuity products.

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

	<u>2020</u>	<u>2019</u>
<b>Statements of Operations:</b>		
Premiums and other considerations	\$ 148,236	873,589
Death and other benefits	54,151	32,416

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	2020	2019
<b>Statements of Admitted Assets, Liabilities, and Capital and Surplus:</b>		
Other admitted assets:		
Reinsurance recoverable	\$ 1,410	1,307
Receivable from affiliate	142	56,788
Reserves for future policy benefits	1,479,788	461,515
Other liabilities:		
Premiums payable	12,205	12,464
FWH under reinsurance:		
Margin account	19,821	34,686
Unrealized losses derivative instrument	(3,866)	(2,045)
Capital and surplus:		
Unassigned surplus:		
Unrealized losses derivative instrument	98,026	58,800

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

	2020	2019	2018
<b>Statements of Operations:</b>			
Premiums and other considerations	\$ 2,613	(423,054)	162,386
Death and other benefits	83	2,294	8,040

	2020	2019
<b>Statements of Admitted Assets, Liabilities, and Capital and Surplus:</b>		
Other admitted assets:		
Reinsurance recoverable	\$ 1	—
Reserves for future policy benefits	28,013	3,624
Other liabilities:		
Premiums payable	219	219

*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.

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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:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Statements of Operations:</b>			
Premiums and other considerations	\$ 5,630	5,488	526,276
Death and other benefits	2,778	2,223	703
	<b>2020</b>	<b>2019</b>	
<b>Statements of Admitted Assets, Liabilities, and Capital and Surplus:</b>			
Reserves for future policy benefits	\$ 565,774	573,985	
Other liabilities:			
FWH under reinsurance:			
Assets Payable to Affiliate	481,935	492,467	
Capital and surplus:			
Unassigned surplus:			
Unrealized (gains) losses derivative instrument	(11,299)	(12,101)	

**(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 \$110,000 of this facility as of December 31, 2020 and 2019, to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

On March 30, 2020, ONFS entered into a \$200,000, 364-day letter of credit facility with a group of banks in order to finance and support the reserve requirements of SYRE, the Company and SUNR. The Company and SUNR are the only beneficiaries of the related letters of credit. In June 2020, ONFS increased this facility by \$100,000 to \$300,000. This facility was not utilized by, or for the benefit of, the Company as of December 31, 2020.

On December 31, 2019, ONFS entered into a \$50,000, 364-day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. . On December 28, 2020, this facility was renewed

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for ninety days and matures on March 29, 2021. This facility was not utilized by or for the benefit of the Company as of December 31, 2020 or 2019.

There was no interest or fees paid by the Company on these lines of credit in 2020, 2019 or 2018.

**(15) Income Taxes**

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:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<b>2020</b>			
Gross deferred tax assets	\$ 232,804	2,405	235,209
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	<u>232,804</u>	<u>2,405</u>	<u>235,209</u>
Nonadmitted deferred tax assets	<u>(79,002)</u>	<u>(2,405)</u>	<u>(81,407)</u>
Admitted deferred tax assets	153,802	—	153,802
Deferred tax liabilities	<u>(42,256)</u>	<u>—</u>	<u>(42,256)</u>
Admitted deferred tax assets, net	<u>\$ 111,546</u>	<u>—</u>	<u>111,546</u>
<b>2019</b>			
Gross deferred tax assets	\$ 226,851	3,386	230,237
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	<u>226,851</u>	<u>3,386</u>	<u>230,237</u>
Nonadmitted deferred tax assets	<u>(54,528)</u>	<u>(100)</u>	<u>(54,628)</u>
Admitted deferred tax assets	172,323	3,286	175,609
Deferred tax liabilities	<u>(54,513)</u>	<u>—</u>	<u>(54,513)</u>
Admitted deferred tax assets, net	<u>\$ 117,810</u>	<u>3,286</u>	<u>121,096</u>
<b>Change</b>			
Gross deferred tax assets	\$ 5,953	(981)	4,972
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	<u>5,953</u>	<u>(981)</u>	<u>4,972</u>
Nonadmitted deferred tax assets	<u>(24,474)</u>	<u>(2,305)</u>	<u>(26,779)</u>
Admitted deferred tax assets	(18,521)	(3,286)	(21,807)
Deferred tax liabilities	<u>12,257</u>	<u>—</u>	<u>12,257</u>
Admitted deferred tax assets, net	<u>\$ (6,264)</u>	<u>(3,286)</u>	<u>(9,550)</u>

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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:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<b>2020</b>			
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	11,546
(2) Adjusted gross deferred tax assets allowed per limitation threshold	N/A	N/A	145,010
Lesser of (1) or (2)	111,546	—	111,546
Deferred tax liabilities	42,256	—	42,256
Admitted deferred tax assets	<u>\$ 153,802</u>	<u>—</u>	<u>153,802</u>
<b>2019</b>			
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	121,096
(2) Adjusted gross deferred tax assets allowed per limitation threshold	N/A	N/A	134,777
Lesser of (1) or (2)	117,810	3,286	121,096
Deferred tax liabilities	54,513	—	54,513
Admitted deferred tax assets	<u>\$ 172,323</u>	<u>3,286</u>	<u>175,609</u>
<b>Change</b>			
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	(109,550)
(2) Adjusted gross deferred tax assets allowed per limitation threshold	N/A	N/A	10,233
Lesser of (1) or (2)	(6,264)	(3,286)	(9,550)
Deferred tax liabilities	(12,257)	—	(12,257)
Admitted deferred tax assets	<u>\$ (18,521)</u>	<u>(3,286)</u>	<u>(21,807)</u>



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

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Ratio percentage used to determine the recovery period and threshold limitation amount in above adjusted gross deferred tax assets	792.17%	914.86%	(122.69%)
Amount of adjusted capital and surplus used to determine the recovery period threshold limitation amount in above adjusted gross deferred tax assets	\$ 1,092,306	1,016,133	76,173

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:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<b>2020</b>			
Adjusted gross deferred tax assets: (Percentage of total adjusted gross deferred tax assets)	—%	1.02%	1.02%
Net admitted gross deferred tax assets: (Percentage of total net admitted adjusted gross deferred tax assets)	0.00%	0.00%	0.00%
<b>2019</b>			
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)	0.00%	1.87%	1.87%
<b>Change</b>			
Adjusted gross deferred tax assets: (Percentage of total adjusted gross deferred tax assets)	—%	1.02%	1.02%
Net admitted gross deferred tax assets: (Percentage of total net admitted adjusted gross deferred tax assets)	0.00%	-1.87%	-1.87%

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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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current year federal tax (benefit) expense - ordinary income	\$ 34,224	(88,213)	(9,704)
Current year foreign tax (benefit) expense - ordinary income	—	—	—
Subtotal	<u>34,224</u>	<u>(88,213)</u>	<u>(9,704)</u>
Current year tax expense - net realized capital gains	(1,292)	25,920	910
Utilization of capital loss carry forwards	—	—	—
Other	—	—	—
Federal and foreign income taxes incurred	<u>\$ 32,932</u>	<u>(62,293)</u>	<u>(8,794)</u>

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Change from 2019</u>	<u>Change from 2018</u>
Deferred tax assets:					
Ordinary:					
Policyholder reserves	\$ 66,917	69,151	82,865	(2,234)	(13,714)
Investments	168	3,611	—	(3,443)	3,611
Deferred acquisition costs	63,162	59,240	58,980	3,922	260
Policyholder dividends accrued	21,384	23,071	23,561	(1,687)	(490)
Compensation and benefit accruals	16,653	16,223	13,881	430	2,342
Tax credit carry-forward	45,963	38,815	39,146	7,148	(331)
Section 807(f) reserves	10,437	8,393	13,419	2,044	(5,026)
Net operating loss carryforward	—	—	11,382	—	(11,382)
Nonadmitted asset	4,216	4,674	4,713	(458)	(39)
Other	3,904	3,673	4,139	231	(466)
Ordinary deferred tax assets	<u>232,804</u>	<u>226,851</u>	<u>252,086</u>	<u>5,953</u>	<u>(25,235)</u>
Statutory valuation allowance adjustment		—	—	—	—
Nonadmitted ordinary deferred tax assets	<u>(79,002)</u>	<u>(54,528)</u>	<u>(63,375)</u>	<u>(24,474)</u>	<u>8,847</u>
Admitted ordinary deferred tax assets	<u>153,802</u>	<u>172,323</u>	<u>188,711</u>	<u>(18,521)</u>	<u>(16,388)</u>

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	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Change from 2019</u>	<u>Change from 2018</u>
Deferred tax assets (continued):					
Capital:					
Investments	2,405	3,386	6,275	(981)	(2,889)
Net capital loss carryforward	—	—	—	—	—
Capital deferred tax assets	<u>2,405</u>	<u>3,386</u>	<u>6,275</u>	<u>(981)</u>	<u>(2,889)</u>
Statutory valuation allowance adjustment	—	—	—	—	—
Nonadmitted capital deferred tax assets	<u>(2,405)</u>	<u>(100)</u>	<u>(6,122)</u>	<u>(2,305)</u>	<u>6,022</u>
Admitted capital deferred tax assets	<u>—</u>	<u>3,286</u>	<u>153</u>	<u>(3,286)</u>	<u>3,133</u>
Admitted deferred tax assets	<u>153,802</u>	<u>175,609</u>	<u>188,864</u>	<u>(21,807)</u>	<u>(13,255)</u>
Deferred tax liabilities:					
Ordinary:					
Investments	330	9,662	3,164	(9,332)	6,498
Section 807(f) reserves	6,474	7,322	13,024	(848)	(5,702)
Deferred and uncollected premium	20,401	18,930	17,881	1,471	1,049
Policyholder reserves - tax reform transition	14,929	17,915	20,901	(2,986)	(2,986)
Other	<u>122</u>	<u>684</u>	<u>1,265</u>	<u>(562)</u>	<u>(581)</u>
Ordinary deferred tax liabilities	<u>42,256</u>	<u>54,513</u>	<u>56,235</u>	<u>(12,257)</u>	<u>(1,722)</u>
Capital:					
Investments	—	—	153	—	(153)
Subtotal	<u>—</u>	<u>—</u>	<u>153</u>	<u>—</u>	<u>(153)</u>
Deferred tax liabilities	<u>42,256</u>	<u>54,513</u>	<u>56,388</u>	<u>(12,257)</u>	<u>(1,875)</u>
Admitted deferred tax assets, net	<u>\$ 111,546</u>	<u>121,096</u>	<u>132,476</u>	<u>(9,550)</u>	<u>(11,380)</u>

There was no statutory valuation allowance adjustment to gross deferred tax assets or net change in the total valuation allowance adjustments as of, and for the periods ended, December 31, 2020 and 2019.

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.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Change from 2019</u>	<u>Change from 2018</u>
Total deferred tax assets	\$ 235,209	230,237	258,361	4,972	(28,124)
Total deferred tax liabilities	(42,256)	(54,513)	(56,388)	12,257	1,875
Net deferred tax assets	192,953	175,724	201,973	17,229	(26,249)
Statutory valuation allowance adjustment	—	—	—	—	—
Net deferred tax assets	192,953	175,724	201,973	17,229	(26,249)
Tax effect of unrealized losses	3,758	10,102	675	(6,344)	9,427
Statutory valuation allowance adjustment allocated to unrealized	—	—	—	—	—
Change in net deferred income taxes	<u>\$ 196,711</u>	<u>185,826</u>	<u>202,648</u>	<u>10,885</u>	<u>(16,822)</u>

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Income before taxes	\$ 34,832	(36,217)	(13,283)
Dividends received deduction	(6,263)	(6,165)	(11,298)
Interest maintenance reserve	37	3,972	(1,121)
Change in equity of subsidiaries	(3,980)	(23,678)	(6,704)
Change in non-admitted deferred tax assets	422	391	6,760
Voluntary reserve	—	20,489	1,496
Transfer pricing	(2,428)	(7,048)	(3,923)
Tax credits	(5,232)	(4,968)	(10,687)
Reinsurance surplus adjustment	(4,813)	8,260	—
Statutory Reserve Adjustment	13,241	—	—
Other	(3,769)	(507)	237
Total statutory taxes	<u>\$ 22,047</u>	<u>(45,471)</u>	<u>(38,523)</u>
Provision for federal income taxes	\$ 34,224	(88,213)	(9,704)
Tax on capital gains	(1,292)	25,920	910
Change in net deferred income tax	(10,885)	16,822	(29,729)
Total statutory taxes	<u>\$ 22,047</u>	<u>(45,471)</u>	<u>(38,523)</u>

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

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Total federal income taxes paid (including tax on capital gains) was \$4,777 during the year ended December 31, 2020, while total federal income taxes received (including tax on capital gains) was \$101,075 and \$4,430 during the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, there are no net operating losses or capital loss carryforwards available for tax purposes. As of December 31, 2020 and 2019, the company has no capital loss carryforwards or valuation allowances recorded. As of December 31, 2020, the Company has \$118 of uncertain tax positions related to the Separate Account Dividends Receivable Deduction (“SA DRD”) company share percentage(s) for tax return year 2017. As of December 31, 2020, the Company has tax credit carryforwards of \$45,963 expiring in years 2023 - 2036. As of December 31, 2019, the Company had \$1,972 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2013-2017. As of December 31, 2019, the Company had tax credit carryforwards of \$38,815 expiring in years 2023 through 2036.

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, CMGO and SUNR 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 2017, 2018 and 2019 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 tax balances are settled 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 was amended effective December 31, 2019 to freeze the accrual of future benefits. The impact of the curtailment is included below. 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, 2020 and 2019.

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***(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, 2020 and 2019.

***(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, 2020 and 2019.

***(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, 2020 and 2019.

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**(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	
	2020	2019	2020	2019
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 87,733	78,067	7,558	6,306
Service cost	659	1,744	37	25
Interest cost	3,009	3,893	263	280
Actuarial (gain) loss	13,101	19,988	3,803	1,404
Benefits paid *	(605)	(4,869)	(777)	(457)
Settlement/curtailment	(5,746)	(11,090)	—	—
Projected benefit obligation at end of year	\$ 98,151	87,733	10,884	7,558

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

	Pension benefits		Other benefits	
	2020	2019	2020	2019
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 56,609	50,703	—	—
Plan sponsor contribution	10,000	—	—	—
Actual return on plan assets	10,065	10,365	—	—
Benefits and expenses paid	(5,746)	(4,459)	—	—
Fair value of plan assets at end of year	\$ 70,928	56,609	—	—
Funded status	\$ (27,223)	(31,124)	(10,885)	(7,559)
Unrecognized net actuarial loss (gain)	30,997	28,103	6,118	2,652
Unrecognized prior service cost	—	—	(293)	(342)
Net prepaid (accrued) amount recognized	\$ 3,774	(3,021)	(5,060)	(5,249)

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	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Funded Status:				
Overfunded				
Assets (nonadmitted)				
Prepaid benefit costs	\$ —	—	—	—
Overfunded plan assets	—	—	—	—
Total assets (nonadmitted)	\$ —	—	—	—
Underfunded				
Liabilities recognized				
Net prepaid (accrued) amount recognized	\$ 3,774	(3,021)	(5,060)	(5,249)
Liabilities for benefits	(30,997)	(28,103)	(5,825)	(2,309)
Total liabilities recognized	\$ (27,223)	(31,124)	(10,885)	(7,558)
	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Amounts recognized in the statutory statements of admitted assets, liabilities, and capital and surplus consist of:				
Prepaid benefit costs	\$ 17,535	9,458	—	—
Accrued benefit costs	(13,761)	(12,479)	(5,060)	(5,249)
Surplus	(30,997)	(28,103)	(5,825)	(2,309)
Total liabilities recognized	\$ (27,223)	(31,124)	(10,885)	(7,558)



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	<b>Pension benefits</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Components of net periodic benefit cost:			
Service cost	\$ 659	1,744	2,412
Interest cost	3,009	3,893	3,994
Expected return on plan assets	(4,167)	(3,568)	(4,726)
Amortization of prior service cost	—	41	153
Amortization of net loss	2,588	3,010	3,274
Settlement	1,721	—	—
Net periodic benefit cost	\$ 3,810	5,120	5,107

	<b>Other benefits</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Components of net periodic benefit cost:			
Service cost	\$ 37	25	43
Interest cost	263	280	261
Amortization of prior service cost	(49)	(31)	(13)
Amortization of net gain	336	117	57
Net periodic benefit cost	\$ 587	391	348

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

	<b>Pension benefits</b>	
	<b>2020</b>	<b>2019</b>
Projected benefit obligation	\$ 98,151	87,733
Accumulated benefit obligation	94,497	85,217
Prepaid pension cost	3,774	(3,021)

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*(f) Assumptions*

	Pension benefits		Other benefits	
	2020	2019	2020	2019
Weighted average assumptions used to determine net periodic cost at January 1:				
Discount rate	3.65%	4.90%	3.49%	4.74%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	3.56%	4.12%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	8.70%	6.90%
Age 65 and older	—	—	0.60%	0.70%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	8.60%	6.80%
Age 65 and older	—	—	0.50%	0.60%
Year that the rate reaches the ultimate trend rate	—	—	2024	2023
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	2.76%	3.65%	2.53%	3.49%
Rate of compensation increase	3.56%	4.11%	4.25%	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:

	<u>1 Percentage point increase</u>	<u>1 Percentage point decrease</u>
Effect on total of 2020 service cost and interest cost	\$ 26	(19)
Effect on 2020 other post-retirement benefit obligation	735	(657)

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**(g) Plan Assets**

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2020</b>				
Bond funds	\$ 20,219	—	—	20,219
Stock funds	50,709	—	—	50,709
Total assets	<u>\$ 70,928</u>	<u>—</u>	<u>—</u>	<u>70,928</u>
<b>2019</b>				
Bond funds	\$ 19,152	—	—	19,152
Stock funds	37,457	—	—	37,457
Total assets	<u>\$ 56,609</u>	<u>—</u>	<u>—</u>	<u>56,609</u>

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 ("the 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, 2020 and 2019, \$50,228 and \$36,170, 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 70% stocks and 30% 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 35% of the weighted average return and stocks make up 65% of the weighted average return.

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

	<u>2020</u>	<u>2019</u>
Stocks	71%	66%
Bonds	<u>29</u>	<u>34</u>
Total	<u>100%</u>	<u>100%</u>

**(h) Cash Flows**

*Contributions*

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2020 was zero. The Plan Sponsor contributed \$10,000 to the qualified pension plan for the years ended December 31, 2020. No contribution were made to the qualified pension plan for the years ended December 31, 2019 and 2018. There is no planned contribution to the qualified pension plan for the 2021 plan year.

*Estimated Future Benefit Payments*

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

	<u>Pension benefits</u>	<u>Other benefits</u>
2021	\$ 8,382	814
2022	10,198	860
2023	8,995	888
2024	8,579	847
2025	7,044	775
2026-2030	32,347	3,224

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	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
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	\$ 28,102	29,056	2,309	991
Net prior service cost or credit recognized	—	(41)	49	31
Net gain and loss arising during the period	7,204	2,097	3,804	1,404
Net gain and loss recognized	(2,588)	(3,010)	(336)	(117)
Items not yet recognized as a component of net periodic cost - current year	\$ 32,718	28,102	5,826	2,309
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Net prior service cost or credit	\$ —	—	(49)	(49)
Net recognized gains and losses	2,977	2,494	725	286
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net prior service cost or credit	\$ —	—	(293)	(342)
Net recognized gains and losses	30,997	28,102	6,118	2,652

**(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 2020, 2019 and 2018 was \$3,665, \$6,011 and \$6,900, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was \$2,618, \$2,615 and \$2,891 in 2020, 2019 and 2018, respectively.

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During 2020 the profit-sharing plan and the defined contribution pension plan were combined and are now being administered by a third party.

**(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, 2020 and 2019. The Company has no preferred stock issued or outstanding.

The Company did not receive a capital contribution from its parent, ONFS, during 2020, 2019 or 2018.

Surplus notes outstanding are as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Surplus notes		
6.875% fixed rate due 2042	\$ 250,000	\$ 250,000
5.000% fixed rate due 2031	4,059	4,019
5.800% fixed rate due 2027	5,911	5,897
8.500% fixed rate due 2026	<u>49,881</u>	<u>49,859</u>
Total	\$ <u>309,851</u>	\$ <u>309,775</u>

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

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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 2020, 2019 and 2018. Principal payments must also be approved by the Department. Interest expense for surplus notes is not recognized in the statutory statements of operations 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, 2020 and 2019 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 \$135,000 may be paid by ONLIC to ONFS in 2021 without prior approval. Dividends of \$40,000, \$55,000 and \$60,000 were declared and paid by ONLIC to ONFS in 2020, 2019 and 2018, respectively.

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Subsidiary Dividends

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ONLAC	\$ 12,000	106,000	27,000
ONII	6,950	6,750	4,000
ONESCO	—	—	924
	<u>\$ 18,950</u>	<u>112,750</u>	<u>31,924</u>

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 approximately \$23,000 may be paid by ONLAC to ONLIC in 2021 without prior approval. ONLAC declared and paid ordinary dividends to ONLIC of \$12,000, \$30,857 and \$27,000 in 2020, 2019 and 2018, respectively. Extraordinary dividends of \$75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid by ONLAC to ONLIC during 2020 or 2018.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to its stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter in which 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 2020, 2019 or 2018.

The payment of dividends by SUNR to ONLIC is limited by the SUNR plan of operations, which was approved by the Ohio Department of Insurance.

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 \$3,000 may be paid by NSLAC to ONLIC in 2021 without prior approval. No dividends were declared or paid by NSLAC in 2020, 2019 or 2018.

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 2020, 2019 or 2018. No dividends were declared or paid by KENW to ONLIC in 2020, 2019 or 2018.



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**(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 \$23,327 and \$43,565 as of December 31, 2020 and 2019, 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) Leases**

The Company leases office equipment under various noncancelable operating lease agreements that expire through August 2025. Rental expense under these leases was \$675, \$695 and \$342 for the years ended December 31, 2020, 2019 and 2018, respectively. The Company also leases its home office from ONFS under a noncancelable operating lease agreement that expires in September 2026. Rental expense under this lease was \$2,793 for the years ended December 31, 2020, 2019 and 2018. The minimum aggregate rental commitments under these leases are as follows:

2021	\$	3,860
2022		3,669
2023		3,560
2024		2,978
2025		2,889
Thereafter		1,862
Total	\$	<u><u>18,818</u></u>

**(20) 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.

The Company, along with its affiliates, is a party to six court cases and two Financial Industry Regulatory Authority ("FINRA") arbitrations stemming from the strategic changes announced in September 2018,

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specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in all of the cases is a disputed interpretation of certain language in Ohio National Life's contracts with the broker dealers who sold Ohio National Life's annuities. One case purports to be on behalf of a class, but no motions for class certification have yet been filed, and no class has been certified. Eight previously pending court cases and seven previously pending FINRA arbitrations have been resolved. The next case currently set for trial is in October, 2021. The Company expects to continue to vigorously defend itself against these allegations. However, litigation is inherently uncertain, and the outcome thereof cannot be predicted. Accordingly, it is possible that the ultimate outcome in one or more of the proceedings may be material to the Company's results of operations for a particular period depending upon, among other factors, the size of the loss and the level of the Company's results of operations for the period.

**(21) Related-Party Transactions**

The Company made capital contributions of \$165,000 and \$140,654 to SUNR during the years ended December 31, 2020 and 2019, respectively.

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 \$59,692, \$38,124 and \$59,927 in 2020, 2019 and 2018, respectively. These amounts include pension costs for the personnel furnished to the Company. At December 31, 2020 and 2019, ONLAC owed ONLIC \$2,078 and \$5,974, respectively.

The Company paid \$4,785, \$4,966 and \$5,406 for rent and operating expenses on the home office to ONFS for the years ended December 31, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, ONLIC recorded expenses of \$20,899, \$22,003 and \$21,968, 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, 2020, 2019 and 2018 was \$301, \$770 and \$20,

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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:

	<u>2020</u>	<u>2019</u>
ONMH	\$ 97	998
ONFS	15,270	12,457
ONLAC	84,680	31,921
MONT	4,690	2,114
KENW	5,074	5,968
CMGO	5,902	8,097
SYRE	257	55,873
SUNR	22,904	(25,890)
ONII	6,129	6,141
ON Flight Inc.	83	(61)
ONTech, LLC	(1,852)	591
ON Foreign Holdings, LLC	(11,230)	(9,697)
Fiduciary Capital Management, Inc.	—	302
Financial Way Realty, Inc.	150	441
Total	<u>\$ 132,154</u>	<u>89,255</u>

**(22) Accounting Changes and Corrections of Errors**

The Company's December 31, 2020 statutory financial statements reflect a change in valuation basis for annuity reserves and other deposit funds associated with the adoption of VM-21. The change is effective for all policies in force. The impact of the change relating to reserves as of December 31, 2019 and prior was \$63,050 and is reflected as an increase to Unassigned surplus and a decrease to Reserves for future policy benefits for Annuity and other deposit funds.

The Company's December 31, 2020 statutory financial statements reflect a prior period adjustment relating to the recording of income taxes, primarily related to calculation changes in the intercompany tax transfer pricing chargebacks. The events contributing to the understatement of taxes impact surplus as follows:

Federal and foreign income taxes incurred (excluding taxes on capital gains)	\$ <u>(1,188)</u>
Decrease in surplus	\$ <u>(1,188)</u>

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The Company's December 31, 2020 statutory financial statements reflect a prior period adjustment relating to the recording and valuation of unrealized gains and losses. As of December 31, 2020, the unrealized gains and losses were overstated by \$993. The events contributing to the adjustment impact surplus as follows:

Change in net unrealized capital gains	\$ <u>993</u>
Increase in surplus	\$ <u><u>993</u></u>

The Company's December 31, 2019 financial statements reflect a prior period adjustment relating to the recording of guaranteed interest contract immediate annuity reserves. As of December 31, 2018, reserves were understated by \$1,831. As a result, surplus was overstated by \$1,446. The events contributing to the adjustment impact surplus as follows:

Increase in aggregate reserves for life accident and health contracts	\$ (1,831)
Federal and foreign income taxes incurred (excluding taxes on capital gains)	<u>385</u>
Decrease in surplus	\$ <u><u>(1,446)</u></u>

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 statutory 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.

**(23) Reconciliation to 2019 Annual Statement**

The Company's net cash provided by operations and net cash used in financing do not agree to the amounts reported in the Company's 2019 Statutory Annual Statement. The audited Statutory Statement of Cash Flows included herein differs from the Annual Statement Cash Flow statement because of a reclassification made with respect to buyout activity related to GMIB riders as discussed in Note 1. There is no difference between the audited Statutory financial statements and the Annual Statement filing with respect to cash, cash equivalents and short-term investments at December 31, 2019 as a result of this adjustment.

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The following table reconciles net cash from operations and net cash from financing and miscellaneous sources from the Annual Statement to the accompanying audited Statutory Statement of Cash Flows for the year ended December 31, 2019 (using classifications and titles from the audited statement and referencing Annual Statement page and line numbers):

	<u>As filed in Annual Statement</u>	<u>Adjustment</u>	<u>As presented in audited statements</u>
Less:			
Death and other benefits (P5, L5)	\$ 3,253,820	114,930	3,368,750
Net cash provided by operations (P5, L11)	949,222	(114,930)	834,292
Other, net (P5, L16.6)	(308,010)	114,930	(193,080)
Net cash used in financing (P5, L17)	(388,925)	114,930	(273,995)

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The following is a summary of certain financial data.

Investment income earned:

Government bonds	\$ 3,240
Other bonds (unaffiliated)	218,275
Bonds of affiliates	—
Preferred stocks (unaffiliated)	355
Preferred stocks of affiliates	—
Common stocks (unaffiliated)	962
Common stocks of affiliates	18,950
Mortgage loans	45,344
Real estate	2,016
Contract loans	35,553
Cash, cash equivalents and short-term investments	945
Other invested assets	9,021
Derivative instruments	192
Amortization of interest maintenance reserve	3,343
Aggregate write-ins for investment income	<u>1,826</u>
Total investment income earned	<u>\$ 340,022</u>

Real estate owned – book value less encumbrances \$ 24,757

Mortgage loans – book value:

Farm mortgages	\$ —
Residential mortgages	—
Commercial mortgages	<u>970,773</u>
Total mortgage loans – book value	<u>\$ 970,773</u>

Mortgage loans by standing – book value:

Good standing	\$ 970,773
Good standing with restructured terms	—
Interest overdue more than three months, not in foreclosure	—
Foreclosure in process	—

Other long-term assets – statement value \$ 490,376

Contract Loans \$ 835,945

Bonds and stocks of parents, subsidiaries, and affiliates – book value:

Bonds	\$ —
Preferred stocks	—
Common stocks	311,342

Due within one year or less	\$ 478,015
Over 1 year through 5 years	1,797,550
Over 5 years through 10 years	1,558,419
Over 10 years through 20 years	788,211
Over 20 years	<u>776,004</u>

Total bonds and short-term investments by maturity - statement value \$ 5,398,199

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Bonds and short-term investments by class – statement value:	
Class 1	\$ 3,101,579
Class 2	2,082,624
Class 3	183,145
Class 4	22,694
Class 5	4,520
Class 6	3,637
	<u>5,398,199</u>
Total bonds and short-term investments by class – statement value	\$ <u>5,398,199</u>
Total bonds and short-term investments publicly traded	\$ 3,046,989
Total bonds and short-term investments privately placed	\$ 2,351,210
Preferred stocks – statement value	\$ 7,101
Common stocks – market value	\$ 356,756
Short-term investments – book value	\$ —
Cash equivalents – book value	\$ 109,247
Financial options purchased – statement value	\$ 237,428
Financial options written and in force – statement value	\$ (155,795)
Financial Swaps - statement value	\$ 439
Financial futures contracts open – current price	\$ (3,866)
Cash on deposit	\$ 539,279
Life insurance in force:	
Industrial	\$ —
Ordinary	27,439,434
Credit life	
Group life	4,154
Amount of accidental death insurance in force under ordinary policies	\$ 55,611
Life insurance policies with disability provisions in force:	
Industrial	\$ —
Ordinary	26,795,973
Credit life	—
Group life	4,154
Supplementary contracts in force:	
Ordinary – not involving life contingencies:	
Amount on deposit	\$ —
Income payable	3,730
Ordinary – involving life contingencies:	
Income payable	627
Group – not involving life contingencies:	
Amount on deposit	—
Income payable	—
Group – involving life contingencies:	
Income payable	—

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Annuities:	
Ordinary:	
Immediate – amount of income payable	\$ 84,165
Deferred – fully paid account balance	20,735,442
Deferred – not fully paid – account balance	—
Group:	
Amount of income payable	\$ 12,071
Fully paid account balance	685,581
Not fully paid – account balance	—
Accident and health insurance – premiums in force:	
Ordinary	\$ 10,729
Group	—
Credit	—
Deposit funds and dividend accumulations:	
Deposit funds – account balance	\$ 595,558
Dividend accumulations – account balance	31,680
Claim payments:	
Group accident and health:	
2020 (incurred)	\$ —
2019 (incurred)	—
2018 (incurred)	—
2017 (incurred)	—
2016 (incurred)	—
Prior (incurred)	—
Other accident and health:	
2020 (incurred)	\$ (17)
2019 (incurred)	(12)
2018 (incurred)	78
2017 (incurred)	15
2016 (incurred)	54
Prior (incurred)	384
Other coverages that use developmental methods to calculate claims reserves:	
2020 (incurred)	\$ —
2019 (incurred)	—
2018 (incurred)	—
2017 (incurred)	—
2016 (incurred)	—
Prior (incurred)	—

See accompanying independent auditors' report.



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Investment Risks Interrogatories

Year ended December 31, 2020

(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: \$9,606,513.
2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of exposure	Amount	Percentage of total admitted assets
2.01	SUNRISE CAPTIVE RE, LLC	LLC	\$ 342,720	3.568%
2.02	OHIO NATIONAL LIFE ASSURANCE	EQUITY	232,746	2.423
2.03	MONTGOMERY RE SURPLUS NOTE	SURPLUS NOTE	75,000	0.781
2.04	NATIONAL SEC LIFE & ANNUITY CO	EQUITY	44,367	0.462
2.05	FEDERAL HOME LOAN BANK - CINTI	EQUITY	43,552	0.453
2.06	BOEING CO	BOND	29,364	0.306
2.07	CAMARGO RE INC	EQUITY	25,250	0.263
2.08	NEXTERA ENERGY INC	BOND	21,013	0.219
2.09	CMWLTH FING AUTH PA	BOND	19,738	0.205
2.10	BERKSHIRE HATHAWAY INC	BOND	19,712	0.205

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	\$ 3,101,579	32.286%	P/RP-1	\$ —	—%	
3.02	NAIC-2	2,082,624	21.679	P/RP-2	7,101	0.074	
3.03	NAIC-3	183,145	1.906	P/RP-3	—	—	
3.04	NAIC-4	22,694	0.236	P/RP-4	—	—	
3.05	NAIC-5	4,520	0.047	P/RP-5	—	—	
3.06	NAIC-6	3,637	0.038	P/RP-6	—	—	

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Investment Risks Interrogatories

Year ended December 31, 2020

(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	\$	812,055	8.453%
4.03	Foreign-currency-denominated investments		8,599	0.090
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:

		<u>1</u>	<u>2</u>
5.01	Countries rated NAIC – 1	\$ 768,614	8.001%
5.02	Countries rated NAIC – 2	36,945	0.385
5.03	Countries rated NAIC – 3 or below	6,496	0.067

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

		<u>1</u>	<u>2</u>
	Countries rated NAIC – 1:		
6.01	Country 1: CAYMAN ISLANDS	\$ 166,101	1.729%
6.02	Country 2: AUSTRALIA	146,601	1.526
	Countries rated NAIC – 2:		
6.03	Country 1: MEXICO	36,945	0.385
6.04	Country 2: N/A	—	—
	Countries rated NAIC – 3 or below:		
6.05	Country 1: BAHAMAS	5,600	0.058
6.06	Country 2: BARBADOS	896	0.009

7. Aggregate unhedged foreign currency exposure:

	<u>1</u>	<u>2</u>
\$	—	—%

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Year ended December 31, 2020

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

	<u>1</u>	<u>2</u>
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:

	<u>1</u>	<u>2</u>
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 non-sovereign (i.e. non-governmental) foreign issues:

	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
	Issuer	NAIC rating		
10.01	CSLB HOLDINGS INC	1	\$ 17,599	0.183%
10.02	AXA	2	16,290	0.170
10.03	VOYA CLO LTD	1	15,400	0.160
10.04	STANDARD CHARTERED BANK	2	15,316	0.159
10.05	DIONYSUS AVIATION DES ACT CO	2	15,000	0.156
10.06	TRANSPower NEW ZEALAND LTD	1	14,706	0.153
10.07	BROOKFIELD INFRASTRUCTURE PART	2	14,500	0.151
10.08	BABSON CLO LTD	1	14,000	0.146
10.09	HOFER FINANCIAL SERVICES GmbH	1	14,000	0.146
10.10	KIMBERLY-CLARK DE MEXICO	2	13,146	0.137

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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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  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  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

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

	<b>1</b>	<b>2</b>	<b>3</b>
	<b>Issuer</b>		
13.02	SUNRISE CAPTIVE RE LLC	342,720	3.568%
13.03	OHIO NATIONAL LIFE ASSURANCE	232,746	2.423
13.04	NATIONAL SEC LIFE & ANNUITY CO	44,367	0.462
13.05	FEDERAL HOM LOAN BANK - CINTI	43,552	0.453
13.06	CAMARGO RE INC	25,250	0.263
13.07	THE O.N. EQUITY SALES CO	7,944	0.083
13.08	IRONWOOD	5,557	0.058
13.09	MORGAN STANLEY SERIES I PFD	5,000	0.052
13.10	PUBLIC STORAGE	2,000	0.021
13.11	BONAVISTA ENERGY CORPORATION	1,719	0.018

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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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  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  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

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

	<b>1</b>	<b>2</b>	<b>3</b>
	<b>Type (residential, commercial, agricultural)</b>		
16.02	COMMERCIAL	\$ 25,000	0.260%
16.03	COMMERCIAL	21,675	0.226
16.04	COMMERCIAL	20,255	0.211
16.05	COMMERCIAL	17,465	0.182
16.06	COMMERCIAL	16,473	0.171
16.07	COMMERCIAL	15,578	0.162
16.08	COMMERCIAL	14,389	0.150
16.09	COMMERCIAL	9,939	0.103
16.10	COMMERCIAL	9,429	0.098
16.11	COMMERCIAL	8,733	0.091

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Year ended December 31, 2020

(Dollars in thousands)

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

		<b>Loans</b>	
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	4,591	0.048

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

	<b>Loan-to-value</b>		<b>Residential</b>		<b>Commercial</b>		<b>Agricultural</b>
17.01	Above 95%	\$	—	—%	\$ 11,076	0.115%	\$ —
17.02	91% to 95%		—	—	—	—	—
17.03	81% to 90%		—	—	60,665	0.631	—
17.04	71% to 80%		—	—	73,578	0.766	—
17.05	Below 70%		—	—	825,454	8.593	—

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  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  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, 2020

(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)	\$ 276,706	2.880%	110,805	99,347	168,108
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	\$ 89	0.001%	\$ 97	94	92
22.02 Income generation	—	—	—	—	—
22.03 Replications	—	—	—	—	—
22.04 Other	—	—	—	—	—

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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		
	1	2	1st Qtr. 3	2nd Qtr. 4	3rd Qtr. 5
	23.01 Hedging	\$ —	—	\$ —	—
23.02 Income generation	—	—	—	—	—
23.03 Replications	—	—	—	—	—
23.04 Other	6,986	0.073%	6,399	7,250	7,852

See accompanying independent auditors' report.



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## Summary of Investments

December 31, 2020

(Dollars in thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds				
U.S. Governments	\$ 74,927	0.82 %	\$ 74,927	0.82 %
All Other Governments	—	—	—	—
U.S. States, Territories, and Possessions, etc., Guaranteed	771,358	8.45	771,358	8.45
U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	7,335	0.08	7,335	0.08
U.S. Special Revenue and Special Assessment Obligations, etc., Non-Guaranteed	325,044	3.56	325,044	3.56
Industrial and Miscellaneous	4,216,535	46.18	4,216,535	46.18
Hybrid Securities	3,000	0.03	3,000	0.03
Parent, Subsidiaries and Affiliates	—	—	—	—
SVO Identified Funds	—	—	—	—
Unaffiliated Bank Loans	—	—	—	—
Preferred Stocks				
Industrial and Misc. (Unaffiliated)	7,101	0.08	7,101	0.08
Parent, Subsidiaries and Affiliates	—	—	—	—
Common Stocks				
Industrial and Miscellaneous Publicly Traded (Unaffiliated)	142	—	142	—
Industrial and Miscellaneous Other (Unaffiliated)	45,272	0.49	45,272	0.49
Parent, Subsidiaries and Affiliates Publicly Traded	—	—	—	—
Parent, Subsidiaries and Affiliates Other	311,342	3.41	311,342	3.41
Mutual Funds	—	—	—	—
Unit Investment Trusts	—	—	—	—
Closed-End Funds	—	—	—	—
Mortgage loans:				
Farm Mortgages	—	—	—	—
Residential Mortgages	—	—	—	—
Commercial Mortgages	970,773	10.63	970,773	10.63
Mezzanine Real Estate Loans	—	—	—	—
Real Estate				
Properties Occupied by Company	—	—	—	—
Properties Held for Production of Income	24,757	0.27	24,757	0.27
Properties Held for Sale	—	—	—	—
Cash, Cash Equivalents, and Short-Term Investments				
Cash	539,279	5.91	539,279	5.91
Cash Equivalents	109,247	1.20	109,247	1.20
Short-Term Investments	—	—	—	—
Contract loans	836,078	9.16	835,945	9.16
Derivatives	115,488	1.26	115,488	1.26
Other Invested Assets	489,176	5.36	489,176	5.36
Receivables for Securities	510	0.01	510	0.01
Securities Lending	281,976	3.09	281,976	3.09
Other Invested Assets	1,200	0.01	1,200	0.01
Total invested assets	\$ 9,130,540	100.00 %	\$ 9,130,407	100.00 %

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

See accompanying independent auditors' report.

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Reinsurance Risk Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

The following information regarding reinsurance agreements is presented to satisfy the disclose requirements in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which apply to reinsurance agreements entered into, renewed or amended on or after January 1, 1996.

1. Has ONLIC reinsured any risk with any other entity under a reinsurance agreements (or multiple contracts with the same reinsurer or its affiliates) that is subject to Appendix A-791, Life and Health Reinsurance Agreements, and includes a provision that limits the reinsurer's assumption of significant risks identified in Appendix A-791?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects?

Yes  No

If yes, indicate the number of reinsurance agreements to which such provisions apply: \_\_\_\_\_

If yes, indicate if deposit accounting was applied for all contracts subject to Appendix A-791 that limit significant risks.

Yes  No  N/A

2. Has ONLIC reinsured any risk with any other entity under a reinsurance agreement (or multiple contracts with the same reinsurer or its affiliates) that is not subject to Appendix A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

Yes  No

If yes, indicate the number of reinsurance agreements to which such provisions apply: \_\_\_\_\_

If yes, indicate whether the reinsurance credit was reduced for the risk-limiting features.

Yes  No  N/A

3. Does ONLIC have any reinsurance agreements (other than reinsurance agreements with a federal or state facility) that contain one or more of the following features which may result in delays in payment in form or in fact:

- (a) Provisions that permit the reporting of losses to be made less frequently than quarterly;
- (b) Provisions that permit settlements to be made less frequently than quarterly;
- (c) Provisions that permit payments due from the reinsurer to not be made in cash within ninety (90) days of the settlement date (unless there is no activity during the period); or
- (d) The existence of payment schedules, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes  No

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Reinsurance Risk Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

4. Has ONLIC reflected reinsurance accounting credit for any agreement that are not subject to Appendix A-791 and not yearly renewable term reinsurance, which meet the risk transfer requirements of SSAP No. 61R?

<b>Type of agreement:</b>	<b>Response:</b>	<b>Identify reinsurance agreement(s):</b>	<b>Has the insured event(s) triggering contract coverage been recognized?</b>
Assumption reinsurance – new for the reporting period	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	None	N/A
Non-proportional reinsurance, which does not result in significant surplus relief	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	None	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>

5. Has ONLIC ceded any risk, which is not subject to Appendix A-791 and not yearly renewable term reinsurance, under any reinsurance agreement (or multiple agreements with the same reinsurer or its affiliates) during the period covered by the financial statements, and either:

- (a) Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

Yes  No  N/A

- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes  No  N/A

If the answer to item (a) or item (b) is yes, include relevant information regarding GAAP to SAP differences from the accounting policy footnote to the audited statutory-basis financial statements to explain why the agreement(s) is treated differently for GAAP and SAP below:

See accompanying independent auditors' report.