

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Financial Statements

December 31, 2021, 2020 and 2019

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors and Stockholder
Ohio National Financial Services, Inc.:

Opinion

We have audited the consolidated financial statements of Ohio National Financial Services, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a



substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Cincinnati, Ohio
March 28, 2022

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Balance Sheets

December 31, 2021 and 2020

(Dollars in thousands, except share amounts)

| Assets | 2021 | 2020 |
|--|----------------------|-------------------|
| Investments: | | |
| Securities available-for-sale, at fair value: | | |
| Fixed maturity securities | \$ 10,349,258 | 10,324,604 |
| Fixed maturity securities on loan | 364,325 | 358,808 |
| Trading securities, at fair value: | | |
| Fixed maturity securities | — | 128 |
| Equity securities, at fair value | 100,735 | 53,733 |
| Equity securities on loan, at fair value | 244 | — |
| Mortgage loans on real estate, net | 1,577,560 | 1,474,388 |
| Real estate, net | 48,656 | 56,208 |
| Policy loans | 1,036,393 | 964,343 |
| Other long-term investments | 272,788 | 281,768 |
| Short-term investments securities lending collateral | 374,311 | 368,897 |
| Short-term investments | 205,069 | 207,770 |
| Total investments | <u>14,329,339</u> | <u>14,090,647</u> |
| Cash and cash equivalents | 514,726 | 687,560 |
| Accrued investment income | 85,944 | 80,118 |
| Deferred policy acquisition costs | 1,622,000 | 1,548,800 |
| Reinsurance recoverable | 3,610,441 | 3,994,380 |
| Reinsurance deposit asset | 860,574 | 825,369 |
| Operating lease right-of-use assets | 6,299 | 6,976 |
| Other assets | 366,755 | 358,274 |
| Federal and foreign income tax recoverable | 23,412 | 13,066 |
| Assets held in separate accounts | 19,376,463 | 19,486,193 |
| Total assets | <u>\$ 40,795,953</u> | <u>41,091,383</u> |
| Liabilities and Equity | | |
| Future policy benefits and claims | \$ 16,713,152 | 16,447,013 |
| Policyholders' dividend accumulations | 30,110 | 31,680 |
| Other policyholder funds | 119,408 | 145,886 |
| Short-term borrowings | 1,644 | 1,792 |
| Long-term debt obligations (net of unamortized discount and debt issuance costs of \$8,775 in 2021 and \$9,590 in 2020) | 976,725 | 975,910 |
| Deferred federal and foreign income taxes | 139,057 | 206,433 |
| Operating lease liabilities | 6,314 | 6,992 |
| Other liabilities | 612,506 | 581,778 |
| Payables for securities lending collateral | 374,311 | 368,897 |
| Liabilities related to separate accounts | 19,376,463 | 19,486,193 |
| Total liabilities | <u>38,349,690</u> | <u>38,252,574</u> |
| Equity: | | |
| Class B common stock, \$0.01 par value. Authorized 50,000,000 shares; issued and outstanding 10,000,000 shares | 100 | 100 |
| Additional paid-in capital | 10,492 | 10,492 |
| Accumulated other comprehensive income | 109,053 | 416,983 |
| Retained earnings | 2,326,618 | 2,411,234 |
| Total stockholder's equity | <u>2,446,263</u> | <u>2,838,809</u> |
| Total liabilities and equity | <u>\$ 40,795,953</u> | <u>41,091,383</u> |

See accompanying notes to consolidated financial statements.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Statements of Operations
Years ended December 31, 2021, 2020 and 2019
(Dollars in thousands)

| | 2021 | 2020 | 2019 |
|---|-------------|-----------|-----------|
| Revenues: | | | |
| Traditional life insurance premiums | \$ 820,942 | 864,652 | 862,166 |
| Annuity premiums and charges | 525,383 | 413,451 | 445,085 |
| Universal life policy charges | 212,310 | 155,135 | 147,999 |
| Group life and health insurance premiums | 81,903 | 111,455 | 113,099 |
| Accident and health insurance premiums | 31,879 | 29,074 | 25,238 |
| Investment management fees | 53,182 | 43,198 | 45,181 |
| Change in value of trading fixed maturity securities | (3) | (2) | (4) |
| Change in value of equity securities | 8,778 | 1,506 | 4,819 |
| Net investment income | 494,729 | 441,665 | 524,787 |
| Net realized gains (losses): | | | |
| Investment gains (losses): | | | |
| Total other-than-temporary impairment losses on securities | (450) | (11,347) | 2,426 |
| Portion of impairment losses recognized in other comprehensive income (loss) | 82 | 2,088 | (7,386) |
| Net other-than-temporary impairment losses on securities recognized in earnings | (368) | (9,259) | (4,960) |
| Realized gains, excluding other-than-temporary impairment losses on securities | 73,929 | 28,990 | 215,334 |
| Total investment gains | 73,561 | 19,731 | 210,374 |
| Derivative instruments | (120,455) | (50,702) | (154,443) |
| Loss on debt retirement | — | — | (10,263) |
| Other income | 164,255 | 152,619 | 126,424 |
| | 2,346,464 | 2,181,782 | 2,340,462 |
| Benefits and expenses: | | | |
| Benefits and claims | 1,627,637 | 1,452,664 | 1,566,068 |
| Provision for policyholders' dividends on participating policies | 98,844 | 109,808 | 114,298 |
| Amortization of deferred policy acquisition costs | 138,707 | 149,547 | 264,968 |
| Commissions, net | 194,723 | 165,687 | 175,902 |
| Other operating costs and expenses | 319,171 | 305,971 | 307,494 |
| | 2,379,082 | 2,183,677 | 2,428,730 |
| Loss before income taxes | (32,618) | (1,895) | (88,268) |
| Income taxes: | | | |
| Current expense (benefit) | 20,737 | (2,599) | 991 |
| Deferred expense (benefit) | 31,261 | 189 | (32,139) |
| | 51,998 | (2,410) | (31,148) |
| Net (loss) income | \$ (84,616) | 515 | (57,120) |

See accompanying notes to consolidated financial statements.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2021, 2020 and 2019

(Dollars in thousands)

| | <u>Before tax</u> | <u>Tax (expense) benefit</u> | <u>After tax</u> |
|--|-----------------------|--------------------------------------|----------------------------|
| 2021 | | | |
| Net loss | \$ | | (84,616) |
| Other comprehensive loss, net of taxes: | | | |
| Foreign currency translation adjustment | (28,873) | — | (28,873) |
| Unrecognized net periodic benefit cost | 17,706 | (3,718) | 13,988 |
| Unrealized gains (losses) on derivative instruments | (170) | 36 | (134) |
| Net unrealized gains (losses) on securities available-for-sale arising during the period: | | | |
| Securities available-for-sale | (403,421) | 97,703 | (305,718) |
| Deferred acquisition costs | 109,811 | (23,060) | 86,751 |
| Future policy benefits and claims | 22,698 | (2,582) | 20,116 |
| Other policyholder funds | (49,793) | 10,457 | (39,336) |
| Less: | | | |
| Net gains on securities available-for-sale realized during the period | 72,894 | (15,350) | 57,544 |
| Amortization of pension and other post-retirement benefits | (3,570) | 750 | (2,820) |
| Total other comprehensive loss | <u>(401,366)</u> | <u>93,436</u> | <u>(307,930)</u> |
| Total comprehensive loss | | | \$ <u><u>(392,546)</u></u> |
| 2020 | | | |
| Net income | \$ | | 515 |
| Other comprehensive income, net of taxes: | | | |
| Foreign currency translation adjustment | 6,047 | — | 6,047 |
| Unrecognized net periodic benefit cost | (10,174) | 2,137 | (8,037) |
| Unrealized gains (losses) on derivative instruments | 348 | (73) | 275 |
| Net unrealized gains (losses) on securities available-for-sale arising during the period: | | | |
| Securities available-for-sale | 359,532 | (78,517) | 281,015 |
| Deferred acquisition costs | (112,397) | 23,603 | (88,794) |
| Future policy benefits and claims | (27,863) | 3,768 | (24,095) |
| Other policyholder funds | 35,839 | (7,526) | 28,313 |
| Less: | | | |
| Net gains on securities available-for-sale realized during the period | 19,289 | (4,366) | 14,923 |
| Amortization of pension and other post-retirement benefits | (3,042) | 639 | (2,403) |
| Total other comprehensive income | <u>235,085</u> | <u>(52,881)</u> | <u>182,204</u> |
| Total comprehensive income | | | \$ <u><u>182,719</u></u> |
| 2019 | | | |
| Net loss | \$ | | (57,120) |
| Other comprehensive income, net of taxes: | | | |
| Foreign currency translation adjustment | (10,027) | — | (10,027) |
| Unrecognized net periodic benefit cost | (1,202) | 225 | (977) |
| Unrealized gains (losses) on derivative instruments | 299 | (63) | 236 |
| Net unrealized gains (losses) on securities available-for-sale arising during the period: | | | |
| Securities available-for-sale | 649,764 | (138,885) | 510,879 |
| Deferred acquisition costs | (114,252) | 23,993 | (90,259) |
| Future policy benefits and claims | (61,427) | 14,497 | (46,930) |
| Other policyholder funds | 25,670 | (5,391) | 20,279 |
| Less: | | | |
| Net gains on securities available-for-sale realized during the period | 207,982 | (43,682) | 164,300 |
| Amortization of pension and other post-retirement benefits | (3,162) | 664 | (2,498) |
| Total other comprehensive income | <u>284,005</u> | <u>(62,606)</u> | <u>221,399</u> |
| Total comprehensive income | | | \$ <u><u>164,279</u></u> |

See accompanying notes to consolidated financial statements.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Statements of Changes in Equity

Years ended December 31, 2021, 2020 and 2019

(Dollars in thousands)

| | Class B common stock | Additional paid-in capital | Accumulated other comprehensive income | Retained earnings | Total stockholder's equity |
|----------------------------------|-------------------------------------|---|---|------------------------------|---|
| Balance, December 31, 2018 | \$ 100 | 9,492 | 13,380 | 2,468,839 | 2,491,811 |
| Dividends to stockholder | — | — | — | (1,000) | (1,000) |
| Comprehensive income: | | | | | |
| Net loss | — | — | — | (57,120) | (57,120) |
| Other comprehensive income | — | — | 221,399 | — | 221,399 |
| Total comprehensive income | | | | | 164,279 |
| Balance, December 31, 2019 | 100 | 9,492 | 234,779 | 2,410,719 | 2,655,090 |
| Capital contribution from parent | — | 1,000 | — | — | 1,000 |
| Comprehensive income: | | | | | |
| Net income | — | — | — | 515 | 515 |
| Other comprehensive income | — | — | 182,204 | — | 182,204 |
| Total comprehensive income | | | | | 182,719 |
| Balance, December 31, 2020 | 100 | 10,492 | 416,983 | 2,411,234 | 2,838,809 |
| Comprehensive loss: | | | | | |
| Net loss | — | — | — | (84,616) | (84,616) |
| Other comprehensive loss | — | — | (307,930) | — | (307,930) |
| Total comprehensive loss | | | | | (392,546) |
| Balance, December 31, 2021 | \$ 100 | 10,492 | 109,053 | 2,326,618 | 2,446,263 |

See accompanying notes to consolidated financial statements.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Statements of Cash Flows

Years ended December 31, 2021, 2020 and 2019

(Dollars in thousands)

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|------------------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (84,616) | 515 | (57,120) |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Interest credited to policyholder account values | 240,416 | 230,270 | 249,426 |
| Universal life and investment-type product policy fees | (399,753) | (403,571) | (406,228) |
| Capitalization of deferred policy acquisition costs | (98,038) | (134,685) | (156,827) |
| Amortization of deferred policy acquisition costs | 138,707 | 149,547 | 264,968 |
| Amortization and depreciation | 23,754 | 28,594 | 24,996 |
| Net realized losses (gains) on investments, derivative instruments and debt retirement | 46,894 | 30,971 | (45,668) |
| Change in value of trading fixed maturity securities | 3 | 2 | 4 |
| Change in value of equity securities | (8,778) | (1,506) | (4,819) |
| Deferred income tax expense (benefit) | 31,261 | 189 | (32,139) |
| (Increase) decrease in accrued investment income | (5,826) | (2,269) | 22,781 |
| Decrease (increase) in operating lease right-of-use assets | 677 | 1,139 | (8,115) |
| Change in accretion of reinsurance deposit asset | (26,965) | (28,240) | — |
| Decrease in reinsurance recoverable | 390,992 | — | — |
| (Increase) decrease in other assets and recoverables | (89,406) | 9,297 | (117,083) |
| Increase in policyholder liabilities | 235,323 | 620,062 | 600,212 |
| (Decrease) increase in policyholders' dividend accumulations and other funds | (65,018) | (4,896) | 11,258 |
| (Increase) decrease in federal and foreign income tax recoverable | (10,346) | 4,649 | 8,810 |
| (Decrease) increase in operating lease liabilities | (678) | (1,115) | 8,107 |
| Increase in other liabilities | 141,259 | 67,732 | 1,677 |
| Other, net | (876) | (708) | 418 |
| Net cash provided by operating activities | <u>458,986</u> | <u>565,977</u> | <u>364,658</u> |
| Cash flows from investing activities: | | | |
| Proceeds from maturity of fixed maturity available-for-sale securities | 334,488 | 265,082 | 212,081 |
| Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity available-for-sale securities | 2,198,331 | 1,450,913 | 1,235,043 |
| Proceeds from sale of equity securities | 7,676 | 3,061 | 62,603 |
| Proceeds from repayment of mortgage loans on real estate | 232,728 | 150,579 | 166,304 |
| Proceeds from sale of real estate | 9,735 | 12,559 | 5,706 |
| Cost of fixed maturity available-for-sale securities acquired | (3,108,297) | (2,028,629) | (1,720,935) |
| Cost of equity securities acquired | (51,003) | (12,873) | (31,207) |
| Cost of mortgage loans on real estate acquired | (346,670) | (178,582) | (281,005) |
| Cost of real estate acquired | (3,481) | (4,769) | (7,247) |
| Cost of property, plant and equipment acquired | (10,605) | (13,830) | (13,674) |
| Derivative payments, net | (23,537) | (18,585) | (64,807) |
| Change in payables for securities lending collateral, net | 5,414 | 122,319 | (66,914) |
| Net (increase) decrease in short-term investments | (7,067) | 7,065 | (45,600) |
| Change in policy loans, net | (72,859) | (88,980) | (108,800) |
| Change in payable for securities and mortgage loans on real estate | (13,040) | 17,266 | 2,668 |
| Change in other invested assets, net | (126,955) | (62,944) | 73,313 |
| Net cash used in investing activities | <u>(975,142)</u> | <u>(380,348)</u> | <u>(582,471)</u> |

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2021, 2020 and 2019

(Dollars in thousands)

| | 2021 | 2020 | 2019 |
|--|-------------------|------------------|-----------------|
| Cash flows from financing activities: | | | |
| Universal life and investment product account deposits | \$ 596,277 | 569,098 | 606,197 |
| Universal life and investment product account withdrawals | (320,976) | (353,339) | (440,231) |
| Change in reinsurance deposit asset | 96,048 | 108,641 | 32,483 |
| Capital contribution from parent | — | 1,000 | — |
| Dividends paid to parent | — | — | (1,000) |
| Change in short-term borrowings | (148) | 117 | (89,958) |
| Other financing activities | (7,502) | (5,322) | (3,836) |
| Issuance of notes payable | — | 420,551 | 399,248 |
| Repayment of notes payable | — | (400,000) | (310,263) |
| Net cash provided by financing activities | <u>363,699</u> | <u>340,746</u> | <u>192,640</u> |
| Foreign currency translation adjustment | (14,963) | (3,719) | (1,033) |
| Net (decrease) increase in cash and cash equivalents | <u>(167,420)</u> | <u>522,656</u> | <u>(26,206)</u> |
| Cash and cash equivalents, beginning of period | 1,056,457 | 533,801 | 560,007 |
| Cash and cash equivalents, end of period | <u>\$ 889,037</u> | <u>1,056,457</u> | <u>533,801</u> |
| Supplemental disclosures: | | | |
| Federal income tax paid (received) | \$ 25,124 | (7,904) | (9,924) |
| Interest paid | 78,241 | 69,664 | 69,761 |
| Reinsurance funds withheld embedded derivative liability change | (36) | (136) | 191 |
| Non-cash proceeds for available-for-sale securities transferred into reinsurance trust | — | 102,727 | — |
| Non-cash cost for available-for-sale securities transferred into reinsurance trust | — | (102,727) | — |
| Non-cash consideration for reinsurance recoverable | — | — | 1,858,332 |
| Non-cash consideration for available-for-sale bonds transferred for reinsurance | — | — | (2,796,585) |
| Non-cash consideration for reinsurance deposit asset | 98,814 | — | 938,253 |
| Non-cash consideration for investment product account deposits | (98,814) | — | — |
| Non-cash consideration for reinsurance deposit liability | 4,500 | — | — |

See accompanying notes to consolidated financial statements.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Notes to Consolidated Financial Statements

December 31, 2021, 2020 and 2019

(Dollars in thousands)

(1) Organization and Business Description

Organization

Ohio National Financial Services, Inc. is a stock holding company wholly owned by Ohio National Mutual Holdings, Inc. (“ONMH”). Ohio National Financial Services, Inc. owns 100% of The Ohio National Life Insurance Company (“ONLIC”), a life insurance subsidiary, and Sycamore Re, Ltd. (“SYRE”), a special purpose financial captive life insurance company.

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

During the third quarter of 2021, ONMH repositioned ON Foreign Holdings, SMLLC (“ONFH”), a Delaware holding company, and its subsidiaries under ONLIC. Prior to the repositioning, SYRE owned 100% of ONFH, which owned 100% of ON Netherlands B.V. (“ONNH”), a Dutch holding company. The transaction was completed as follows:

- Effective September 13, 2021, ONFH created ON Overseas Holdings B.V. (“ONOH”), a Dutch holding company.
- Effective September 27, 2021, SYRE paid a non-cash dividend to ONFS, consisting of 100% ownership of ONFH and its subsidiaries. On that same day, ONFS assumed certain liabilities on behalf of ONFH, which increased its investment in ONFH.
- Effective September 29, 2021, ONFH made a non-cash capital contribution consisting of ONNH and its subsidiaries to ONOH. ONOH now owns 100% of ONNH.
- ONNH owns Ohio National Seguros de Vida S.A. (“ONSP”), a Peruvian insurance company, ON Global Holdings, SMLLC (“ONGH”), a Delaware holding company; and O.N. International do Brasil Participacoes, Ltda. (“OHIO”), which was formed to hold the equity method investment made when ONFS entered into a 50% joint venture agreement with a Brazilian insurance company. ONGH owns 92% of Ohio National Sudamerica S.A. (“ONSA”), a Chilean holding company; and ONNH owns 8%. ONSA owns 100% of Ohio National Seguros de Vida S.A. (“ONSV”), a Chilean insurance company.
- Effective September 30, 2021, ONFS made a non-cash capital contribution consisting of ONFH and its subsidiaries to ONLIC. ONLIC now owns 100% of ONFH.

The impact of the above transactions have been eliminated in the consolidated financial statements.

Ohio National Financial Services, Inc. and its subsidiaries are collectively referred to as “ONFS” or the “Company”.

OHIO NATIONAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Ohio National Mutual Holdings, Inc.)

Notes to Consolidated Financial Statements

December 31, 2021, 2020 and 2019

(Dollars in thousands)

On March 22, 2021, the Board of Directors of ONMH unanimously approved an agreement to enter into a strategic transaction (“Transaction”) with Constellation Insurance Holdings, Inc. (“Constellation”) whereby Constellation will acquire ONMH. The agreement was signed on March 22, 2021. Constellation, an insurance holding company, is backed by Caisse de dépôt et placement du Québec (“CDPQ”) and Ontario Teachers’ Pension Plan Board (“Ontario Teachers”), two of the world’s largest, premier, long-term institutional investors.

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 of 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 members will be compensated, in the aggregate of \$500 million, for the extinguishment of their membership interests with additional policy benefits or cash, as applicable. In addition to member compensation, Constellation and its investors are providing a commitment to infuse an additional \$500 million of capital evenly over a four-year period beginning one year after the closing of the Transaction, further strengthening Ohio National’s capital position and its ability to fulfill its obligations and to invest in the future of the business.

The Transaction is subject to customary conditions, including regulatory approvals and ONMH’s member approval. Upon completion of the Transaction, ONMH will be a private stock company owned 100% by Constellation. The Transaction is expected to be completed in the first half of 2022. See footnote 3(v) for additional details on the activity occurring subsequent to the reporting period.

Business

ONLIC and ONLAC are life and health (disability) insurers licensed in 49 states, the District of Columbia and Puerto Rico. ONLIC and ONLAC offer a full range of life, disability, and annuity products through independent agents and other distribution channels and are 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 is no longer accepting applications for variable annuities or new retirement plans, while continuing 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 late 2018 and into 2019, ONLIC offered to buy-back certain variable annuity policies from policyholders with the guaranteed minimum income benefit (“GMIB”) rider. ONLIC paid approximately \$115,000 related to the buy-back during 2019, which is included in Benefits and claims on the corresponding Consolidated Statements of Operations. A second phase of the buy-back was offered in late 2020 and into 2021. ONLIC

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paid approximately \$32,000 and \$12,000 related to the buy-back in 2021 and 2020, respectively, which is included in Benefits and claims on the corresponding Consolidated Statements of Operations.

NSLAC is licensed in 17 states and the District of Columbia and services an existing portfolio of variable annuity products. Effective March 16, 2018, NSLAC no longer actively markets or issues new individual variable annuity business, which currently represents the majority of NSLAC's in force contracts and policies.

ONLIC, ONLAC and NSLAC are subject to regulation by the insurance departments of the states in which they are licensed and undergo periodic examinations by those departments.

SYRE reinsures certain fixed indexed annuity, variable annuity and variable annuity-related risks for affiliated companies. See Note 11 for details of agreements and additional disclosures.

SUNR was capitalized in 2018 and was approved on January 9, 2019 by the Ohio Department of Insurance to begin assuming contracts written by ONLIC, effective April 1, 2019. See Note 11 for details of agreements and additional disclosures.

MONT engages in the business of reinsuring term life insurance and certain death benefit guarantee universal life policies with affiliated companies. KENW and CMGO engage in the business of reinsuring term life insurance with affiliated companies.

ONEQ earns revenue by retaining a sales load from the sale of variable life insurance contracts on behalf of ONLAC and variable annuity contracts, fixed annuity contracts and fixed indexed annuity contracts on behalf of ONLIC to unrelated third-party broker dealers under distribution agreements with ONLAC and ONLIC. ONESCO earns commissions and fees from sales of variable life contracts under a distribution agreement with ONLAC and annuity contracts under a distribution agreement with ONLIC as well as commissions and fees related to sales of unaffiliated products.

ONSV provides insurance and other retirement products to the Chilean market. ONSP provides death, survival and disability insurance in the Peruvian Social Security System in addition to universal and term life products to the Peruvian market. The Brazilian joint venture provides insurance and other retirement products to the Brazilian market.

(2) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany transactions and balances have been eliminated in consolidation.

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(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

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Actual results could differ from estimates.

The most significant estimates and assumptions include those used in determining the balance, amortization and recoverability of deferred policy acquisition costs; the liability for future policy benefits and claims; contingencies; provision for income taxes; deferred taxes; uncertain income tax positions and contingencies; allowance for loan losses for mortgage loans on real estate; valuation of and impairment losses on investments; and valuation of embedded derivatives. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the consolidated balance sheet date. Management believes the amounts provided are appropriate.

(b) Fair Value

Certain assets and liabilities are measured at estimated fair value in the Company's Consolidated Balance Sheets. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. Note 6 to the consolidated financial statements includes further disclosures of estimated fair values.

(c) Investments

Net Investment Income and Net Realized Gains (Losses)

Income on investments is reported within net investment income. Gains and losses on sales of investments, impairment losses and changes in the allowance for loan losses on mortgage loans are reported within Net realized gains (losses).

Fixed Maturity and Equity Securities

Fixed maturity and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains and losses, net of adjustments to deferred policy acquisition costs, future policy benefits and claims, other policyholder funds and deferred federal income tax, are recorded as a separate component of Accumulated other comprehensive income in equity on the Consolidated Balance Sheets.

Fixed maturity and equity securities classified as trading are reported at their estimated fair value. Changes in estimated fair value of these fixed maturity securities are included in Change in value of trading fixed maturity securities on the Consolidated Statements of Operations. Changes in estimated fair value of these equity securities are included in the Change in value of equity securities on the Consolidated Statements of Operations.

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Realized gains (losses) on the sale of investments are determined on the basis of specific security identification on the trade date. Any capital gains occurring in the Closed Block portfolio are offset by increases in the deferred policyholder obligation for that group of policies. See Note 16 for further information on the Closed Block.

For mortgage-backed securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions and the estimated economic life of the securities. When estimated prepayments differ significantly from actual prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Any resulting adjustment is included in Net investment income. All other investment income is recorded using the interest method without anticipating the impact of prepayments.

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.

Management regularly reviews its fixed maturity and equity securities portfolios in order to evaluate the necessity to record impairment losses for other-than-temporary declines in estimated fair value of investments. See Note 7 for management's description and analysis of the portfolio.

Mortgage Loans on Real Estate

Mortgage loans on real estate are carried at the unpaid principal balance less an allowance for loan losses. The allowance is comprised of a specific and general component. The specific component relates to loans that have been identified as impaired and is generally measured as the difference between the impaired principal balance less the fair value of the collateral, if collateral dependent, less cost to sell. The Company provides allowances for impairments of these mortgage loans based on a review by portfolio managers. For the general component, management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

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 and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral based on a third-party valuation. In response to the Coronavirus ("COVID-19") pandemic, there was an increase in the volume of loan modifications in the Company's mortgage portfolio during 2020. 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 Customer Affected by the Coronavirus during the year ended December 31, 2020. Accordingly, these loans were not categorized as a TDR.

Changes in the allowance are recorded in Net realized gains (losses). Loans in foreclosure and loans considered to be impaired as of the consolidated balance sheet date are placed on nonaccrual status. Interest received on nonaccrual status mortgage loans is included in Net investment income in the period received.

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Real Estate

Real estate, net, which comprises of buildings and improvements, held for company investment, is carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for real estate held for investment is 17 to 39 years, and the estimated useful life for building improvements is 5 to 16 years. Real estate, net also includes land which is carried at cost.

The Company occupies less than 50% of buildings held for company investment.

The cost basis of the real estate and building improvements was \$58,686 and \$65,341 at December 31, 2021 and 2020, respectively. Accumulated depreciation was \$15,282 and \$14,385 at December 31, 2021 and 2020, respectively. Related depreciation expense was \$2,089, \$1,883 and \$1,907 for the years ended December 31, 2021, 2020 and 2019, respectively, and is included in Net investment income on the Consolidated Statements of Operations. The cost basis of land was \$5,252 at December 31, 2021 and 2020.

The Company reviews the estimated useful lives of these long-lived assets and assesses for impairment when certain events or changes in operations occur.

Policy Loans

Policy loans are stated at unpaid principal balances. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate and is included in Net investment income on the Consolidated Statements of Operations. Generally, accrued interest is capitalized on the policy's anniversary date.

Other Long-Term Investments

The direct financing leases entered into prior to the adoption of ASC 842, which consist principally of building and land purchase and leasing arrangements, will continue to be accounted for as capital leases under ASC 840. Direct financing leases are carried at minimum lease payments to be received less unearned income. Building leases generally have a 75% - 80% loan-to-value ("LTV") at inception and a 9 to 21 year repayment schedule. Land leases generally have a 60% - 70% LTV at inception, a five-year repayment schedule and have several principal and interest cash flow structures.

The Company modified certain leases via principal and/or interest deferrals in accordance with the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customer Affected by the Coronavirus during the year ended December 31, 2020. Accordingly, these leases were not categorized as troubled debt restructurings.

Venture capital partnerships are carried on the equity method basis.

Investments in limited partnerships and limited liability companies are included in Other long-term investments on the Consolidated Balance Sheets. These investments are carried at the underlying audited GAAP equity of the investee using the equity method of accounting. The financial statements of the investments are usually not received in time for the Company to apply the equity method at each reporting period. Therefore, the equity pick-up on these investments has been recorded on a three-month lag. Investment income from these investments is included in Net investment income on the Consolidated Statements of Operations.

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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. The asset, Short-term investments securities lending collateral, and corresponding liability, Payables for securities lending collateral, are recorded on the Consolidated Balance Sheets. Income and expenses associated with securities lending transactions are reported within Net investment income on the Consolidated Statements of Operations.

Short-term Investments

Short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at the time of purchase and are stated at estimated fair value.

(d) 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 pursuant to FASB ASC Topic 815, *Derivatives and Hedging*. 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 and indexed universal life products. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. The futures derivative instruments are carried at estimated fair value in Other long-term investments or Other liabilities, and the remaining derivative instruments are carried at estimated fair value in Other long-term investments on the Consolidated Balance Sheets, with changes in estimated fair value recorded in Derivative instruments on the Consolidated Statements of Operations.

The Company enters into derivative transactions that meet the criteria for hedge accounting pursuant to FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). The Company purchased a foreign currency swap that meets the criteria for hedge accounting as a cash flow hedge. The swap instrument is carried at estimated fair value in Other long-term investments or Other liabilities. Changes in the estimated fair value of the swap are recorded in Accumulated other comprehensive income on the Consolidated Balance Sheets.

The Company sold variable annuities and fixed indexed annuities, issues certain insurance products and investment contracts, and is a party to certain reinsurance agreements that have embedded derivatives. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated. The embedded derivative is bifurcated from the host contract and accounted for as a freestanding derivative if:

- the combined instrument is not accounted for in its entirety at fair value with changes in fair value recorded in earnings;

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- the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and
- a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument.

Such embedded derivatives are carried at estimated fair value with the reinsurance embedded derivatives reported in Reinsurance recoverable on the Consolidated Balance Sheets. The change in the estimated fair value is reported in Benefits and claims on the Consolidated Statements of Operations.

(e) Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers all short-term and highly-liquid investments with original maturities of three months or less (including securities lending collateral, commercial paper and reverse repurchase agreements) to be cash equivalents.

(f) Segregated Special Surplus Fund

ONLIC has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with the SUNR Plan of Operations approved by the State of Ohio. The assets, along with the capital within SUNR, are to be used to provide the protection to maintain SUNR’s statutory total adjusted capital at a level of at least 300% of its authorized control level (“ACL”) risk-based capital. The segregated special surplus fund is held in a custodial account. Dividends paid by SUNR to ONLIC during the years ended December 31, 2021 and December 31, 2020 were \$253,000 and \$0, respectively. Dividends are placed in the segregated custodial account when paid. See additional details in Note 19 on dividends between SUNR and ONLI. As long as the surplus in SUNR plus the segregated special surplus fund is greater than 300% ACL, ONLIC can withdraw excess capital from the segregated special surplus fund for it to use as unassigned surplus in the event at the end of the calendar quarter the segregated special surplus fund exceeds 100 % ACL. At December 31, 2021 and 2020, the segregated special surplus fund was \$58,826 and \$35,826, respectively. The value of the custodial account was \$295,483 and \$39,325, respectively, which was invested in the following assets at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|-------------|-------------|
| Cash and cash equivalents | \$ 11,595 | 877 |
| Securities available-for-sale, at fair value: | | |
| Fixed maturity securities | 283,888 | 32,612 |
| Mortgage loans on real estate, net | — | 5,836 |
| Total custodial account value | \$ 295,483 | 39,325 |

(g) Deferred Policy Acquisition Costs and Capitalized Sales Inducements

The Company incurs costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisition costs (“DAC”). Such costs generally include:

- incremental direct costs of contract acquisitions;

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- the portion of the employee's total compensation, excluding any compensation that is deferred as part of contract acquisitions, and payroll related fringe benefits for certain costs related directly to time spent performing underwriting, policy issuance, medical/inspection, and sales force contract selling acquisition activities of a successful contract;
- other costs related directly to the insurer's acquisition activities noted above that would not have been incurred had the issuance of the contract not occurred; and
- certain advertising costs that meet the deferral criteria.

All other acquisition costs such as general advertising, market research, training, administration and unsuccessful acquisition efforts are expensed as incurred.

DAC is subject to recoverability testing in the year of policy issuance and loss recognition testing at the end of each reporting period. For traditional nonparticipating life insurance products, DAC is amortized with interest over the premium paying period of the related policies in proportion to premium revenue. Such anticipated premium revenue is estimated using the same assumptions as were used for computing liabilities for future policy benefits.

For traditional participating life insurance products, DAC is amortized in proportion to gross margins of the related policies. Gross margins are determined for each issue year and are equal to premiums plus investment income less death claims, surrender benefits, administrative costs, expected policyholder dividends, and the increase in reserve for future policy benefits.

For investment and universal life products, DAC is amortized with interest over the lives of the policies in relation to the present value of the estimated future gross revenues (projected investment income, asset fees, cost of insurance charges, policy administration fees, surrender charges, and net realized gains and losses) or estimated future gross profits (gross revenues less interest credits, policy benefits and policy maintenance expenses).

DAC for participating life products, investment products and universal life business is adjusted to reflect the impact of unrealized gains and losses on the related fixed maturity securities available-for-sale.

The most significant assumptions that are involved in the estimation of future gross profits include future gross separate account performance, surrender/lapse rates, withdrawal/partial withdrawal, interest margins and mortality. The Company's long-term assumption for gross separate account performance, net of investment fees, is 7.3%, a blend of expected returns from stock, money market and bond funds representative of the in force block of contracts before a deduction for policy charges. The Company assumes that the level of separate account assets resulting from market performance will revert, over a three-year period, to the level expected if the long-term assumed trend rate had applied. This assumption is commonly referred to as a reversion to the mean. The Company's policy regarding the reversion to the mean process does not permit projected returns to be below 0.0% or in excess of 15.0% during the three-year reversion period.

Changes in assumptions can have a significant impact on the amount of DAC reported for investment products and universal life insurance products and their related amortization patterns. In the event actual

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experience differs from assumptions or assumptions are revised, the Company is required to record an increase or decrease in DAC amortization expense (“DAC unlocking”), which could be significant. In general, increases in the estimated general and net separate account returns result in increased expected future profitability and may lower the rate of DAC amortization, while increases in lapse/surrender and mortality assumptions reduce the expected future profitability of the underlying business and may increase the rate of DAC amortization. Any resulting DAC unlocking adjustments are reflected currently in the amortization of DAC on the Consolidated Statements of Operations.

For internal replacements that result in a replacement contract that is substantially changed from the replaced contract, the Company’s policy is to account for the replaced contract as extinguished; and unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from the replaced contract are not deferred in connection with the replacement contract.

The Company offers certain sales inducements to contract holders. Sales inducements are product features that enhance the investment yield on a contract. The Company utilizes the following sales inducements:

- day-one bonuses, which increase the account value at inception; and
- enhanced yield options which credit interest for a specified period in excess of rates currently being offered for other similar contracts.

Sales inducements are deferred and amortized using the same methodology and assumptions used to amortize DAC.

(h) Reinsurance

Reinsurance is an agreement by which a reporting entity transfers all or part of its risk under a contract to another reporting entity. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, including those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. To the extent there are loss-limiting features that preclude the reinsurer from assuming the risk of significant loss, the Company accounts for such agreements using deposit accounting.

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.

Amounts recoverable under reinsurance agreements, which totaled \$3,610,441 and \$3,994,380 as of December 31, 2021 and 2020, respectively, include ceded reserves, paid and unpaid claims, and certain other amounts.

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Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts on the Consolidated Statements of Operations. Assets and liabilities related to reinsurance ceded are reported on a gross basis.

The Company enters into reinsurance agreements with various insurance subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

See Note 11 for additional reinsurance disclosures and information.

(i) Equipment, Computer Software and Hardware and Properties Occupied by the Company

Equipment, which is included in Other assets, is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated life is generally 3 to 20 years for equipment. The cost basis of the equipment was \$71,061 and \$71,249 at December 31, 2021 and 2020, respectively. Accumulated depreciation of equipment was \$56,943 and \$53,444 at December 31, 2021 and 2020, respectively. Related depreciation expense was \$5,511, \$5,319 and \$5,871 for the years ended December 31, 2021, 2020 and 2019, respectively.

Computer software and hardware, which is included in Other assets, is stated at cost less accumulated amortization. Purchased software costs, as well as certain internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized. Such costs are amortized generally over a 2 to 12 year period using the straight-line method based upon the estimated useful life of the assets. The cost basis of computer software was \$133,447 and \$124,787 at December 31, 2021 and 2020, respectively. Accumulated amortization of computer software and hardware was \$83,635 and \$74,220 at December 31, 2021 and 2020, respectively. Related amortization expense was \$9,984, \$9,235 and \$9,380 for the years ended December 31, 2021, 2020 and 2019, respectively.

Properties occupied by the Company, which are included in Other assets, are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company-occupied real estate is 30 to 32 years, and the estimated useful life for building improvements is 5 to 30 years. The cost basis of the buildings, improvements and land was \$46,690 and \$46,208 at December 31, 2021 and 2020, respectively. Accumulated depreciation of buildings and improvements was \$23,346 and \$21,761 at December 31, 2021 and 2020, respectively. Related depreciation expense was \$1,696, \$1,676 and \$1,647 for the years ended December 31, 2021, 2020 and 2019, respectively. Properties occupied by the Company also include related land which is carried at cost.

The Company reviews the estimated useful lives of these long-lived assets and assesses for impairment when certain events or changes in operations occur.

The Company has \$4,304 and \$6,546 of capital projects in process recorded in Other assets at December 31, 2021 and 2020, respectively.

(j) 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

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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. The activity of the separate accounts is not reflected on the Consolidated Statements of Operations and Cash Flows except for the fees the Company receives for administrative services and risks assumed and the activity related to guaranteed contracts, which are riders to existing variable annuity contracts. These are recorded in either Annuity premiums and charges or Benefits and claims on the Consolidated Statements of Operations. Separate account seed money is recorded as a trading security.

(k) Revenues and Benefits

Traditional Life Insurance Products

Traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of whole life, limited-payment life, term life, and certain annuities with life contingencies.

Premiums for traditional life insurance products are recognized as revenue when due. Benefits and expenses are associated with earned premiums; therefore, profits are recognized over the life of the contract. This association is accomplished through the provision for future policy benefits and the deferral and amortization of policy acquisition costs.

Investment Products and Universal Life Insurance Products

Investment products consist primarily of individual and group variable and fixed deferred annuities, annuities without life contingencies, guaranteed investment contracts and fixed indexed annuities. Universal life insurance products include universal life, variable universal life, indexed universal life and other interest-sensitive life insurance policies.

Revenues for investment products and universal life insurance products consist of net investment income, cost of insurance charges, asset fees, policy administration fees, and surrender charges that have been earned and assessed against policy account balances during the period. The timing of revenue recognition as it relates to fees assessed on investment contracts and universal life contracts is determined based upon the nature of such fees. Cost of insurance charges and policy administrative fees are assessed on a daily, monthly or annual basis, and recognized as revenue when assessed and earned. Certain amounts assessed that represent compensation for services to be provided in future periods such as unearned front-end loads are reported as unearned revenue and recognized in income over the periods benefited. Surrender charges are recognized upon surrender of a contract in accordance with contractual terms. Policy benefits and claims that are charged to expense include benefits and claims incurred in the period in excess of related policy account balances, maintenance costs, and interest credited to policy account balances.

Accident and Health Insurance Products

Accident and health insurance premiums including group life (burial and survivorship) and health (disability) are recognized as revenue in accordance with the terms of the policies. Policy claims are charged to expense in the period that the claims are incurred.

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(l) Investment Management Fees

Investment management fees are earned by various subsidiaries in conjunction with money management activities. The fees are based on a percentage of assets at the end of each quarter and are recognized in income as earned.

Revenue earned by the broker dealer operations, which is based on agreed upon commission rates, is recognized when the respective broker dealer entity's performance obligation is satisfied. For fees paid up front, the performance obligation is the sale of the contract and as such, is fulfilled on the trade date. Certain variable commission revenue is considered constrained, as it is dependent on the account value at future points in time as well as the length of time and whether the policy remains in force, all of which are highly susceptible to factors outside the Company's influence. The constraint is overcome when the account value and investor activities are known, usually monthly, at which point the revenue is recognized. The broker dealer operations had no remaining performance obligations to satisfy related to revenue from contracts with customers as of December 31, 2021.

The following table illustrates the revenue recognized from contracts with customers reported in Investment management fees, Net investment income and Other income on the Consolidated Statements of Operations, and the timing of revenue recognition, for the years ending December 31, 2021, 2020 and 2019:

| | Registered investment and variable contracts | General securities | Fee based and other | Total |
|---|---|-------------------------------|--------------------------------|----------------|
| December 31, 2021 | | | | |
| Revenues from contracts with customers | | | | |
| Other income | \$ 60,181 | 2,143 | 22,420 | 84,744 |
| Net investment income | — | — | 14 | 14 |
| Investment management fees | — | — | 53,182 | 53,182 |
| Total revenue from contracts with customers | <u>\$ 60,181</u> | <u>2,143</u> | <u>75,616</u> | <u>137,940</u> |
| Timing of revenue recognition | | | | |
| Satisfaction of performance obligation: | | | | |
| Transferred at a point in time | \$ 60,181 | 2,143 | 75,616 | 137,940 |
| Total revenue from contracts with customers | <u>\$ 60,181</u> | <u>2,143</u> | <u>75,616</u> | <u>137,940</u> |

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| | Registered investment and variable contracts | General securities | Fee based and other | Total |
|---|---|-------------------------------|--------------------------------|----------------|
| December 31, 2020 | | | | |
| Revenues from contracts with customers | | | | |
| Other income | \$ 50,935 | 3,118 | 16,920 | 70,973 |
| Net investment income | — | — | 27 | 27 |
| Investment management fees | — | — | 43,198 | 43,198 |
| Total revenue from contracts with customers | <u>\$ 50,935</u> | <u>3,118</u> | <u>60,145</u> | <u>114,198</u> |
| Timing of revenue recognition | | | | |
| Satisfaction of performance obligation: | | | | |
| Transferred at a point in time | \$ 50,935 | 3,118 | 60,145 | 114,198 |
| Total revenue from contracts with customers | <u>\$ 50,935</u> | <u>3,118</u> | <u>60,145</u> | <u>114,198</u> |
| | | | | |
| | Registered investment and variable contracts | General securities | Fee based and other | Total |
| December 31, 2019 | | | | |
| Revenues from contracts with customers | | | | |
| Other income | \$ 51,713 | 1,729 | 15,018 | 68,460 |
| Net investment income | — | — | 28 | 28 |
| Investment management fees | — | — | 45,181 | 45,181 |
| Total revenue from contracts with customers | <u>\$ 51,713</u> | <u>1,729</u> | <u>60,227</u> | <u>113,669</u> |
| Timing of revenue recognition | | | | |
| Satisfaction of performance obligation: | | | | |
| Transferred at a point in time | \$ 51,713 | 1,729 | 60,227 | 113,669 |
| Total revenue from contracts with customers | <u>\$ 51,713</u> | <u>1,729</u> | <u>60,227</u> | <u>113,669</u> |

(m) Other Income

The Company earns sales load fees on the sale of ONLAC variable universal life contracts by unrelated third-party brokers through various subsidiaries. The Company also earned sales load fees on ONLIC variable, fixed and fixed indexed annuity contracts. Sales load fees are recognized as revenue when earned. Additionally, the various subsidiaries of the Company sold registered investment products and variable contracts sponsored by unaffiliated parties.

(n) Future Policy Benefits and Claims

The Company establishes liabilities for amounts payable under insurance policies. Generally, amounts are payable over an extended period of time, and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are

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established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. The process of calculating reserve amounts for a life insurance organization involves the use of a number of assumptions, including those related to persistency (how long a contract stays with a company), mortality (the relative incidence of death in a given time), morbidity (the relative incidence of disability resulting from disease or physical ailment) and interest rates (the rates expected to be paid or received on financial instruments, including insurance or investment contracts). The methods used in determining the liability for unpaid losses and future policy benefits are standard actuarial methods recognized by the American Academy of Actuaries.

Liabilities for traditional life insurance policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals, which were used or being experienced at the time the policies were issued.

Liabilities for investment products in the accumulation phase, fixed deferred annuities, fixed indexed annuities, group annuities, universal life insurance products and variable universal life insurance products are calculated based on participants' contributions plus interest credited less applicable contract charges.

Liabilities for payout annuities are calculated using the present value of future benefits discounted using varying interest rates. Liabilities for variable payout annuities also include maintenance costs in the present value calculation.

Liabilities for disability income policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals, which were used or being experienced at the time the policies were issued. Liabilities for disability income policies on claims are calculated using the present value of future benefits and maintenance costs discounted using varying interest rates, depending on the year the claim was incurred.

The Company regularly reviews its estimates of future policy benefits and claims liabilities and compares them with its actual experience. Differences result in changes to the liability balances with related charges or credits to benefit expenses in the period in which the change occurs.

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 through its separate accounts in which the Company provides various forms of guarantees/riders to benefit the related contract holders. These guarantees are accounted for as insurance liabilities or as embedded derivatives depending on how and when the benefit is paid. Specifically, a guarantee is accounted for as an embedded derivative if a guarantee is paid out without requiring the occurrence of a specific insurable event or the policyholder to annuitize. Alternatively, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either the occurrence of a specific insurable event or annuitization. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative, and in such cases the guarantee is split and accounted for under both models.

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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.

The Company refers to the total of the five types issued with variable annuity contracts and fixed indexed annuity contracts, collectively, as the “G reserves.”

Guarantees accounted for as insurance liabilities in future policy benefits and claims include GMDBs, GMIBs and certain GLWBs that require annuitization.

Guarantees accounted for as embedded derivatives include GMWBs, GMABs and certain GLWBs that do not require annuitization, as well as the index crediting feature within the fixed indexed annuity contracts. At inception, the Company attributes to the embedded derivative a portion of the projected future guaranteed fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. The embedded derivatives are carried at estimated fair value and reported in future policy benefits and claims.

(o) Participating Business/Policyholder Dividends

Participating business, which refers to policies that participate in profits through policyholder dividends, represents 15.0%, 14.9% and 14.0% of the Company’s ordinary life insurance in force as of December 31, 2021, 2020 and 2019, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in Other policyholder funds in the accompanying Consolidated Balance Sheets. Policyholder dividends incurred are recorded in the Provision for policyholders’ dividends on participating policies in the accompanying Consolidated Statements of Operations.

Policyholder dividends are approved annually by ONLIC’s Board of Directors based upon the amount of distributable statutory 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 ONLIC.

(p) Income Taxes

The Company files a life/non-life consolidated federal income tax return, which includes its U.S. domestic subsidiaries and its parent, ONMH. United States Department of the Treasury (“Treasury”) regulations generally require a five-year waiting period as to when a life insurance company can be included in the consolidated federal income tax return. A subsidiary life insurance company may obtain approval sooner if

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the provisions of the Treasury regulations are met. SUNR met the Treasury regulations and received approval to join the consolidated return in 2019.

SYRE is domiciled in the Cayman Islands and elected to be a U.S. taxpayer. SYRE joined the consolidated return on January 1, 2014.

The method of allocation between the companies is subject to written agreements, approved by the Board of Directors. Allocations are based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled at least quarterly.

The Company's policy for recording interest and penalties associated with audits, claims and adjustments is to record such amounts as a component of current income tax (benefit) expense.

The foreign life insurance subsidiaries owned by the Company file tax returns in accordance with applicable foreign laws in their respective countries of domestication. U.S. taxation of foreign affiliates may differ in timing and amount from taxation under foreign laws. The impact of the returns filed subject to foreign tax law has been reflected in the provision for income tax expense and related liabilities.

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. Current income taxes are charged to operations based upon amounts estimated to be payable as a result of taxable operations for the current year.

In determining the need for a valuation allowance, the Company considers the carryback capacity to absorb capital losses, reversal of existing temporary differences, estimated future taxable income and prudent and feasible tax planning strategies. The determination of the valuation allowance for the Company's deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on historical experience and expectations of future performance. Management's judgments are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such factors as policyholder behavior, competitive pricing, and specific industry and market conditions.

Pursuant to Global intangible low-taxed income ("GILTI") tax rules, companies are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the 'period cost method') or (2) factoring such amounts into a company's measurement of its deferred taxes (the 'deferred method'). The Company has elected the period cost method, which will be determined annually if the Company's GILTI inclusion rises to a material amount from a U.S. tax compliance perspective.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted and signed into law. The CARES Act included, among other items, measures concerning income tax, payroll tax credits, and loan programs. The CARES Act permitted net operating loss ("NOL") carryovers and

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carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allowed NOLs incurred in 2018, 2019, and 2020 to be carried back to generate a refund of previously paid income taxes. There was no impact to income taxes for the Company related to the NOL changes. The Company did not participate in any of the CARES payroll tax credits or loan programs.

(q) 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 consolidated financial statements. See Note 20 for further information.

(r) Foreign Currency

Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. The determination of the functional currency is made based on the appropriate economic and management indicators. The local currencies of foreign operations are the functional currencies. Assets and liabilities of foreign subsidiaries are translated from the functional currency to U.S. dollars at the exchange rates in effect at each year end, and income and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are charged or credited directly to other comprehensive income, net of applicable taxes.

(s) 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 Company recognizes an expense for differences between actual experience and estimates over the average future service period of participants. The actuarial gains (losses) and prior service costs (credit) not yet included in net periodic benefit costs are charged to Accumulated other comprehensive income ("AOCI"), net of income tax.

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 consolidated financial statements.

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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.

(t) Correction of Immaterial Error

During the year ended December 31, 2020, the Company identified out of period errors related to its calculation of variable annuity reserves under ASC 815; and Statement of Position 03-1 (“SOP03-1”) and DAC balances. The majority of these errors involve certain riders that are covered by an external reinsurance agreement impacting the Company’s reinsurance recoverable. The Company concluded that the misstatements were not material to the consolidated financial statements. The following presents the effect of recording the immaterial correction in the consolidated financial statement as of and for the year ended December 31, 2019 within this report to reflect the corrected numbers as follows:

| | <u>As reported</u> | <u>Adjustment</u> | <u>As adjusted</u> |
|---|--------------------|-------------------|--------------------|
| Consolidated Balance Sheets: | | | |
| December 31, 2019: | | | |
| Deferred policy acquisition costs | \$ 1,679,421 | 851 | 1,680,272 |
| Reinsurance recoverable | 3,946,180 | 46,867 | 3,993,047 |
| Total assets | 40,365,710 | 47,718 | 40,413,428 |
| Future policy benefits and claims | 15,724,764 | 747 | 15,725,511 |
| Other policyholder funds | 170,779 | 7 | 170,786 |
| Deferred federal and foreign income taxes | 139,253 | 9,863 | 149,116 |
| Total liabilities | 37,747,721 | 10,617 | 37,758,338 |
| Retained earnings | 2,373,618 | 37,101 | 2,410,719 |
| Total stockholder's equity | 2,617,989 | 37,101 | 2,655,090 |
| Total liabilities and equity | 40,365,710 | 47,718 | 40,413,428 |
| | | | |
| | <u>As reported</u> | <u>Adjustment</u> | <u>As adjusted</u> |
| Consolidated Statements of Operations: | | | |
| December 31, 2019: | | | |
| Benefits and claims | \$ 1,578,810 | (12,742) | 1,566,068 |
| Amortization of deferred policy acquisition costs | 265,038 | (70) | 264,968 |
| (Loss) income before income taxes | (101,080) | 12,812 | (88,268) |
| Income taxes: Deferred expense (benefit) | (34,830) | 2,691 | (32,139) |
| Net income (loss) | (67,241) | 10,121 | (57,120) |

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| | <u>As reported</u> | <u>Adjustment</u> | <u>As adjusted</u> |
|---|--------------------|-------------------|--------------------|
| Consolidated Statements of Comprehensive Income (Loss) | | | |
| December 31, 2019: | | | |
| Net loss | \$ (67,241) | 10,121 | (57,120) |
| Total comprehensive income | 154,158 | 10,121 | 164,279 |

| | <u>As reported</u> | <u>Adjustment</u> | <u>As adjusted</u> |
|---|--------------------|-------------------|--------------------|
| Consolidated Statements of Changes in Equity | | | |
| Balance, December 31, 2018 | \$ 2,464,831 | 26,980 | 2,491,811 |
| Comprehensive income: Net loss | (67,241) | 10,121 | (57,120) |
| Total comprehensive income | 154,158 | 10,121 | 164,279 |
| Balance, December 31, 2019 | \$ 2,617,989 | 37,101 | 2,655,090 |

| | <u>As reported</u> | <u>Adjustment</u> | <u>As adjusted</u> |
|---|--------------------|-------------------|--------------------|
| Consolidated Statements of Cash Flows: | | | |
| December 31, 2019: | | | |
| Net income (loss) | \$ (67,241) | 10,121 | (57,120) |
| Amortization of deferred policy acquisition costs | 265,038 | (70) | 264,968 |
| Deferred income tax expense (benefit) | (34,830) | 2,691 | (32,139) |
| Decrease (increase) in other assets and reinsurance recoverable | (106,133) | (10,950) | (117,083) |
| Increase in policyholder liabilities | 602,004 | (1,792) | 600,212 |

(u) Adoption and Future Adoption of New Accounting Pronouncements

The Company generally applies the “other public entity” requirements when adopting new accounting standards. Where the standard adoption timeframes differentiate between U.S. Securities and Exchange Commission (“SEC”) filers and other public business entities, the Company follows the adoption timelines for other public business entities as the Company does not meet the requirements of an SEC filer.

Adoption of New Accounting Pronouncements

Effective January 1, 2021, the Company adopted ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs*. The guidance clarifies that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. The adoption of this guidance did not significantly impact the Company’s consolidated financial statements or disclosures.

Effective January 1, 2021, the Company adopted ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The guidance clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments-Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321

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immediately before applying or upon discontinuing the equity method. The guidance also clarifies that, when determining the accounting for certain forward contracts and purchased options, a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or disclosures.

Effective January 1, 2021, the Company adopted ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The guidance removes specific exceptions to the general principles in Topic 740 in GAAP. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or disclosures.

Effective January 1, 2020, the Company adopted ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance of Variable Interest Entities ("VIE")*. The guidance amends previously issued guidance for determining whether an indirect interest held through a related party is a VIE. The adoption of this guidance did not impact the Company's consolidated financial statements or disclosures.

Effective January 1, 2020, the Company adopted ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This guidance requires a customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or disclosures.

Effective January 1, 2020, the Company adopted ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The adoption of this guidance did not impact the Company's consolidated financial statements.

Effective January 1, 2020, the Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, by removing, modifying and adding certain disclosures associated with fair value measurements. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or disclosures.

Effective January 1, 2019, the Company adopted ASU 2019-10, *Financial Instruments – Derivatives and Hedging (Topic 815): Effective Dates*, ASU 2019-04, *Codification Improvements to Topic 815, Derivatives*

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and Hedging, ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting* and ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The guidance refines, expands and simplifies hedge accounting for financial and nonfinancial risk. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures.

Effective January 1, 2019, the Company adopted ASU 2019-10, *Leases (Topic 842): Effective Dates*, ASU 2019-01, *Leases (Topic 842): Codification Improvements* (March 2019), ASU 2018-20, *Leases (Topic 842): Narrow Scope Improvements for Lessors* (December 2018), ASU 2018-11, *Leases (Topic 842): Targeted Improvements* (July 2018), ASU 2018-10, *Codification Improvements to Topic 842, Leases* (July 2018) and ASU 2016-02, *Leases (Topic 842)* using the prospective application of the guidance, and prior periods continue to be presented in accordance with Topic 840. This new guidance requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for the lease term for those leases classified as operating leases under previous guidance. Under this guidance, lessor accounting is largely unchanged except to align lessor accounting with the lease accounting model and ASC Topic 606, *Revenue from Contracts with Customers*, and thus the accounting for sale and leaseback transactions has been simplified. Additionally, the Company elected the package of practical expedients and recognized on the Consolidated Balance Sheets \$9,189 of Operating lease liabilities and \$9,151 of Operating lease right-of-use assets at adoption. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures. See Note 19 for additional disclosures.

Effective January 1, 2019, the Company adopted ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. This guidance requires premiums on callable debt securities to be amortized to the earliest call date. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures.

Future Adoption of New Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The new guidance is effective for other public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. This ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Management has not yet assessed the impact that the guidance may have on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and in January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. The new guidance is effective for all entities beginning December 31, 2022. The ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The guidance also provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-bank Offered Rate ("LIBOR") or another

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reference rate expected to be discontinued. Management is in the process of assessing the impact that the guidance may have on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, in November 2019, the FASB issued ASU 2019-09, *Financial Services – Insurance (Topic 944): Effective Date*, and in October 2020, the FASB issued ASU 2020-11, *Financial Services – Insurance (Topic 944): Effective Date and Early Application*. The new guidance is effective for fiscal years beginning after December 15, 2024 for public business entities that are non-SEC filers. Early adoption is permitted. This new guidance impacts existing recognition, measurement, presentation, and disclosure requirements for long-duration insurance contracts issued by an insurance entity. Management is in the process of assessing the impact that this guidance may have on the consolidated financial statements, but expects it to be material.

The FASB has issued the following guidance on measurement of credit losses on financial instruments: ASU 2020-03, *Codification Improvements to Financial Instruments*, ASU 2020-02, *Financial Instruments – Credit Losses (Topic 326)*, ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326): Effective Dates*, ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* (November 2018) and ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (June 2016). The new guidance is effective for fiscal years beginning after December 15, 2022 for public business entities that are non-SEC filers. Early adoption is permitted. ASU 2016-13 replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses will be based on historical loss information, current conditions, and reasonable and supportable forecasts after implementation of this guidance. The guidance also requires enhanced disclosures. Management is in the process of assessing the impact that this guidance may have on the consolidated financial statements.

(v) Subsequent Events

The Company has evaluated subsequent events through March 28, 2022, the date that the consolidated financial statements were available to be issued.

In February 2022, MONT repaid its \$75,000 surplus note issued to its parent ONLIC. This transaction eliminates on consolidation and will have no impact on the consolidated financial statements.

In March 2022, ONLIC and SYRE received regulatory approval and executed, effective March 31, 2022, an amendment to the fixed indexed annuity reinsurance agreement. All retained, and any future, fixed indexed annuity policies will be ceded to SYRE. This transaction will eliminate on consolidation and will have no impact on the consolidated financial statements.

On March 11, 2022, the Members of ONMH voted to approve the Transaction discussed in Note 1. The Department conducted a public hearing on March 18, 2022. Assuming the Department issues an order approving the Transaction and all other regulatory approvals have been received, the Company will proceed

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to finalize all the steps necessary to close the Transaction and be acquired by Constellation. The Company is targeting to close the Transaction on or about March 31, 2022.

(4) Business Risks and Uncertainties

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, their products, and how those products may be sold. Changes in these laws and regulations may 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.

Changes in the regulatory environment and changes in laws in the countries of the Company's international insurance operations could have a material adverse effect on its results of operations. The Company's international insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are located or operate.

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% of total individual annuity reserves as of December 31, 2021 and 2020. 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 general account life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies to which it chooses to cede risk, requiring collateral to support ceded reserves and/or 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 or a subsidiary 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

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customers. The Company monitors its Risk-Based Capital (“RBC”) and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Cyber-Security 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 current working environment is unprecedented with wide-scale remote usage of the Company’s networks and may expose the Company to increased cyber-security vulnerability. The Company utilizes a defense in depth approach to physically, administratively and technically mitigate cyber-security risk. Multiple layers of security controls provide redundancy in the event a security control fails, or a vulnerability is exploited. The Company continually monitors cyber-security risk and implements new processes, controls and technology to address risks as they are identified. Despite these efforts, there is still a risk a cyber-security 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 fixed maturity securities. 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 and indexed universal life contracts. Losses in the equity market could result in declines in separate account assets and assets under management, which would affect investment management fees revenue and potentially require the Company to accelerate the amortization of DAC.

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.

Subsequent to December 31, 2021, equity and financial markets have experienced significant volatility associated with conflict between Ukraine and Russia. The Company is actively monitoring the impact of the conflict on its investment portfolio.

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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 Bank Owned Life Insurance (“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.

Foreign Currency Risk is the risk that the Company’s consolidated financial statements could be adversely impacted by fluctuations in exchange rates as the Company’s financial statements are presented in U.S. dollars and the financial statements of its subsidiaries outside of the U.S. are translated into U.S. dollars. Additionally, the Company could be impacted by significant changes in global economic conditions.

Investment Risk – see Note 7 for additional risks specific to the investment portfolio.

Civil Unrest and Political Risk is the risk that continued civil unrest and challenging political environments may cause significant volatility, declines in the value of investments, loss of life, property damage, additional disruption to commerce and reduce economic activity. Any significant civil unrest or political challenges could result in the decrease of the Company’s net income, revenue and assets under management and may adversely affect the Company’s investment portfolio.

Coronavirus (“COVID-19”) Risk is the potential risk the Company continues to be exposed to the ongoing COVID-19 pandemic. The worldwide health and economic impact of COVID-19 continues to evolve, influenced by the scope, severity and duration of the crisis as well as the actions of governments, judiciaries, legislative bodies, regulators and other third parties in response, all of which are subject to continuing uncertainty. While the global economic outlook continues to improve, the ultimate impact of COVID-19 on the Company’s business will depend upon the speed at which government-mandated safety precautions can be fully lifted and the manner and speed with which economic activity sustainably rebounds.

Significant legislative and regulatory activity has occurred at both the U.S. federal and state levels, as well as globally, in response to COVID-19 and its impact on insurance consumers. While some of these legislative and regulatory initiatives have expired, resurgence of the COVID-19 virus may lead to a renewal of these initiatives. The Company cannot predict what form any further legal and regulatory responses to concerns about COVID-19 and related public health issues will take, how long they will last or how such responses will impact its business. The Company will continue to actively monitor these developments and to cooperate fully with all government and regulatory authorities as they develop their responses.

The Company has implemented risk management and business continuity plans and taken preventive measures and other precautions, such as employee business travel restrictions and remote work arrangements which, to date, have enabled the Company to maintain its critical business processes, customer service levels, relationships with key vendors and distribution partners, financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures. The Company is continuing to evaluate the potential long-term impact of the crisis to its operations and financial condition.

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Transaction Risk is the risk associated with the Constellation acquisition discussed in Note 1. Completion of the Transaction is subject to the satisfaction of certain conditions, including regulatory and ONMH member approvals, and there can be no assurances as to whether or when it may be completed. There can be no assurance that the proposed Transaction will be consummated.

The Company may encounter a number of issues related to the Transaction:

- An occurrence of an event, change or other circumstance that could give rise to the termination of the Transaction agreement or could otherwise cause the transactions contemplated by the agreement to fail to close;
- Disruptions to the current plans and operations of the Company as a result of the announcement of the Transaction agreement;
- An inability to complete the transactions contemplated by the Transaction agreement, including failure to obtain approval of ONMH members or other conditions to closing in the Transaction agreement;
- Delays in obtaining or the inability to obtain necessary regulatory approvals (including approval from insurance regulators) required to complete the Transaction;
- The imposition on the Company by regulators of terms, conditions, requirements, limitations, costs or restrictions that would delay the completion of the transaction, the imposition of additional material costs or limitations on the revenues after the Transaction;
- Changes in applicable laws or regulations; the risk that the transactions contemplated by the Transaction agreement will not qualify for their intended tax treatment;
- Adverse legal and regulatory developments or determinations or adverse changes in, or interpretations of, U.S. or other foreign laws, rules or regulations, including tax laws, rules and regulations, that could delay or prevent completion of the transactions contemplated by the Transaction agreement, cause the terms of such transactions to be modified or change the anticipated tax consequences of such transactions;
- The possibility that the Company may be adversely affected by other economic, business, and/or competitive factors;
- Uncertainty about the effect of the proposed Transaction on the Company's employees, customers, and other parties with whom they have business relationships may have an adverse effect on its business and results of operations.

As a result, the Company cannot provide any assurance that any such terms, conditions, requirements, limitations, costs, or restrictions will not result in the abandonment of the Transaction. In addition, the Company cannot be certain that the other conditions to closing the Transaction will be satisfied (or waived, if applicable) in a timely manner or at all. Failure to, or any delay in, completing the Transaction could cause the Company to not realize some or all of the benefits that it expects to achieve if the Transaction is successfully completed within the expected timeframe. The issues above may be exacerbated by a delay in the completion of the proposed Transaction. Particularly, the Company's management team will have

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devoted substantial time and resources to matters relating to the Transaction and would otherwise have devoted their time and resources to other opportunities that may have been beneficial to the Company.

There can be no assurance that an adequate remedy will be available to the Company in the event of a breach of the Transaction agreement by Constellation or its investors, or that the Company will wholly, or partially, recover any damages incurred in connection with the proposed Transaction. In particular, a failed Transaction may result in negative publicity and a negative impression of the Company's business among its customers or in the investment community or business community generally, all of which could negatively impact its business. Any disruptions to the Company's business resulting from the announcement and pendency of the proposed Transaction, including any adverse changes in its relationships with its customers, distribution partners, business partners, and employees, may continue or accelerate in the event of a failed Transaction. Furthermore, the Company has incurred, and will continue to incur, significant costs, expenses, and fees for professional services, including legal, accounting, investment banking and advisory fees, and other transaction costs in connection with the proposed Transaction, for which it will have received little or no benefit if the proposed Transaction is not completed. Many of these fees and costs will be payable by the Company if the proposed Transaction is not completed and may relate to activities that they would not have undertaken other than to complete the proposed Transaction.

Litigation is common in connection with acquisitions of companies, regardless of any merits related to the claims. In the event lawsuits are filed against the Company, the outcome of the lawsuits would be uncertain, and the Company may not be successful in defending against any such claims. While the Company will defend against any lawsuits filed against it in connection with the Transaction, the costs of the defense of such actions and other effects of such litigation could have an adverse effect on its business, financial condition and operating results.

The Company is working closely with Constellation to mitigate any exposure associated with the Transaction as well as working with the rating agencies on potential impacts; having open communication with customers, producers and employees; and implementing strategic plans to enhance its capital position.

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(5) Changes in Accumulated Other Comprehensive Income

The following table shows the changes in accumulated other comprehensive income, net of taxes, by component for the years ended December 31:

| | Pensions and other post- retirement benefits | Foreign currency translation adjustment | Future policy benefits and claims | Adjustment to: Other policyholder funds | Deferred acquisition costs | Unrealized gains (losses) ¹ | Total |
|--|---|--|---|--|----------------------------------|---|------------------|
| December 31, 2019 | \$ (24,737) | (49,436) | (52,723) | 20,088 | (97,820) | 439,407 | 234,779 |
| Other comprehensive income (loss) before reclassifications | (8,037) | 6,047 | (24,095) | 28,313 | (88,794) | 281,290 | 194,724 |
| Amounts reclassified from accumulated other comprehensive income | 2,403 | — | — | — | — | (14,923) | (12,520) |
| Change | <u>(5,634)</u> | <u>6,047</u> | <u>(24,095)</u> | <u>28,313</u> | <u>(88,794)</u> | <u>266,367</u> | <u>182,204</u> |
| December 31, 2020 | \$ (30,371) | (43,389) | (76,818) | 48,401 | (186,614) | 705,774 | 416,983 |
| Other comprehensive income (loss) before reclassifications | 13,988 | (28,873) | 20,116 | (39,336) | 86,751 | (305,852) | (253,206) |
| Amounts reclassified from accumulated other comprehensive income | 2,820 | — | — | — | — | (57,544) | (54,724) |
| Change | <u>16,808</u> | <u>(28,873)</u> | <u>20,116</u> | <u>(39,336)</u> | <u>86,751</u> | <u>(363,396)</u> | <u>(307,930)</u> |
| December 31, 2021 | \$ <u>(13,563)</u> | <u>(72,262)</u> | <u>(56,702)</u> | <u>9,065</u> | <u>(99,863)</u> | <u>342,378</u> | <u>109,053</u> |

1. Unrealized gains (losses) include unrealized impact of derivative instruments.

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The following table shows the reclassifications out of accumulated other comprehensive (loss) income, net of taxes, for the years ended December 31:

| Details about accumulated other comprehensive income (loss) components | 2021 | 2020 | Consolidated statements of income location |
|---|------------------|----------------|--|
| Amortization of pensions and other post-retirement benefits: | | | |
| Actuarial losses | \$ (3,570) | (3,042) | Other operating costs and expenses |
| | (3,570) | (3,042) | Loss before income taxes |
| | 750 | 639 | Income tax current benefit |
| | <u>(2,820)</u> | <u>(2,403)</u> | Net loss |
| Unrealized gains/(losses) on securities available-for-sale: | | | |
| | 72,894 | 19,289 | Realized gains, excluding other-than-temporary impairment losses on securities |
| | <u>(15,350)</u> | <u>(4,366)</u> | Income tax current expense |
| | 57,544 | 14,923 | Net gain |
| Total reclassification for the year | \$ <u>54,724</u> | <u>12,520</u> | Total net gain |

(6) Fair Value Measurements

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 Consolidated Balance Sheets into a three-level hierarchy based on the priority of the inputs to the valuation technique. 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 or liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include U.S. government securities, actively traded equity securities, cash and cash equivalents, 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, private placement, equity securities, derivatives, securities lending collateral, cash equivalent securities, and short-term investments.
- **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 U.S. treasury securities and other government obligations (including certain investments in debt instruments issued by the U.S. military which are supported by lease payments), corporate debt, asset-backed or mortgage-backed securities, embedded derivatives associated with fixed indexed annuity contracts, and reinsurance contracts and embedded derivatives associated with living benefit contracts.

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The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2021:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|--|----------------------|-------------------|------------------|-------------------|
| Investments: | | | | |
| Securities available-for-sale: | | | | |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government ¹ | \$ 16,016 | 17,710 | 3,667 | 37,393 |
| Obligations of states and political subdivisions | — | 1,520,549 | — | 1,520,549 |
| Debt securities issued by foreign governments | — | 11,417 | — | 11,417 |
| Corporate | — | 7,680,892 | 22,674 | 7,703,566 |
| Asset-backed | — | 920,459 | 93,564 | 1,014,023 |
| Mortgage-backed | — | 423,643 | 2,992 | 426,635 |
| Equity securities | 77,810 | 9,945 | 13,224 | 100,979 |
| Other long-term investments: | | | | |
| Derivative assets: | | | | |
| Equity put options | — | 43,992 | — | 43,992 |
| Equity index call options | — | 41,397 | — | 41,397 |
| Cross currency swaps | — | 1,288 | — | 1,288 |
| Swaptions | — | 14,436 | — | 14,436 |
| Short-term investments securities lending collateral | — | 374,311 | — | 374,311 |
| Short-term investments | 147,483 | 57,586 | — | 205,069 |
| Cash and cash equivalents | 444,731 | 69,995 | — | 514,726 |
| Reinsurance recoverable: | | | | |
| GMIB reinsurance contracts | — | — | 1,077,122 | 1,077,122 |
| Assets held in separate accounts | 19,376,463 | — | — | 19,376,463 |
| Total assets | \$ 20,062,503 | 11,187,620 | 1,213,243 | 32,463,366 |
| Liabilities | | | | |
| Future policy benefit and claims: | | | | |
| GMAB/GMWB embedded derivatives | \$ — | — | 15,912 | 15,912 |
| GLWB embedded derivatives | — | — | 10,686 | 10,686 |
| Fixed indexed annuity embedded derivatives ² | — | — | 191,307 | 191,307 |
| Total liabilities | \$ — | — | 217,905 | 217,905 |

¹ Level 3 is comprised of debt instruments by U.S. military which are supported by lease payments.

² Represents embedded derivative portion of fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

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The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2020:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|-------------------|------------------|-------------------|
| Investments: | | | | |
| Securities available-for-sale: | | | | |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities and | | | | |
| obligations of U.S. government ¹ | \$ 16,822 | 46,352 | 4,086 | 67,260 |
| Obligations of states and | | | | |
| political subdivisions | — | 1,303,291 | — | 1,303,291 |
| Debt securities issued by | | | | |
| foreign governments | — | 5,557 | — | 5,557 |
| Corporate | — | 6,914,397 | 248,248 | 7,162,645 |
| Asset-backed | — | 1,205,116 | 45,103 | 1,250,219 |
| Mortgage-backed | — | 890,736 | 3,704 | 894,440 |
| Trading securities: | | | | |
| Fixed maturity securities: | | | | |
| Corporate | — | 128 | — | 128 |
| Equity securities | 41,028 | 10,214 | 2,491 | 53,733 |
| Other long-term investments: | | | | |
| Derivative assets: | | | | |
| Equity put options | — | 40,813 | — | 40,813 |
| Equity index call options | — | 51,506 | — | 51,506 |
| Cross currency swaps | — | 803 | — | 803 |
| Swaptions | — | 26,506 | — | 26,506 |
| Short-term investments securities | | | | |
| lending collateral | — | 368,897 | — | 368,897 |
| Short-term investments | 142,890 | 64,880 | — | 207,770 |
| Cash and cash equivalents | 687,560 | — | — | 687,560 |
| Reinsurance recoverable: | | | | |
| GMIB reinsurance contracts | — | — | 1,357,034 | 1,357,034 |
| Assets held in separate accounts | 19,486,193 | — | — | 19,486,193 |
| Total assets | \$ 20,374,493 | 10,929,196 | 1,660,666 | 32,964,355 |
| Liabilities | | | | |
| Future policy benefit and claims: | | | | |
| GMAB/GMWB embedded derivatives | \$ — | — | 25,510 | 25,510 |
| GLWB embedded derivatives | — | — | 17,382 | 17,382 |
| Fixed indexed annuity embedded derivatives ² | — | — | 154,678 | 154,678 |
| Derivative liabilities: | | | | |
| Currency futures | 3,866 | — | — | 3,866 |
| Equity put options | — | 33,416 | — | 33,416 |
| Total liabilities | \$ 3,866 | 33,416 | 197,570 | 234,852 |

¹ Level 3 is comprised of debt instruments by U.S. military which are supported by lease payments.

² Represents embedded derivative portion of fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

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Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, 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, secondary pricing sources, review of price source changes, and methodology changes.

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

Fixed maturity and equity securities – The estimated fair value of fixed maturity and equity securities is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities.

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 fixed maturity securities as Level 2 assets.

Fixed maturity securities 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 fixed maturity security 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 fixed maturity security. 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 fixed maturity securities are classified as Level 3 assets.

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For certain asset-backed and mortgage-backed fixed maturity securities with complex cash flows that are not priced by independent pricing services, management determines the fair value using other modeling techniques, primarily commercial software applications utilized for valuing securitized investments with variable cash flows. These fixed maturity securities are classified as Level 3 assets.

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

At December 31, 2021, 81.5% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 16.8% from the Company's internal pricing matrices and 1.7% from other sources. At December 31, 2020, 82.0% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 14.9% from the Company's internal pricing matrices and 3.1% from other sources.

Derivative instruments - The Company enters into derivative transactions comprised of 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 and indexed universal life products. The equity and currency futures are exchange traded derivatives, and the estimated fair value is based on an active market quotation. The Company has classified the estimated fair values of the exchange traded derivatives as Level 1 assets and liabilities. 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.

Short-term investments - Short-term investments include fixed maturity securities that mature in less than one year and are valued in the same manner as the fixed maturity securities. These fixed maturity securities are classified as Level 2 assets. A portion of short-term investments are bank deposits that are classified as Level 1 assets since these investments are very liquid and not subject to valuation fluctuations.

Cash and cash equivalents - 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 equivalents are comprised of publicly traded money market accounts. The publicly traded money market accounts are considered to be Level 1 assets.

Assets held in separate accounts - 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 Consolidated Balance Sheets. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified the estimated separate account assets as Level 1 assets.

GMIB reinsurance contracts and GMAB/GMWB/GLWB embedded derivatives - Certain of the Company's individual variable annuity contracts that include guaranteed benefit riders accounted for as embedded derivatives are measured at estimated fair value separately from the host variable annuity

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contract. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuity products.

The fair value of these assets and liabilities is estimated using the present value of future benefits minus the present value of future premiums over the expected lives of the contracts using various capital market and actuarial assumptions. The Company uses a risk neutral valuation methodology in which cash flows are projected under multiple capital market scenarios using observable risk-free rates.

The valuation of the embedded derivatives also includes a credit adjustment using the Company's nonperformance risk to the present value of the future cash flows.

Other significant inputs to the valuation models for the derivatives associated with the guaranteed benefit riders include capital market assumptions, such as interest rates, equity indices, foreign currency rates, counterparty credit, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of the reinsurance contracts and embedded derivatives are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 assets and liabilities.

Fixed indexed annuity embedded derivatives - The Company's fixed indexed annuity contracts include embedded derivatives, which are measured at estimated fair value separate from the host fixed indexed annuity contract. These embedded derivatives are estimated using the option budget method. The option budget method is used as the best estimate of the future values of the index credits. The embedded derivative incorporates the excess cash flows, or those cash flows that represent the value of the indexes in excess of guarantee values. These cash flows are then discounted using the risk-free rates plus a nonperformance risk spread, adjusted for margins.

Nonperformance risk is based on the counterparty's debt and cash flows obtained from publicly available information. Risk margins capture the non-capital market risk of the instrument which represents the additional risks assumed due to the uncertainties of the actuarial assumptions.

Other significant inputs to the valuation model for these derivatives include capital market assumptions, such as interest rates, equity indices, and volatility surface values, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of these reserves are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 liabilities.

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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 | Investments | | | | | Reinsurance Recoverable | Other Assets | Total assets |
|--|---|-----------|----------------|-------------------|-------------------|-------------------------|--------------------------------|--------------|
| | U.S. treasury securities and obligations of U.S. government | Corporate | Asset - backed | Mortgage - backed | Equity Securities | GMB reinsurance | GMAB/GMWB embedded derivatives | |
| December 31, 2019 | \$ 4,403 | 22,023 | 75,839 | 4,688 | — | 1,290,896 | 17,298 | 1,415,147 |
| Net investment gains/(losses): | | | | | | | | |
| In earnings | | | | | | | | |
| (realized and unrealized) ¹ | — | (8) | (12,319) | (24) | — | 66,138 | (17,298) | 36,489 |
| Unrealized in OCI ² | (145) | (9,325) | (150) | 9 | 405 | — | — | (9,206) |
| Purchases | — | 88,988 | 23,375 | — | 2,086 | — | — | 114,449 |
| Settlements | (172) | (8,108) | (35,218) | (969) | — | — | — | (44,467) |
| Transfers into Level 3 | — | 154,678 | 13,698 | — | — | — | — | 168,376 |
| Transfers out of Level 3 | — | — | (20,122) | — | — | — | — | (20,122) |
| December 31, 2020 | 4,086 | 248,248 | 45,103 | 3,704 | 2,491 | 1,357,034 | — | 1,660,666 |
| Net investment gains/(losses): | | | | | | | | |
| In earnings | | | | | | | | |
| (realized and unrealized) ¹ | — | (308) | (36) | 2 | 490 | (279,912) | — | (279,764) |
| Unrealized in OCI ² | (233) | (3,104) | (437) | (12) | (181) | — | — | (3,967) |
| Purchases | — | 1,000 | 80,655 | — | 13,000 | — | — | 94,655 |
| Settlements | (186) | (17,145) | (6,464) | (702) | (2,576) | — | — | (27,073) |
| Transfers into Level 3 | — | 6,018 | — | — | — | — | — | 6,018 |
| Transfers out of Level 3 | — | (212,035) | (25,257) | — | — | — | — | (237,292) |
| December 31, 2021 | \$ 3,667 | 22,674 | 93,564 | 2,992 | 13,224 | 1,077,122 | — | 1,213,243 |
| Change in unrealized gains (losses): | | | | | | | | |
| Still held at December 31: | | | | | | | | |
| 2020 | \$ — | (4) | (80) | (23) | — | 66,138 | — | 66,031 |
| 2021 | \$ — | — | (15) | 2 | — | (279,912) | — | (279,925) |

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| Liabilities | Future policy benefits and claims | | | Total liabilities |
|--|--|--|---|------------------------------|
| | GMAB/ GMWB embedded derivatives³ | GLWB embedded derivatives | Fixed indexed annuity embedded derivatives | |
| December 31, 2019 | \$ — | (19,706) | (166,353) | (186,059) |
| Net investment gains/(losses): | | | | |
| In earnings (realized and unrealized) ² | (25,510) | 2,324 | 11,675 | (11,511) |
| December 31, 2020 | (25,510) | (17,382) | (154,678) | (197,570) |
| Net investment gains/(losses): | | | | |
| In earnings (realized and unrealized) ² | 9,598 | 6,696 | (36,629) | (20,335) |
| December 31, 2021 | \$ (15,912) | (10,686) | (191,307) | (217,905) |
| Change in unrealized gains/(losses): | | | | |
| Still held at December 31: | | | | |
| 2020 | \$ (42,808) | 2,324 | 11,675 | (28,809) |
| 2021 | \$ 9,598 | 6,696 | (36,629) | (20,335) |

¹ Net realized investment gains and losses included in earnings reflect gains/(losses) on sales of financial instruments, changes in fair value of other assets and liabilities, other-than-temporary impairments, amortization and accretion of premiums or discounts and derivative settlements activity.

² Unrealized investment gains and losses recorded in other comprehensive (loss) income include changes in market value of certain instruments.

³ In 2019, the GMAB reserve balance was negative and reclassified as an asset.

The following tables present certain quantitative information about the significant unobservable inputs used in the fair value measurement for asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31. Certain securities classified as Level 3 excluded from the table below are obtained from non-binding broker quotes where observable inputs are not reasonably obtainable by the Company.

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| | Assets/ liabilities measured at fair value | Valuation techniques(s) | Unobservable input description ² | Input/range of inputs | Weighted average | Impact of increase in input on fair value |
|---|---|----------------------------|--|--------------------------|---------------------|--|
| 2021 | | | | | | |
| Assets | | | | | | |
| Securities available-for-sale: | | | | | | |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ 3,667 | Market pricing | Market prices | 121 - 122% | 121 | Increase |
| Corporate | 22,674 | Market pricing | Market prices | 88 - 120% | 110 | Increase |
| Asset-backed | 93,564 | Market pricing | Market prices | 2 - 104% | 96 | Increase |
| Mortgage-backed | 2,992 | Market pricing | Market prices | 103 - 107% | 104 | Increase |
| Equity securities | 13,224 | Market pricing | Market prices | 25 - 26% | 25 | Increase |
| Reinsurance recoverable: | | | | | | |
| GMB reinsurance contracts | 1,077,122 | Stochastic actuarial model | Mortality rates ages 0-59 ages 60+ | 0 - 0.5% 0.4% - 100% | * * | Decrease Decrease |
| | | | Base Lapse Rates | | | |
| | | | duration 1-10 | 0.3% - 7.6% | * | Decrease |
| | | | duration 11+ | 3.6% - 6.6% | * | Decrease |
| | | | Non-Sys with rates (%AV) | 1.0% - 4.5% | * | Increase |
| | | | Sys with rates (%Rollup) | 95% - 100% | * | Increase |
| | | | Sys with utilization | 0% - 13% | * | Increase |
| | | | IB Utilization | 0.3% - 60% | * | Increase |
| | | | Non-performance risk (Credit Spread) | 0.33% - 0.73% | * | Decrease |
| | | | Equity market volatility | 10.8% - 23.0% | * | Increase |

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| | Assets/ liabilities measured at fair value | Valuation techniques(s) | Unobservable input description ² | Input/range of inputs | Weighted average | Impact of increase in input on fair value |
|---|---|----------------------------|--|--------------------------|---------------------|--|
| 2021 | | | | | | |
| Liabilities | | | | | | |
| GMAB/GMWB embedded derivatives ¹ | 15,912 | Stochastic actuarial model | Mortality rates | | | |
| | | | ages 0-59 | 0 - 0.5% | * | Decrease |
| | | | ages 60+ | 0.3% - 100% | * | Decrease |
| | | | Base Lapse Rates | | | |
| | | | duration 1-10 | 0.7% - 18.6% | * | Decrease |
| | | | duration 11+ | 6.2% - 11.0% | * | Decrease |
| | | | Non-Sys with rates (%AV) | 1.0% - 1.5% | * | Decrease |
| | | | Sys with rates (%Rollup) | N/A | * | N/A |
| | | | Sys with utilization | 0% | * | Decrease |
| | | | Non-performance risk (Credit Spread) | 1.87% - 2.27% | * | Decrease |
| | | | Equity market volatility | 10.8% - 23.0% | * | Increase |
| GLWB embedded derivatives | 10,686 | Stochastic actuarial model | Mortality rates | | | |
| | | | ages 0-59 | 0 - 0.5% | * | Decrease |
| | | | ages 60+ | 0.3% - 100% | * | Decrease |
| | | | Base Lapse Rates | | | |
| | | | duration 1-10 | 0.2% - 16.8% | * | Decrease |
| | | | duration 11+ | 7.0% - 8.6% | * | Decrease |
| | | | Non-Sys with rates (%AV) | 0% | * | Decrease |
| | | | Sys with rates (%MAW) | 90% - 100% | * | N/A |
| | | | Sys with utilization | 0% - 29% | * | Decrease |
| | | | Non-performance risk (Credit Spread) | 1.87% - 2.27% | * | Decrease |
| | | | Equity market volatility | 17.6% - 29.6% | * | Increase |
| Fixed indexed annuity embedded derivatives | 191,307 | Option budget method | Mortality rates | | | |
| | | | ages 0-59 | 0 - 0.5% | * | Decrease |
| | | | ages 60+ | 0.3% - 100% | * | Decrease |
| | | | Base Lapse Rates | | | |
| | | | duration 1-10 | 0.5% - 25.0% | * | Decrease |
| | | | duration 11+ | 4.0% - 25.0% | * | Decrease |
| | | | Non-Sys with rates (%AV) | 0% | * | Decrease |
| | | | Sys with rates (%MAW) | 90% - 100% | * | N/A |
| | | | Sys with utilization | 0% - 30% | * | Decrease |
| | | | Non-performance risk (Credit Spread) | 2.75% - 4.56% | * | Decrease |
| | | | Equity market volatility surface rates | 5.0% - 20.2% | * | Increase |

¹ All GMAB riders.

² Sys = Systematic

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| | Assets/ liabilities measured at fair value | Valuation techniques(s) | Unobservable input description ² | Input/range of inputs | Weighted average | Impact of increase in input on fair value |
|---|---|----------------------------|--|--------------------------|---------------------|--|
| 2020 | | | | | | |
| Assets | | | | | | |
| Securities available-for-sale: | | | | | | |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ 4,086 | Market pricing | Market prices | 127 - 128% | 127 | Increase |
| Corporate | 248,248 | Market pricing | Market prices | 86 - 141% | 102 | Increase |
| Asset-backed | 45,103 | Market pricing | Market prices | 2 - 112% | 91 | Increase |
| Mortgage-backed | 3,704 | Market pricing | Market prices | 102 - 105% | 104 | Increase |
| Equity securities | 2,491 | Market pricing | Market prices | 0 - 322% | 322 | Increase |
| Reinsurance recoverable: | | | | | | |
| GMB reinsurance contracts | 1,357,034 | Stochastic actuarial model | Mortality rates ages 0-59 ages 60+ | 0 - 0.5% 0.4% - 100% | * * | Decrease Decrease |
| | | | Base Lapse Rates | | | |
| | | | duration 1-10 | 0.3% - 7.6% | * | Decrease |
| | | | duration 11+ | 3.6% - 6.6% | * | Decrease |
| | | | Non-Sys with rates (%AV) | 1.0% - 4.5% | * | Increase |
| | | | Sys with rates (%Rollup) | 95% - 100% | * | Increase |
| | | | Sys with utilization | 0% - 13% | * | Increase |
| | | | IB Utilization | 0.3% - 60% | * | Increase |
| | | | Non-performance risk (Credit Spread) | 0.38% - 1.94% | * | Decrease |
| | | | Equity market volatility | 17.6% - 29.6% | * | Increase |

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| | Assets/ liabilities measured at fair value | Valuation techniques(s) | Unobservable input description ² | Input/range of inputs | Weighted average | Impact of increase in input on fair value |
|---|---|----------------------------|--|--------------------------------|---------------------|--|
| 2020 | | | | | | |
| Liabilities | | | | | | |
| GMAB/GMWB embedded derivatives ¹ | 25,510 | Stochastic actuarial model | Mortality rates ages 0-59 ages 60+ | 0 - 0.5% 0.3% - 100% | * * | Decrease Decrease |
| | | | Base Lapse Rates duration 1-10 duration 11+ | 0.7% - 18.6% 6.2% - 11.0% | * * | Decrease Decrease |
| | | | Non-Sys with rates (%AV) Sys with rates (%Rollup) Sys with utilization | 1.0% - 4.5% N/A 0% | * * * | Decrease N/A Decrease |
| | | | Non-performance risk (Credit Spread) Equity market volatility | 3.07% - 4.74% 17.6% - 29.6% | * * | Decrease Increase |
| GLWB embedded derivatives | 17,382 | Stochastic actuarial model | Mortality rates ages 0-59 ages 60+ | 0 - 0.5% 0.3% - 100% | * * | Decrease Decrease |
| | | | Base Lapse Rates duration 1-10 duration 11+ | 0.2% - 16.8% 7.0% - 8.6% | * * | Decrease Decrease |
| | | | Non-Sys with rates (%AV) Sys with rates (%MAW) Sys with utilization | 0% 90% - 100% 0% - 29% | * * * | Decrease Increase Increase |
| | | | Non-performance risk (Credit Spread) Equity market volatility | 2.07% - 4.74% 17.6% - 29.6% | * * | Decrease Increase |
| Fixed indexed annuity embedded derivatives | 154,678 | Option budget method | Mortality rates ages 0-59 ages 60+ | 0 - 0.5% 0.3% - 100% | * * | Decrease Decrease |
| | | | Base Lapse Rates duration 1-10 duration 11+ | 0.5% - 25.0% 4.0% - 25.0% | * * | Decrease Decrease |
| | | | Non-Sys with rates (%AV) Sys with rates (%MAW) Sys with utilization | 0% 90% - 100% 0% - 30% | * * * | Decrease N/A Decrease |
| | | | Non-performance risk (Credit Spread) Equity market volatility surface rates | 2.75% - 4.56% 5.0% - 20.2% | * * | Decrease Increase |

¹ All GMAB riders.

² Sys = Systematic

* The stochastic actuarial models are generated using one thousand scenarios. Weighted average values are not meaningful for these valuations.

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Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the Company's conclusion that pricing information received from a third-party pricing service is not reflective of market activity.

| | Transfers out of Level 2 into Level 3 | Transfers out of Level 3 into Level 2 |
|--------------------------------|--|--|
| 2021 | | |
| Assets | | |
| Securities available-for-sale: | | |
| Fixed maturity securities: | | |
| Corporate | \$ 6,018 | 212,035 |
| Asset-backed | — | 25,257 |
| 2020 | | |
| Assets | | |
| Securities available-for-sale: | | |
| Fixed maturity securities: | | |
| Corporate | \$ 154,678 | — |
| Asset-backed | 13,698 | 20,122 |

During the years ended December 31, 2021 and 2020, the Company transferred investments totaling \$6,018 and \$168,376, respectively, into Level 3 from Level 2 as a result of lack of visibility to observe significant inputs to price. During the years ended December 31, 2021 and 2020, the Company transferred investments totaling \$237,292 and \$20,122, respectively, out of Level 3 into Level 2 as a result of the availability of observable pricing inputs for these securities. There were no transfers from Level 2 or Level 3 into Level 1 for the years ended December 31, 2021 or 2020.

Fair Value Measurement on a Nonrecurring Basis

For mortgage loans, the valuation techniques were primarily based on the estimated fair value of the underlying collateral. These values were determined using third-party appraisals.

There were no assets measured at fair value on a nonrecurring basis for the years ended December 31, 2021 and 2020.

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Financial Instruments Not Carried at Fair Value

FASB ASC Topic 825, *Financial Instruments*, requires additional disclosure of the fair value information about existing on and off-balance sheet financial instruments. ASC Topic 825 excludes certain assets and liabilities, including insurance contracts, other than policies such as annuities that are classified as investment contracts, from its disclosure requirements. The Company's assets and liabilities subject to ASC Topic 825 disclosure that have not been presented at fair value in the ASC Topic 820 tables above are presented in the table below:

| | Carrying value | Estimated fair value | Fair value hierarchy | | |
|--|-------------------|-------------------------|----------------------|-----------|-----------|
| | | | Level 1 | Level 2 | Level 3 |
| 2021 | | | | | |
| Assets: | | | | | |
| Mortgage loans on real estate | \$ 1,577,560 | 1,619,666 | — | 80,636 | 1,539,030 |
| Policy loans | 1,036,393 | 1,203,207 | — | — | 1,203,207 |
| Liabilities: | | | | | |
| Investment contracts | 3,763,743 | 2,628,776 | — | 2,628,776 | — |
| Policyholders' dividend accumulations and other policyholder funds | 149,518 | 149,518 | 149,518 | — | — |
| Short-term debt | 1,644 | 1,644 | — | 1,644 | — |
| Long-term debt obligations | 976,725 | 1,180,432 | — | 1,180,432 | — |
| 2020 | | | | | |
| Assets: | | | | | |
| Mortgage loans on real estate | \$ 1,474,388 | 1,549,286 | — | 97,527 | 1,451,759 |
| Policy loans | 964,343 | 1,138,647 | — | — | 1,138,647 |
| Liabilities: | | | | | |
| Investment contracts | 3,513,987 | 3,152,258 | — | 3,152,258 | — |
| Policyholders' dividend accumulations and other policyholder funds | 177,566 | 177,566 | 177,566 | — | — |
| Short-term debt | 1,792 | 1,792 | — | 1,792 | — |
| Long-term debt obligations | 975,910 | 1,036,907 | — | 1,036,907 | — |

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FASB ASC Topic 825, *Financial Instruments*, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). The following table presents the Company's financial assets and liabilities contained in Other assets, Other long-term investments, and Other liabilities on the Consolidated Balance Sheets:

| Financial assets identified in other long-term investments | Carrying amount | | |
|---|------------------------|----------------|--|
| | 2021 | 2020 | |
| Derivative instruments | \$ 101,113 | 119,628 | Carrying value approximates fair value |
| Receivable for securities | 665 | 514 | Carrying value approximates fair value |
| Joint venture | 21,175 | 21,727 | Carrying value approximates fair value |
| Other invested assets | 13,861 | 1,570 | Carrying value approximates fair value |
| Other ¹ | <u>135,974</u> | <u>138,329</u> | |
| Total other long-term investments | <u>\$ 272,788</u> | <u>281,768</u> | |
| | Carrying amount | | |
| Financial assets identified in other assets | 2021 | 2020 | |
| Accounts receivable due from external parties | \$ 11,498 | 9,280 | Carrying value approximates fair value |
| Other ¹ | <u>355,257</u> | <u>348,994</u> | |
| Total other assets | <u>\$ 366,755</u> | <u>358,274</u> | |
| | Carrying amount | | |
| Financial liabilities identified in other liabilities | 2021 | 2020 | |
| Interest payable | \$ 14,618 | 14,087 | Carrying value approximates fair value |
| Derivative liabilities | - | 37,282 | Carrying value approximates fair value |
| Collateral liabilities | 93,050 | 77,920 | Carrying value approximates fair value |
| Investments in transit and payable for securities | 11,252 | 24,125 | Carrying value approximates fair value |
| Other ¹ | <u>493,586</u> | <u>428,364</u> | |
| Total other liabilities | <u>\$ 612,506</u> | <u>581,778</u> | |

¹ Items included in "Other" are not in the scope of ASU 2016-01, but are presented for reconciliation purposes to agree to the balance sheet caption. Included in this category are goodwill and property and fixed assets, which are measured in accordance with the methodology described in Note 3, and FHLB common stock, which is carried at amortized cost. For all remaining items in this classification, carrying value approximates fair value.

In estimating the fair value of financial instruments, the Company used the following methods and assumptions:

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 mortgage loans that are valued based on market observable quotes and are classified as Level 2. The Company has mortgage loans that are valued using internally obtained credit ratings and are classified as Level 3.

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Policy loans – The fair value of policy loans is estimated using discounted cash flow calculations. The expected life of the loan is based on internal assumptions; therefore, the Company classifies these as Level 3 assets.

Investment contracts – The fair value of the Company’s liabilities under investment contracts is estimated 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. Cash flows are discounted at a rate that reflects the nonperformance risk of the Company. The amounts shown in the above table are net of reinsurance. The inputs are market observable; therefore, the Company classifies these as Level 2 liabilities.

Policyholders’ dividend accumulations and other policyholder funds – The carrying amount reported on the Consolidated Balance Sheets for these instruments approximates their estimated fair value. The amounts can be converted to cash by the policyholder; therefore, the Company classifies these amounts as Level 1.

Short-term borrowings – The carrying amount of short-term borrowings related to revolving credit facilities is a reasonable estimate of its fair value because the interest rates are variable and based on current market rates. The Company classifies these amounts as Level 2.

Long-term debt obligations – The fair value of senior and surplus notes is estimated 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 valuation inputs are based on market observable information; therefore, the Company classifies these as Level 2 liabilities. The fair value of the term loan is determined by the bank to be the carrying value of the loan as it is not traded on the open market. The Company classifies this as a Level 3 liability.

(7) 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 a greater impact on the issuer than anticipated;
- the risk that foreign currency exchange rates could negatively impact the valuation of certain investments that are not denominated in U.S. dollars;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other-than-temporary impairments; and

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- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

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

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

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

Fixed Maturity and Equity Securities

Fixed Maturity and Equity Securities by Sector

The amortized cost and estimated fair value of available-for-sale and trading securities for fixed maturity securities by sector as of December 31 is as follows:

| | 2021 | | | | |
|---|---------------------------|---------------------------------------|--|---------------------------------|---------------------------------|
| | <u>Amortized cost</u> | <u>Gross unrealized gains</u> | <u>Gross unrealized losses</u> | <u>Estimated fair value</u> | <u>Non- credit OTTI</u> |
| Securities available-for-sale: | | | | | |
| Fixed maturity securities: | | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ 35,114 | 2,487 | (208) | 37,393 | — |
| Obligations of states and political subdivisions | 1,464,071 | 63,792 | (7,314) | 1,520,549 | — |
| Debt securities issued by foreign governments | 10,999 | 418 | — | 11,417 | — |
| Corporate | 7,322,327 | 449,240 | (68,001) | 7,703,566 | — |
| Asset-backed | 1,003,899 | 16,684 | (6,560) | 1,014,023 | (2,169) |
| Mortgage-backed | 412,760 | 14,706 | (831) | 426,635 | (12,681) |
| Total fixed maturity securities | <u>\$ 10,249,170</u> | <u>547,327</u> | <u>(82,914)</u> | <u>10,713,583</u> | <u>(14,850)</u> |

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| | 2020 | | | | |
|---|---------------------------|---------------------------------------|--|---------------------------------|---------------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Non- credit OTTI |
| Securities available-for-sale: | | | | | |
| Fixed maturity securities: | | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ 60,548 | 6,712 | — | 67,260 | — |
| Obligations of states and political subdivisions | 1,219,537 | 84,604 | (850) | 1,303,291 | — |
| Debt securities issued by foreign governments | 4,976 | 581 | — | 5,557 | — |
| Corporate | 6,367,696 | 808,985 | (14,036) | 7,162,645 | — |
| Asset-backed | 1,221,533 | 34,565 | (5,879) | 1,250,219 | (2,169) |
| Mortgage-backed | 852,367 | 43,408 | (1,335) | 894,440 | (12,763) |
| Total fixed maturity securities | <u>\$ 9,726,657</u> | <u>978,855</u> | <u>(22,100)</u> | <u>10,683,412</u> | <u>(14,932)</u> |
| Trading securities: | | | | | |
| Fixed maturity securities: | | | | | |
| Corporate | \$ 125 | 3 | — | 128 | — |
| Total fixed maturity securities | <u>\$ 125</u> | <u>3</u> | <u>—</u> | <u>128</u> | <u>—</u> |

Non-credit other-than-temporary impairment (“OTTI”) represents the amount of cumulative non-credit OTTI losses recognized in other comprehensive income on securities as of the date of OTTI that also had credit impairments.

The Company’s fixed maturities portfolio is comprised primarily of investment grade securities. Based upon designations by the NAIC, investment grade securities comprised 96.0% and 95.8% of the Company’s total available-for-sale and trading securities portfolio as of December 31, 2021 and 2020, respectively.

Investments with a fair value of \$13,617 and \$14,277 as of December 31, 2021 and 2020, respectively, were on deposit with various regulatory agencies as required by law and are included in securities available-for-sale.

Maturities of Fixed Maturity Securities

The amortized cost and estimated fair value of fixed maturity securities available-for-sale and trading as of December 31, 2021, 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 as of December 31, 2021.

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| | Fixed maturity securities Available-for-sale | |
|---|---|---------------------------------|
| | Amortized cost | Estimated fair value |
| Due in one year or less | \$ 210,691 | 213,621 |
| Due after one year through five years | 1,563,667 | 1,649,411 |
| Due after five years through ten years | 2,485,126 | 2,640,900 |
| Due after ten years | <u>5,989,686</u> | <u>6,209,651</u> |
| Total | <u>\$ 10,249,170</u> | <u>10,713,583</u> |

Continuous Gross Unrealized Losses for Fixed Maturity and Equity Securities

The following tables present the estimated fair value and gross unrealized losses of the Company's fixed maturity (aggregated by sector) and equity securities 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 | |
|---|---------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|
| | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses |
| 2021 | | | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ 4,900 | (208) | — | — | 4,900 | (208) |
| Obligations of states and political subdivisions | 304,855 | (7,114) | 9,165 | (200) | 314,020 | (7,314) |
| Corporate | 1,341,056 | (34,387) | 385,722 | (33,614) | 1,726,778 | (68,001) |
| Asset-backed | 290,872 | (3,354) | 75,532 | (3,206) | 366,404 | (6,560) |
| Mortgage-backed | <u>36,990</u> | <u>(693)</u> | <u>2,219</u> | <u>(138)</u> | <u>39,209</u> | <u>(831)</u> |
| Total fixed maturity securities | <u>\$ 1,978,673</u> | <u>(45,756)</u> | <u>472,638</u> | <u>(37,158)</u> | <u>2,451,311</u> | <u>(82,914)</u> |
| 2020 | | | | | | |
| Obligations of states and political subdivisions | \$ 40,903 | (240) | 4,755 | (610) | 45,658 | (850) |
| Corporate | 300,802 | (9,500) | 38,845 | (4,536) | 339,647 | (14,036) |
| Asset-backed | 184,472 | (4,823) | 33,717 | (1,056) | 218,189 | (5,879) |
| Mortgage-backed | <u>31,449</u> | <u>(1,273)</u> | <u>2,141</u> | <u>(62)</u> | <u>33,590</u> | <u>(1,335)</u> |
| Total fixed maturity securities | <u>\$ 557,626</u> | <u>(15,836)</u> | <u>79,458</u> | <u>(6,264)</u> | <u>637,084</u> | <u>(22,100)</u> |

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Concentrations related to fixed maturity securities in an unrealized loss position are included in the tables below. The tables summarize the fixed maturity securities by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

| <u>Unrealized losses</u> | <u>Less than 12 months</u> | <u>12 months or longer</u> | <u>Total</u> | <u>Number of Securities</u> |
|---|--------------------------------|--------------------------------|-----------------|---------------------------------|
| 2021 | | | | |
| 99.9%-80% | | | | |
| U.S. Treasury securities and obligations of U.S. government | \$ (3) | — | (3) | 2 |
| Obligations of states and political subdivisions | (7,114) | (200) | (7,314) | 107 |
| Corporate | (33,373) | (24,260) | (57,633) | 823 |
| Asset-backed | (3,354) | (2,807) | (6,161) | 212 |
| Mortgage-backed | (693) | (138) | (831) | 198 |
| Below 80% | | | | |
| U.S. Treasury securities and obligations of U.S. government | (205) | — | (205) | 2 |
| Corporate | (1,014) | (9,354) | (10,368) | 47 |
| Asset-backed | — | (399) | (399) | 1 |
| Total | <u>\$ (45,756)</u> | <u>(37,158)</u> | <u>(82,914)</u> | <u>1,392</u> |
| 2020 | | | | |
| 99.9%-80% | | | | |
| Obligations of states and political subdivisions | \$ (240) | (610) | (850) | 15 |
| Corporate | (9,500) | (2,502) | (12,002) | 182 |
| Asset-backed | (4,823) | (1,056) | (5,879) | 83 |
| Mortgage-backed | (1,273) | (62) | (1,335) | 24 |
| Below 80% | | | | |
| Corporate | — | (2,034) | (2,034) | 2 |
| Total | <u>\$ (15,836)</u> | <u>(6,264)</u> | <u>(22,100)</u> | <u>306</u> |

Evaluation of Other-Than-Temporarily Impaired Investments

Management regularly reviews its fixed maturity and equity securities 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 extent and length of time the security has been valued below cost. This review process includes an assessment of the credit quality and an assessment of the present value of future cash flows of the identified investment in the securities portfolio and for equity securities, an assessment of near-term recovery and whether the security will recover its amortized cost basis in a reasonable period of time.

For corporate securities, the Company evaluates the present value of cash flows using the financial performance of the issuer based upon credit performance and investment ratings. Residential mortgage-backed securities and asset-backed securities are assessed for impairment using default estimates based on the underlying collateral performance including default rates, recovery rates and prepayment speeds. Cash

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flows generated by the collateral are then utilized, along with consideration for the issue's position in the overall structure, to determine cash flows associated with the security.

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. 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;
- 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 securities, 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.

For each security deemed by management to meet the criteria for additional analysis, the Company prepares an analysis of the present value of the expected cash flows, using the interest rate implicit in the investment at the date of acquisition. To the extent that the present value of cash flows generated by a debt security is less than the amortized cost, an OTTI is recognized on the Consolidated Statements of Operations.

For those debt securities for which the Company has the intent to sell the security, or if it is more likely than not that it will be required to sell the security before recovery of the amortized cost, the entire unrealized loss (the amount that the amortized cost basis exceeds the estimated fair value) is recognized on the Consolidated Statements of Operations. For those debt securities for which the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security, but the security has suffered a credit loss (the amortized cost basis exceeds the present value of the expected cash flows), the impairment charge (excess of amortized cost over estimated fair value) is bifurcated with the credit loss portion recorded on the Consolidated Statements of Operations, and the remainder, or non-credit loss portion, recorded on the Consolidated Statements of Comprehensive Income (Loss). The Company prospectively accretes the value of the investment through interest income to the extent the future cash flows of the security are expected to be in excess of the new cost basis.

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The Company discloses as part of the separate component of AOCI the non-credit portion of any OTTI. Subsequent changes in estimated fair value that are not considered OTTI are not included in the separate component of AOCI.

Current Year Evaluation

The Company has concluded that securities in an unrealized loss position as of December 31, 2021 and 2020 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold the fixed maturity security investments until recovery of estimated fair value or amortized cost and for equity securities, the Company anticipates a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2020 to December 31, 2021 due to the increase in interest rates during the year. Accordingly, no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans consist of both commercial mortgage loans originated in the United States and Chile and residential mortgage loans originated in Chile. 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 mortgage loan portfolio as of December 31 were as follows:

| | | 2021 | 2020 |
|----------------------------|----|-----------|-----------|
| Mortgage loans | | | |
| Commercial mortgage loans | \$ | 1,494,973 | 1,379,838 |
| Residential mortgage loans | | 85,814 | 98,468 |
| Total amortized cost | | 1,580,787 | 1,478,306 |
| Valuation allowance | | 3,227 | 3,918 |
| Net carrying value | \$ | 1,577,560 | 1,474,388 |

Concentration of Credit Risk

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. 94.6% of the Company's portfolio is collateralized by properties located in the United States, with the remaining 5.4% located in Chile. Total loans in any state did not exceed 15.2% of the total loan portfolio as of December 31, 2021 and 2020.

As of December 31, 2021, loans in the states of Texas and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of \$208,836 and \$171,135, respectively. As of December 31, 2020, loans in the states of Texas, Ohio and California exceeded 10.0% of the total loan portfolio and had carrying values of \$208,760, \$153,253 and \$140,983, respectively.

Furthermore, the Company manages risk by underwriting relatively nominal individual commercial loans. The average loan, at origination, was approximately \$2,893 and \$2,767 in 2021 and 2020, respectively.

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Commercial Mortgage Loans

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

The following table summarizes 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 | |
| 2021 | | | | | | | |
| 0% - 50% | \$ 337,648 | 119,489 | 149,052 | 131,787 | 37,130 | 19,107 | 794,213 |
| 50% - 60% | 21,047 | 44,374 | 54,652 | 118,587 | 44,800 | 6,957 | 290,417 |
| 60% - 70% | 10,222 | — | 34,664 | 110,886 | 34,406 | 21,751 | 211,929 |
| 70% - 80% | — | — | 1,523 | 27,389 | 53,926 | 18,337 | 101,175 |
| 80% and greater | — | — | — | 8,762 | 30,861 | 54,928 | 94,551 |
| Total | \$ 368,917 | 163,863 | 239,891 | 397,411 | 201,123 | 121,080 | 1,492,285 |
| 2020 | | | | | | | |
| 0% - 50% | \$ 293,944 | 128,880 | 136,564 | 126,242 | 57,626 | 9,952 | 753,208 |
| 50% - 60% | 30,863 | 18,138 | 60,867 | 73,790 | 31,896 | 1,750 | 217,304 |
| 60% - 70% | 6,190 | — | 72,304 | 96,564 | 44,895 | — | 219,953 |
| 70% - 80% | — | — | 3,032 | 47,147 | 28,391 | 12,596 | 91,166 |
| 80% and greater | — | — | 7,129 | 35,628 | 33,105 | 19,023 | 94,885 |
| Total | \$ 330,997 | 147,018 | 279,896 | 379,371 | 195,913 | 43,321 | 1,376,516 |

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 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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Residential Mortgage Loans

The Company considers performing mortgages to be those loans that are either current on payments or delinquent by four payments or less. Upon missing the fifth payment, the Company considers these loans nonperforming. In accordance with the mortgage agreement, performing mortgages continue to record principal, interest and monetary correction. Monetary correction is defined as an economic adjustment to functional currency amounts arising from changes in inflation. The principal, interest and monetary correction values of those missed payments are 100% provisioned for. All loans classified as nonperforming are considered to be impaired.

Management continually monitors residential mortgages to determine their status. Residential mortgages that are nonperforming are required to have an appraisal every two years. Based on the appraised value, management determines if an adjustment to the carrying value is necessary. All loans classified as nonperforming have been placed on nonaccrual status.

The following table summarizes the residential mortgage loan portfolio, net of allowance, performing and nonperforming positions which was last updated as of December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|------------------|---------------|
| Residential mortgage loans | | |
| Performing | \$ 82,624 | 93,335 |
| Nonperforming | <u>2,651</u> | <u>4,537</u> |
| Total | <u>\$ 85,275</u> | <u>97,872</u> |

Allowance for Loan Losses

The allowance for loan losses is comprised of two components, specific and general, based on amounts collectively and individually evaluated for impairment. The Company's commercial mortgage loan portfolio has experienced minimal historical losses throughout the years, including the last three years. The residential mortgage loans are individually evaluated for impairment once a residential mortgage goes past due. The Company did not have any TDRs in 2021 or 2020.

The general component of the allowance for loan losses is maintained at a level believed adequate by management and reflects management's best estimate of probable credit losses, including losses incurred at the balance sheet date but not yet identified by specific loan.

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A rollforward of the allowance for loan losses is as follows:

| | <u>Commercial</u> | <u>Residential</u> | <u>Total</u> |
|----------------------------|-------------------|--------------------|--------------|
| Balance, December 31, 2019 | \$ 3,712 | 524 | 4,236 |
| Provision | 55 | 242 | 297 |
| Charge-offs | (396) | — | (396) |
| Recoveries | (49) | (212) | (261) |
| Effect of exchange rates | — | 42 | 42 |
| Balance, December 31, 2020 | 3,322 | 596 | 3,918 |
| Provision | 286 | 163 | 449 |
| Charge-offs | (631) | — | (631) |
| Recoveries | (289) | (159) | (448) |
| Effect of exchange rates | — | (61) | (61) |
| Balance, December 31, 2021 | <u>\$ 2,688</u> | <u>539</u> | <u>3,227</u> |

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 an 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.

Mortgage Loan Aging

The table below depicts the loan portfolio exposure, net of allowance, of the remaining principal balances (which equal the Company's recorded investment), by type, as of December 31:

| | <u>30-59 days past due</u> | <u>60-89 days past due</u> | <u>90 days or more past due</u> | <u>Total past due</u> | <u>Current</u> | <u>Total</u> | <u>Recorded investment > 90 days and accruing</u> |
|----------------------------|--------------------------------|--------------------------------|---|---------------------------|------------------|------------------|--|
| 2021 | | | | | | | |
| Commercial mortgage loans | \$ — | — | 726 | 726 | 1,491,559 | 1,492,285 | — |
| Residential mortgage loans | 3,013 | 487 | 2,112 | 5,612 | 79,663 | 85,275 | 28 |
| Total | <u>\$ 3,013</u> | <u>487</u> | <u>2,838</u> | <u>6,338</u> | <u>1,571,222</u> | <u>1,577,560</u> | <u>28</u> |
| 2020 | | | | | | | |
| Commercial mortgage loans | \$ 727 | — | — | 727 | 1,375,789 | 1,376,516 | — |
| Residential mortgage loans | 4,948 | 1,322 | 3,942 | 10,212 | 87,660 | 97,872 | 62 |
| Total | <u>\$ 5,675</u> | <u>1,322</u> | <u>3,942</u> | <u>10,939</u> | <u>1,463,449</u> | <u>1,474,388</u> | <u>62</u> |

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Performance, Impairment and Foreclosures

At December 31, 2021 and 2020, the Company had no mortgage loans in the process of foreclosure. There were no mortgage loan write-downs in 2021, 2020 or 2019. There were three foreclosures of residential mortgage loans during 2021 and 2020.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the balance sheet 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.

Residential mortgages are placed on nonaccrual status once management believes the collection of accrued interest is doubtful. Once residential mortgages are classified as nonaccrual loans, interest income is recognized under the cash basis.

The carrying value of mortgage loans on nonaccrual status as of December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|-----------------|--------------|
| Mortgage loans | | |
| Residential mortgage loans | \$ 2,651 | 4,537 |
| Total | <u>\$ 2,651</u> | <u>4,537</u> |

The recorded investment in and unpaid principal balance of impaired loans along with the related specific allowance for loan losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired as of December 31 were as follows:

| | <u>Recorded investment</u> | <u>Unpaid principal balance</u> | <u>Related allowance</u> | <u>Average recorded investment</u> | <u>Interest income recognized</u> |
|-----------------------------|----------------------------|---------------------------------|--------------------------|------------------------------------|-----------------------------------|
| 2021 | | | | | |
| With an allowance recorded: | | | | | |
| Commercial mortgages | \$ — | — | — | 372 | 10 |
| Residential mortgages | 3,740 | 3,201 | (539) | 3,594 | — |
| Total | <u>\$ 3,740</u> | <u>3,201</u> | <u>(539)</u> | <u>3,966</u> | <u>10</u> |
| 2020 | | | | | |
| With an allowance recorded: | | | | | |
| Commercial mortgages | \$ 743 | 1,032 | (289) | 1,166 | 80 |
| Residential mortgages | 4,418 | 5,014 | (596) | 2,283 | — |
| Total | <u>\$ 5,161</u> | <u>6,046</u> | <u>(885)</u> | <u>3,449</u> | <u>80</u> |

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Other Long-Term Investments

The components of Other long-term investments were as follows as of December 31:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|-------------------|----------------|
| Direct financing leases | \$ 57,525 | 63,796 |
| FHLB common stock | 53,735 | 52,039 |
| Derivative instruments | 101,113 | 119,628 |
| Receivable for securities | 665 | 514 |
| Joint venture | 21,175 | 21,727 |
| Chilean financing receivables | 24,714 | 18,507 |
| Other invested assets | 13,861 | 5,557 |
| Total | <u>\$ 272,788</u> | <u>281,768</u> |

The Company is a member of the Federal Home Loan Bank (“FHLB”) of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts.

The following table lists the components of the net investment in direct financing leases as of December 31:

| | <u>2021</u> | <u>2020</u> |
|---|------------------|-----------------|
| Total minimum lease payments to be received | \$ 81,221 | 98,863 |
| Less unearned income | <u>(23,696)</u> | <u>(35,067)</u> |
| Net investment in direct financing leases | <u>\$ 57,525</u> | <u>63,796</u> |

The minimum lease payments did not include executory costs, allowance for uncollectibles, or unguaranteed residual values of leased property for 2021 and 2020. Past favorable payment experience, a minimum required LTV ratio of 75% - 80% at lease inception as well as the Company’s right to repossess the property after two missed payments have resulted in not holding an allowance for uncollectibles by the Company, and no leases are on nonaccrual status. Credit quality is monitored based on past payment history.

The table below depicts the direct financing leasing exposure of remaining principal balances (which equal the Company’s recorded investment) by type as of December 31:

| | <u>30-59 days past due</u> | <u>60-89 days past due</u> | <u>90 days or more past due</u> | <u>Total past due</u> | <u>Current</u> | <u>Total</u> | <u>Recorded investment > 90 days and accruing</u> |
|-------------|--------------------------------|--------------------------------|---|---------------------------|----------------|---------------|--|
| 2021 | \$ <u>2,570</u> | <u>—</u> | <u>—</u> | <u>2,570</u> | <u>54,955</u> | <u>57,525</u> | <u>—</u> |
| 2020 | \$ <u>2,321</u> | <u>—</u> | <u>—</u> | <u>2,321</u> | <u>61,475</u> | <u>63,796</u> | <u>—</u> |

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Future undiscounted cash flows from direct financing leases as of December 31, 2021 are as follows:

| | | |
|-----------------------------------|----|----------|
| 2022 | \$ | 6,031 |
| 2023 | | 5,915 |
| 2024 | | 5,763 |
| 2025 | | 5,684 |
| 2026 | | 4,816 |
| Thereafter | | 53,012 |
| Total undiscounted lease payments | | 81,221 |
| Less imputed interest | | (23,696) |
| Lease receivable | \$ | 57,525 |

Securities Lending

As of December 31, 2021 and 2020, the Company received \$374,311 and \$368,897, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded on the Consolidated Balance Sheets in Short-term investments securities lending collateral with a corresponding liability recorded in Payables for securities lending collateral 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, 2021 and 2020. As of December 31, 2021 and 2020, the Company had loaned securities with a fair value of \$364,325 and \$358,808, respectively, which are recognized on the Consolidated Balance Sheets in Securities available-for-sale and Equity securities.

Variable Interest Entities

In the normal course of business, the Company invests in fixed maturity securities structured through trusts, joint ventures, limited partnerships, or limited liability companies that could qualify as VIE. A VIE is a legal entity that lacks sufficient equity to finance their activities, or the equity investors of the entities as a group lack any of the characteristics of a controlling interest. The primary beneficiary of a VIE is generally the enterprise that has both the power to direct the activities most significant to the VIE and is the enterprise that will absorb a majority of the fund's expected losses or receive a majority of the fund's expected residual returns. The Company evaluates its interest in certain fixed maturity securities, joint ventures, limited partnerships, and limited liability companies to determine if the entities meet the definition of a VIE and whether the Company is the primary beneficiary and should consolidate the entity based upon the variable interests it held both at inception and where there is a change in circumstances that requires a reconsideration.

The Company has determined that it is not the primary beneficiary of these investments as the Company does not have the power to direct the activities that most significantly impact the entities' performance. The Company's maximum exposure to loss is limited to the carrying values of these securities. There are no liquidity arrangements, guarantees or other commitments by third parties that affect the fair value of the Company's interest in these assets.

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Net Investment Income

Analysis of investment income by investment type follows for the years ended December 31:

| | Investment income | | |
|-----------------------------------|--------------------------|----------------|----------------|
| | 2021 | 2020 | 2019 |
| Gross investment income: | | | |
| Securities available-for-sale: | | | |
| Fixed maturity securities | \$ 448,265 | 409,252 | 478,703 |
| Fixed maturity trading securities | — | 7 | 23 |
| Equity securities, at fair value | 1,222 | 410 | 923 |
| Mortgage loans on real estate | 80,948 | 73,523 | 71,298 |
| Real estate | 5,805 | 5,791 | 5,804 |
| Policy loans | 46,659 | 42,513 | 39,156 |
| Short-term investments | 8,467 | 4,482 | 12,927 |
| Other long-term investments | 8,159 | 5,489 | 7,145 |
| Total gross investment income | <u>599,525</u> | <u>541,467</u> | <u>615,979</u> |
| Interest expense | (64,061) | (62,277) | (58,572) |
| Other investment expenses | (40,735) | (37,525) | (32,620) |
| Net investment income | <u>\$ 494,729</u> | <u>441,665</u> | <u>524,787</u> |

Net Realized Gains (Losses)

Analysis of net realized gains (losses) by investment type follows for the years ended December 31:

| | Realized gains (losses) on investments | | |
|---|---|---------------|----------------|
| | 2021 | 2020 | 2019 |
| Securities available-for-sale: | | | |
| Fixed maturity securities ¹ | \$ 72,894 | 19,289 | 207,982 |
| Equity securities, at fair value | (351) | 22 | 920 |
| Mortgage loans on real estate** | (981) | (502) | (126) |
| Real estate | 44 | 22 | 1,896 |
| Other long-term investments | 1,321 | 510 | (66) |
| Total realized gains on investments | <u>72,927</u> | <u>19,341</u> | <u>210,606</u> |
| Change in allowances for mortgage loans on real estate* | 634 | 390 | (232) |
| Net realized gains on investments | <u>\$ 73,561</u> | <u>19,731</u> | <u>210,374</u> |

* Commercial mortgage loans

** Includes the changes in the allowance for residential mortgage loans

¹ \$197,876 is attributable to the BOLI SPDA reinsurance treaty implemented in 2019. See Note 11 for further detail.

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Realized gains (losses) on investments, as shown in the table above, include write-downs for OTTI of \$368, \$9,259 and \$4,960 for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021, fixed maturity securities with a carrying value of \$25,809, which had a cumulative write-down of \$10,183 due to OTTI, remained in the Company's investment portfolio.

The following tables summarize total OTTI losses on securities by asset type for the years ended December 31:

| | <u>Total OTTI</u> | <u>Recognized in OCI</u> | <u>Recognized in earnings</u> |
|---|-----------------------|------------------------------|-----------------------------------|
| 2021 | | | |
| Fixed maturity securities: | | | |
| Corporate | \$ 286 | — | 286 |
| Mortgage-backed | 164 | 82 | 82 |
| Total other-than-temporary impairment losses | <u>\$ 450</u> | <u>82</u> | <u>368</u> |
| 2020 | | | |
| Fixed maturity securities: | | | |
| Corporate | \$ 8,615 | — | 8,615 |
| Asset-backed | 724 | 336 | 388 |
| Mortgage-backed | 2,007 | 1,752 | 255 |
| Total other-than-temporary impairment losses | <u>\$ 11,346</u> | <u>2,088</u> | <u>9,258</u> |
| 2019 | | | |
| Fixed maturity securities: | | | |
| Corporate | \$ 4,703 | — | 4,703 |
| Asset-backed | (451) | (643) | 192 |
| Mortgage-backed | (6,678) | (6,743) | 65 |
| Total other-than-temporary impairment losses | <u>\$ (2,426)</u> | <u>(7,386)</u> | <u>4,960</u> |

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Credit Loss Rollforward

The following table summarizes the cumulative amounts related to the Company's credit loss portion of the OTTI losses on fixed maturity securities held as of December 31, that the Company does not intend to sell, and it is not more likely than not that the Company will be required to sell the security prior to recovery of the amortized cost basis and for which the non-credit portion of the loss is included in other comprehensive income:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|------------------|---------------|---------------|
| Cumulative credit loss, beginning of year | \$ 14,445 | 16,336 | 22,288 |
| New credit losses | — | 6,301 | 3,058 |
| Change in credit losses on securities included in the beginning balance | 368 | 2,958 | 1,902 |
| Subtotal | <u>14,813</u> | <u>25,595</u> | <u>27,248</u> |
| Less: | | | |
| Losses related to securities included in the current year beginning balance sold or paid down during the period | 4,630 | 11,150 | 10,912 |
| Cumulative credit loss, end of year | <u>\$ 10,183</u> | <u>14,445</u> | <u>16,336</u> |

Sales of Fixed Maturity Securities, Available-for-Sale

The following table summarizes fixed maturity securities available-for-sale activity:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|-----------------------|--------------|-------------|-------------|
| Proceeds | \$ 2,037,509 | 1,437,306 | 1,146,781 |
| Gross realized gains | 78,616 | 38,840 | 226,532 |
| Gross realized losses | (3,625) | (9,503) | (7,223) |

The Company had no securities classified as held-to-maturity securities in 2021, 2020 or 2019.

Net Unrealized Gains (Losses) on Available-for-Sale Securities

An analysis by investment type of the change in unrealized gains (losses), before taxes, on securities available-for-sale is as follows for the years ended December 31:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------------|----------------|----------------|
| Securities available-for-sale: | | | |
| Fixed maturity securities | \$ 492,342 | 357,827 | 466,678 |
| Change in net unrealized gains | <u>\$ 492,342</u> | <u>357,827</u> | <u>466,678</u> |

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The following table summarizes the unrealized gains and losses recognized during the year ended December 31, on equity securities still held at December 31:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------|--------------|
| Net gains and losses recognized during the period on equity securities | \$ 7,962 | 1,506 |
| Less: Net gains and losses recognized during the period on equity securities sold during the period | <u>816</u> | <u>—</u> |
| Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date | <u>\$ 8,778</u> | <u>1,506</u> |

The components of net unrealized gains (losses) on securities available-for-sale in AOCI arising during the period were as follows as of December 31:

| | <u>2021</u> | <u>2020</u> | <u>Change</u> |
|---|-------------------|------------------|------------------|
| Securities available-for-sale | \$ 464,413 | 956,755 | (492,342) |
| Unrealized losses related to closed block | (34,577) | (50,604) | 16,027 |
| Future policy benefits and claims | (74,786) | (97,484) | 22,698 |
| Deferred policy acquisition costs | (126,410) | (236,221) | 109,811 |
| Other policyholder funds | 11,474 | 61,267 | (49,793) |
| Deferred federal income tax provision | <u>(48,345)</u> | <u>(146,213)</u> | <u>97,868</u> |
| Net unrealized gains | <u>\$ 191,769</u> | <u>487,500</u> | <u>(295,731)</u> |

| | <u>2020</u> | <u>2019</u> | <u>Change</u> |
|---|-------------------|-----------------|-----------------|
| Securities available-for-sale | \$ 956,755 | 598,928 | 357,827 |
| Unrealized losses related to closed block | (50,604) | (33,020) | (17,584) |
| Future policy benefits and claims | (97,484) | (69,621) | (27,863) |
| Deferred policy acquisition costs | (236,221) | (123,824) | (112,397) |
| Other policyholder funds | 61,267 | 25,428 | 35,839 |
| Deferred federal income tax provision | <u>(146,213)</u> | <u>(91,907)</u> | <u>(54,306)</u> |
| Net unrealized gains | <u>\$ 487,500</u> | <u>305,984</u> | <u>181,516</u> |

| | <u>2019</u> | <u>2018</u> | <u>Change</u> |
|---|-------------------|-----------------|-----------------|
| Securities available-for-sale | \$ 598,928 | 132,250 | 466,678 |
| Unrealized losses related to closed block | (33,020) | (8,124) | (24,896) |
| Future policy benefits and claims | (69,621) | (8,194) | (61,427) |
| Deferred policy acquisition costs | (123,824) | (9,572) | (114,252) |
| Other policyholder funds | 25,428 | (242) | 25,670 |
| Deferred federal income tax provision | <u>(91,907)</u> | <u>(29,803)</u> | <u>(62,104)</u> |
| Net unrealized gains | <u>\$ 305,984</u> | <u>76,315</u> | <u>229,669</u> |

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(8) 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 pursuant to ASC Topic 815, *Derivatives and Hedging*, 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, interest rate swaptions and equity swaps to economically hedge liabilities embedded in certain variable annuity products such as the GMAB, GMWB, GMIB and GLWB and in fixed indexed annuity and indexed universal life products.

In December 2018, the Company replaced the interest rate swaptions used in its interest rate hedging program. Each swaption consists of a five-year option to enter into an interest rate swap on the ten-year swap rate. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2018, the Company purchased equity index put options to replace existing futures used to hedge the equity risk embedded in the variable annuity guarantees. One-year S&P 500, Russell 2000, and NASDAQ 100 options were purchased. The Company continues to hold futures to hedge the foreign indices and currency exposure in the variable annuity guarantees. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2016, the Company entered into an equity index call option agreement. Under this agreement, three equity index call options will be purchased monthly. The S&P 500 and Russell 2000 options are one-year call spread options. The custom Barclays instrument is a three-year call. Starting in May 2018, the Company began purchasing one-year calls for the custom Barclay instrument as well. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In November 2014, the Company entered into a cross currency swap agreement which qualified for hedge accounting as a cash flow hedge. The Company purchased a ten-year bond in the amount of €7 million with an annual foreign currency coupon of 1.93%. The Company concurrently entered into a matching cross currency swap effectively converting the cash flows of the Euro denominated bond into U.S. denominated cash flows. The investment receives a fixed rate of 3.78% on the converted U.S. investment of \$9,038. Interest on the bond is paid annually. During the years ended December 31, 2021, 2020 and 2019, the Company had foreign currency swap (losses) gains of (\$170), \$348, and \$399 respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the years ended December 31, 2021 or 2020. As of December 31, 2021, no amounts are expected to be reclassified to income within the next twelve months.

The Company has entered into a reinsurance arrangement with a nonaffiliated reinsurer to offset a portion of its risk exposure to the GMIB rider in certain variable annuity contracts. This reinsurance contract is accounted for as a freestanding derivative.

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Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. These host contracts include variable annuities with GMAB, GMWB and GLWB riders, and fixed indexed annuities, which include index features in excess of their guaranteed minimum values.

The following tables present a summary of the estimated fair value of derivatives held by the Company along with the amounts recognized on the Consolidated Balance Sheets:

| <u>Derivatives not designated as hedging instruments under ASC 815</u> | <u>Balance sheet location</u> | <u>December 31</u> | | | |
|--|-----------------------------------|----------------------------|-------------------------------------|----------------------------|-------------------------------------|
| | | <u>2021 Fair value</u> | <u>2021 Notional Amount</u> | <u>2020 Fair value</u> | <u>2020 Notional Amount</u> |
| Asset derivatives: | | | | | |
| Equity put options | Other long-term investments | \$ 43,992 | 1,674,003 | 40,813 | 1,901,467 |
| Equity index call options | Other long-term investments | 41,397 | 1,929,789 | 51,506 | 1,883,342 |
| Cross currency swaps | Other long-term investments | 1,288 | 9,038 | 803 | 9,038 |
| Swaptions | Other long-term investments | 14,436 | 3,600,000 | 26,506 | 3,600,000 |
| GMIB reinsurance contracts | Reinsurance recoverable | <u>1,077,122</u> | n/a | <u>1,357,034</u> | n/a |
| Total | | <u>\$ 1,178,235</u> | <u>7,212,830</u> | <u>1,476,662</u> | <u>7,393,847</u> |
| Liability derivatives: | | | | | |
| GLWB embedded derivatives (variable annuity) | Future policy benefits and claims | \$ 10,686 | n/a | 17,382 | n/a |
| GMAB/GMWB embedded derivatives | Future policy benefits and claims | 15,912 | n/a | 25,510 | n/a |
| Fixed indexed annuity embedded derivatives ¹ | Future policy benefits and claims | 191,307 | n/a | 154,678 | n/a |
| Currency futures | Other liabilities | — | — | 3,866 | 262,631 |
| Equity put options | Other liabilities | — | — | <u>33,416</u> | <u>578,983</u> |
| Total | | <u>\$ 217,905</u> | <u>—</u> | <u>234,852</u> | <u>841,614</u> |

¹ Represents embedded derivative portion of the fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

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The following table presents the effect of derivative instruments on the Consolidated Statements of Operations for the years ended December 31:

| Derivatives not designated as hedging instruments under ASC 815 | Location of gain (loss) recognized in income on derivatives | Amount of (loss) gain recognized in income on derivatives | | |
|--|--|---|---------------|------------------|
| | | 2021 | 2020 | 2019 |
| Equity futures | Net realized gains (losses): derivative instruments | \$ (387) | — | (33,478) |
| Currency futures | Net realized gains (losses): derivative instruments | (7,710) | 10,354 | (1,577) |
| Equity put options | Net realized gains (losses): derivative instruments | (115,435) | 87,671 | (189,561) |
| Equity index call options | Net realized gains (losses): derivative instruments | 15,182 | 999 | 42,429 |
| Equity swaps | Net realized gains (losses): derivative instruments | 183 | (191) | 173 |
| Swaptions | Net realized gains (losses): derivative instruments | (12,069) | (48,391) | 27,774 |
| External reinsurance embedded derivative | Net realized gains (losses): derivative instruments | (219) | 260 | (203) |
| GMB reinsurance contracts | Benefits and claims | (279,912) | 66,138 | (25,926) |
| GMAB/GMWB embedded derivatives | Benefits and claims | 9,598 | (42,808) | 29,543 |
| GLWB embedded derivatives | Benefits and claims | 6,696 | (2,324) | (346) |
| Fixed indexed annuity embedded derivatives ¹ | Benefits and claims | (36,629) | 11,675 | (41,400) |
| Total | | <u>\$ (420,702)</u> | <u>83,383</u> | <u>(192,572)</u> |

¹ The amounts recorded in benefits and claims reflect the change in the excess of fair value over account value.

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 and requiring collateral for all derivatives in accordance with the International Swaps and Derivatives Association and Credit Support Annex (“ISDA”/“CSA”) agreements in place with all of its counterparties. The Company manages its credit risk related to the freestanding reinsurance derivative by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2021 and 2020, a non-affiliated reinsurer held assets in trust with an estimated fair value of \$386,287 and \$751,651, respectively, and a letter of credit of \$702,976 and \$702,976, respectively.

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(9) Deferred Policy Acquisition Costs

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2021, 2020 and 2019 were as follows:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|---------------------|------------------|------------------------|
| Balance - beginning of year | \$ 1,548,800 | 1,680,272 | 1,966,803 |
| Acquisition costs deferred | 98,037 | 134,685 | 156,827 |
| Amortization | (133,888) | (154,277) | (269,540) ¹ |
| DAC recorded as benefits and claims | — | — | (59,249) ² |
| Unrealized investment losses (gains) | 109,811 | (112,397) | (114,252) |
| Effect of foreign currency translation and other | (760) | 517 | (317) |
| Balance - end of year | <u>\$ 1,622,000</u> | <u>1,548,800</u> | <u>1,680,272</u> |

1. During 2019, the unlocking of the whole life product line decreased DAC and earnings by \$96,900. The sustained lower interest rate environment necessitated lowering the earned rate, which lowers future margins, increases the k-factors used to amortize DAC and resulted in a lower DAC balance.

2. As part of the external BOLI and Single Premium Deferred Annuity ("SPDA") reinsurance agreement executed on July 1, 2019, the Company recorded the DAC transferred to the external reinsurer, which was part of the cost of reinsurance asset, to future policy benefits and claims. DAC amortization on the Consolidated Statements of Operations reflects the amount of DAC amortized, net of the transfer impact. The balance of the DAC asset, shown in the table above, includes adjustments for both the amortization and the transfer.

(10) Future Policy Benefits and Claims

The liability for future policy benefits and claims is comprised of basic and benefit reserves for traditional life products, group life and health policies, universal life policies, and investment contracts, including riders.

The liability for future policy benefits for traditional life products has been established based upon the net level premium method using interest rates varying from 2.0% to 6.0%.

The liability for future policy benefits and claims for ONSP's group life and health insurance policies is comprised of claims and expense reserves and incurred but not reported ("IBNR"). The claims and expense reserves have been calculated using the present values of expected future cash flows of known claims using discount rates that vary by currency ranging from 1.37% to 5.12%. IBNR reserves have been estimated using historical claim reporting information.

The liability for future policy benefits for universal life policies and investment contracts represents approximately 67.9% and 67.3% of the total liability for future policy benefits as of December 31, 2021 and 2020, respectively. The liability has been established based on accumulated contract values without reduction for surrender penalty provisions. The average interest rate credited on investment product policies was 3.8%, 3.3% and 3.3% for the years ended December 31, 2021, 2020 and 2019, respectively. Approximately 25.5% and 27.4% of the universal life policies and investment contracts were at their guaranteed minimum interest rate as of December 31, 2021 and 2020, respectively.

The Company has established a reserve for three universal life plans with lifetime secondary guarantees, which the Company discontinued. At December 31, 2021 and 2020, this reserve balance was \$64,547 and \$63,294, respectively.

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The liability for future policy benefits for ONSV's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The five-year average return of the funds underlying variable universal life and voluntary pension savings (APV) were 3.41% and 2.70% for the years ended December 31, 2021 and 2020, respectively.

The liability for future policy benefits for ONSP's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 3.5% for the years ended December 31, 2021 and 2020.

Reserves are calculated using withdrawal, mortality, and morbidity rates. Withdrawal rates vary by issue age, type of coverage and policy duration and are based on Company experience. Mortality and morbidity rates, which are guaranteed within insurance contracts, are based on published tables and Company experience.

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.

The Company's GMDB claim reserves are determined by estimating the expected value of death benefits and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation if actual experience or other evidence suggests that earlier assumptions should be revised. Additionally, a decline in the stock market causing the contract value to fall below the amount defined in each contract could result in additional claims.

GMIB Riders

Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company's current annuitization rates, the annuitant will automatically receive the higher monthly income. The Company discontinued offering the

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GMIB rider in virtually all states in May 2010. NSLAC continued to sell the GMIB rider in the state of New York until August 2012.

GMIB claim reserves are determined each period by estimating the expected value of annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

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.

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 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.

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.

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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 initial GLWB riders, which are a closed block, represent an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims. The estimated fair value of the GLWB embedded derivative was calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

For GLWB riders issued beginning January 1, 2011, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period and recognizing the excess ratably over the accumulation period based on total assessments as the later generation riders do not meet the definition of a derivative. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

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. A GMAB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of the GMAB embedded derivative is calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

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. A GMWB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of a GMWB embedded derivative is calculated based on actuarial assumptions related to projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return

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volatility. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled “GMAB”.

The following tables summarize the account values and 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):

| | 2021 | | | |
|---|---------------------------|------------------------|-------------|-------------|
| | Death benefits | Living benefits | | |
| | GMDB | GMI | GLWB | GMAB |
| Return of net deposit | | | | |
| Total account value | \$ 6,205,551 | — | — | 500,831 |
| Separate account value | \$ 5,949,196 | — | — | 500,129 |
| Net amount at risk ¹ | \$ 36,355 | — | — | 11 |
| Weighted average attained age of contract holders | 70 | — | — | 65 |
| Return of net deposits accrued at a stated rate | | | | |
| Total account value | \$ 849,560 | — | — | 8,303 |
| Separate account value | \$ 836,910 | — | — | 7,090 |
| Net amount at risk ¹ | \$ 109,136 | — | — | — |
| Weighted average attained age of contract holders | 75 | — | — | 74 |
| Highest of return of net deposits accrued at a stated rate and return of highest anniversary value | | | | |
| Total account value | \$ 2,502,713 | 6,840,450 | 8,604,088 | — |
| Separate account value | \$ 2,493,473 | 6,750,167 | 8,603,986 | — |
| Net amount at risk ¹ | \$ 413,634 | 256,880 | 157,204 | — |
| Weighted average attained age of contract holders | 72 | 70 | 70 | — |
| Return of highest anniversary value | | | | |
| Total account value | \$ 9,338,808 | — | — | — |
| Separate account value | \$ 9,160,213 | — | — | — |
| Net amount at risk ¹ | \$ 13,582 | — | — | — |
| Weighted average attained age of contract holders | 69 | — | — | — |
| Total | | | | |
| Total account value | \$ 18,896,632 | 6,840,450 | 8,604,088 | 509,134 |
| Separate account value | \$ 18,439,792 | 6,750,167 | 8,603,986 | 507,219 |
| Net amount at risk ¹ | \$ 572,707 | 256,880 | 157,204 | 11 |
| Weighted average attained age of contract holders | 70 | 70 | 70 | 65 |

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

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| | 2020 | | | |
|---|---------------------------|------------------------|-------------|-------------|
| | Death benefits | Living benefits | | |
| | GMDB | GMIB | GLWB | GMAB |
| Return of net deposit | | | | |
| Total account value | \$ 6,207,897 | — | — | 1,176,908 |
| Separate account value | \$ 5,922,337 | — | — | 1,175,967 |
| Net amount at risk ¹ | \$ 43,540 | — | — | 233 |
| Weighted average attained age of contract holders | 70 | — | — | 66 |
| Return of net deposits accrued at a stated rate | | | | |
| Total account value | \$ 848,281 | — | — | 8,263 |
| Separate account value | \$ 835,257 | — | — | 7,130 |
| Net amount at risk ¹ | \$ 137,505 | — | — | — |
| Weighted average attained age of contract holders | 74 | — | — | 74 |
| Highest of return of net deposits accrued at a stated rate and return of highest anniversary value | | | | |
| Total account value | \$ 2,565,013 | 6,927,822 | 8,550,906 | — |
| Separate account value | \$ 2,552,209 | 6,823,905 | 8,550,093 | — |
| Net amount at risk ¹ | \$ 485,445 | 418,449 | 214,747 | — |
| Weighted average attained age of contract holders | 71 | 69 | 69 | — |
| Return of highest anniversary value | | | | |
| Total account value | \$ 9,408,493 | — | — | — |
| Separate account value | \$ 9,219,215 | — | — | — |
| Net amount at risk ¹ | \$ 15,765 | — | — | — |
| Weighted average attained age of contract holders | 68 | — | — | — |
| Total | | | | |
| Total account value | \$ 19,029,684 | 6,927,822 | 8,550,906 | 1,185,171 |
| Separate account value | \$ 18,529,018 | 6,823,905 | 8,550,093 | 1,183,097 |
| Net amount at risk ¹ | \$ 682,255 | 418,449 | 214,747 | 233 |
| Weighted average attained age of contract holders | 69 | 69 | 69 | 66 |

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

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

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

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

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

The assets supporting the variable portion of all variable annuities are carried at fair value and reported as assets held in separate accounts, with an equivalent amount reported as liabilities related to separate accounts. 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. The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2021 and 2020.

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

| | <u>2021</u> | <u>2020</u> |
|---------------|----------------------|-------------------|
| Mutual funds: | | |
| Bond | \$ 4,601,785 | 5,141,249 |
| Equity | 12,834,581 | 12,807,326 |
| Money market | 1,003,426 | 580,443 |
| Total | <u>\$ 18,439,792</u> | <u>18,529,018</u> |

The following table summarizes the reserve balances, net of reinsurance, for variable annuity contracts with guarantees as of December 31:

| | <u>GMDB</u> | <u>GMIB</u> | <u>GLWB</u> | <u>GMAB</u> |
|------------------------------|-------------------|------------------|----------------|---------------|
| Balance at December 31, 2019 | \$ 142,372 | (423,325) | 114,655 | (17,298) |
| Incurred Claims | 20,560 | 18,313 | 1,108 | — |
| Paid Claims | (20,560) | (18,313) | (1,108) | — |
| Other ¹ | 18,937 | 49,636 | 40,171 | 42,808 |
| Balance at December 31, 2020 | <u>\$ 161,309</u> | <u>(373,689)</u> | <u>154,826</u> | <u>25,510</u> |
| Incurred Claims | 15,918 | 21,588 | 660 | — |
| Paid Claims | (15,918) | (21,588) | (660) | — |
| Other ¹ | 4,282 | 251,875 | 11,883 | (9,598) |
| Balance at December 31, 2021 | <u>\$ 165,591</u> | <u>(121,814)</u> | <u>166,709</u> | <u>15,912</u> |

1. The components that make up the Other line item above include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings and market factors.

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The reserve balances in the table above include reserves for both direct and reinsurance ceded balances. As of December 31, 2021, direct G reserves were \$1,351,575, ceded G reserves were \$1,125,177 and net G reserves were \$226,398. As of December 31, 2020, direct G reserves were \$1,375,615, ceded G reserves were \$1,407,659 and net G reserves were \$(32,044). The direct reserves were calculated in accordance with FASB ASC Topic 944, *Financial Services*, and the reinsurance ceded reserves were calculated in accordance with FASB ASC Topic 815, *Derivatives*. See Note 6 for a reconciliation of the change in the reinsurance ceded reserve.

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.

In 2018 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.

For these GLWB riders, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period, and comparing this to the expected value of assessments for the contract, where assessments are contract fees and interest margins. Liabilities are accrued as a proportion to the accumulated assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate.

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The base account reserve balances, net of reinsurance, for fixed indexed annuity contracts were \$191,307 of embedded derivative and \$889,696 of host and other liability as of December 31, 2021. The balances were \$154,678 of embedded derivative and \$915,942 of host and other liability as of December 31, 2020. The G reserve balances, net of reinsurance, for fixed indexed annuity contracts with guarantees were \$35,131 and \$25,585 as of December 31, 2021 and 2020, respectively. The components that make up the reserve include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings, and market factors.

The total account value of the fixed indexed annuities was approximately \$1,087,000 and \$1,068,000 as of December 31, 2021 and 2020, respectively. The account value specific to the GLWB riders was approximately \$534,000 and \$543,000 as of December 31, 2021 and 2020, respectively.

Direct and net G reserves were \$35,131 and \$25,585 as of December 31, 2021 and 2020, respectively. No G reserves were ceded to external parties during 2021 and 2020.

(11) 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 and subsidiaries. This reinsurance involves either ceding certain risks to, or assuming risks from, other insurance companies. The Company's consolidated 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 17%, 16% and 16% of gross earned life and accident and health premiums during 2021, 2020 and 2019, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB and GLWB. Effective October 1, 2021, the Company recaptured all reinsured GLWB benefit riders from external reinsurers. As a result of this recapture, the Company received a recapture fee of \$87,500, which is included in Annuity premiums and charges on the Consolidated Statements of Operations.

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 \$68,155 and \$181,280 as of December 31, 2021 and 2020, respectively.

Reinsurance agreements that do not transfer significant insurance risk are recorded using deposit accounting. The Company enters into such agreements with unaffiliated reinsurers. Effective April 1, 2016, the Company entered into an agreement to cede certain whole life blocks of business written between January 1, 2016 and December 31, 2016. Effective January 1, 2017, the Company entered into an additional agreement to cede certain whole life blocks of business written between January 1, 2017 and December 31, 2017. Effective October 1, 2017, these agreements were amended and restated to combine the previous treaties from 2014 through 2016, and add 2017 and 2018 prospectively. This combined treaty is accounted

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for using deposit accounting. At the inception of each of these deposit accounting agreements, a risk charge liability was recorded in Other liabilities on the Consolidated Balance Sheets, with a corresponding risk charge expense recorded in Other operating costs and expenses on the Consolidated Statements of Operations. The risk charge liabilities and expenses related to these agreements were \$2,408, \$2,568 and \$2,395 at and as of December 31, 2021, 2020 and 2019, respectively.

Effective December 31, 2018, the Company entered into an agreement to cede its quota share of the net liability on certain term life policies issued between June 4, 2007 through December 31, 2017, and in force as of the effective date. This treaty is accounted for using deposit accounting. The risk charge liabilities and expenses related to this agreement settle quarterly, beginning March 31, 2019. The risk charge expense related to this agreement was \$386, \$407 and \$435 at and as of December 31, 2021, 2020 and 2019, respectively.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained in force BOLI and SPDA blocks of business with a third-party reinsurer licensed as an authorized reinsurer in the State of Ohio. As a result of this transaction, available-for-sale securities and cash of \$2,797,281 were transferred to the reinsurer, resulting in a realized gain of \$197,876 for the year ended December 31, 2019. This transaction resulted in a \$1,929,233 increase included in Reinsurance recoverable on the Consolidated Balance Sheets as of December 31, 2019. The BOLI block of business met the requirements for reinsurance accounting; however, because the SPDA block qualifies as investment contracts, the SPDA portion of the agreement did not meet the criteria for reinsurance accounting and was accounted for under deposit accounting. Effective October 1, 2021, the contract was amended to include SPDA contracts reinsured under an older reinsurance agreement. The reinsurer transferred assets of \$106,422 from a trust related to this older agreement into the trust associated with the 2019 agreement. The amended SPDA portion of the agreement will be accounted for under deposit accounting. As a result of the initial treaty, a Reinsurance deposit asset of \$935,792 was recorded on the Consolidated Balance Sheets at the inception of the treaty. With the contract amendment, an additional \$98,814 was added to the existing deposit asset, effective October 1, 2021. The total asset is carried at a net amortized value of \$860,574 and \$825,369 on the Consolidated Balance Sheets as of December 31, 2021 and 2020, respectively.

Effective December 31, 2021, the Company entered into a coinsurance funds withheld/yearly renewable term reinsurance agreement with a third-party reinsurer certified in the State of Ohio in which the Company ceded term insurance policies. The treaty contained a provision for statutory surplus relief of \$4,500 as the initial ceding commission to offset the first year policy expenses. The initial ceding commission will be repaid, with interest, over a three year period. The risks transferred by the Company to the reinsurer under the agreement are not considered significant insurance risks and therefore do not qualify for reinsurance accounting. The Company has applied deposit accounting to this agreement. Accordingly, the Company reflected the liability in Other liabilities on the Consolidated Balance Sheets. The risk charge liabilities and expenses related to this agreement settle quarterly, beginning March 31, 2022.

Affiliate Reinsurance

As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for ONLIC, ONLIC ceded variable annuity-related risks, living and death benefits to SYRE for the GMIB, GMDB, and GLWB riders. Effective April 1, 2019, ONLIC recaptured its direct business previously ceded to SYRE. ONLIC now cedes these variable annuity-related risks and certain additional guarantee risks, which were

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previously retained, to SUNR, which retrocedes GMIB and associated risks and riders to SYRE. Effective July 1, 2021, the base contracts associated with the rider benefits were ceded to SUNR with the GMIB base contracts being ceded from SUNR to SYRE. Effective October 1, 2021, the portion of the GLWB benefit riders previously ceded to an external reinsurer were recaptured by ONLIC and then ceded to SUNR.

Additionally, to consolidate the management of such living benefit risks, ONLIC assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC ceded 100% of the fixed indexed annuities exchange program business and associated GLWB riders to SYRE. ONLIC assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

ONLAC writes a significant amount of term and universal life insurance that requires statutory reserves in excess of the Company's best estimate economic reserves (i.e. redundant reserves). To efficiently manage the statutory surplus impact to ONLAC and improve capacity to write new business, the Company established two affiliated Vermont captive insurers, MONT and KENW, and an Ohio captive, CMGO. ONLAC cedes certain term life policies and certain death benefit guarantee universal life policies to MONT. ONLAC cedes certain term life policies to KENW and CMGO. MONT, KENW and CMGO entered into external reinsurance agreements covering certain of the assumed blocks of business. Additionally, MONT, KENW and CMGO retrocede term life policies on a yearly renewable term basis to ONLIC, which ONLIC cedes to external reinsurers.

ONSV entered into a proportional quota share agreement with ONSP whereby the Company assumes 50% of the premiums and claims related to ONSP's participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to premiums and claims incurred between January 1, 2015 and December 31, 2016. In July 2020, this agreement was terminated.

ONSV entered into a proportional quota share agreement with ONSP whereby ONSV assumes 68% of the premiums and claims related to ONSP's participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to premiums and claims incurred between January 1, 2021 and December 31, 2021.

All of the affiliated reinsurance transactions eliminate in consolidation at the ONFS and ONMH levels.

The reconciliation of traditional life and accident and health total premiums to net premiums for the years ended December 31, were as follows:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|------------------------------------|-------------------|------------------|------------------|
| Direct premiums | \$ 1,058,416 | 1,090,125 | 1,083,857 |
| Reinsurance assumed - external | 1,037 | 1,022 | 1,075 |
| Reinsurance assumed - intercompany | 239,765 | 251,113 | 257,514 |
| Reinsurance ceded - external | (206,632) | (197,421) | (197,528) |
| Reinsurance ceded - intercompany | <u>(239,765)</u> | <u>(251,113)</u> | <u>(257,514)</u> |
| Net premiums earned | <u>\$ 852,821</u> | <u>893,726</u> | <u>887,404</u> |

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As part of the affiliate reinsurance agreements, an affiliate of the Company may be required to hold assets in trust or secure a letter of credit for the benefit of another affiliate. As of December 31, 2021, assets held in trust and letters of credit between affiliates was \$1,012,082 and \$770,000, respectively. As of December 31, 2020, assets held in trust and letters of credit between affiliates was \$1,037,744 and \$850,000, respectively. See Note 13 for further information on the letters of credit.

(12) Long-Term Debt Obligations

Long-term debt obligations outstanding were as follows as of December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|----------------|
| Surplus notes | | |
| 6.875% fixed rate due 2042 | \$ 247,727 | 247,616 |
| 5.000% fixed rate due 2031 | 4,099 | 4,059 |
| 5.800% fixed rate due 2027 | 5,926 | 5,911 |
| 8.500% fixed rate due 2026 | 49,860 | 49,829 |
| Senior notes | | |
| 6.625% fixed rate due 2031 | 247,738 | 247,569 |
| 5.550% fixed rate due 2030 | 421,375 | 420,926 |
| Total long-term debt obligations | <u>\$ 976,725</u> | <u>975,910</u> |

Surplus Notes

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, 5.000% fixed rate surplus note to Security Mutual Life Insurance Company of New York (“SML”), as payment for the purchase of 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, 5.800% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued \$50,000, 8.500% fixed rate surplus note, due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 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.

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The surplus notes have been issued in accordance with Section 3941.13 of the Ohio Revised Code. Interest payments, scheduled semi-annually, must be approved for payment by the Ohio Department of Insurance (“Department”). All issuance costs have been capitalized and are being amortized over the terms of the notes.

Senior Notes

In January 2020, the Company issued a \$425,000, 5.550% fixed rate senior note due January 24, 2030. Interest is payable semi-annually on January 24 and July 24. The Company may redeem this senior note at its option. The proceeds of this note were used to retire the term loan issued in 2019.

In April 2011, ONFS issued a \$250,000, 6.625% fixed rate senior note due May 1, 2031. Interest is payable semi-annually on May 1 and November 1. ONFS may redeem this senior note at its option.

In April 2010, ONFS issued a \$300,000, 6.375% fixed rate senior note due April 30, 2020. Interest is payable semi-annually on April 30 and October 30. ONFS may redeem this senior note at its option. During April 2019, ONFS redeemed this senior note. This included a make-whole payment to note holders of \$10,263 included in Loss on debt retirement on the Consolidated Statements of Operations.

The senior notes are obligations of ONFS and are not subject to Department approval for payments of principal or interest. Claims of the policyholders of ONLIC and ONLAC have priority over these senior notes if either company is unable to pay policyholder claims.

Term Loan

On April 5, 2019, the Company issued a \$400,000 term loan due April 5, 2022. Interest is payable quarterly based on a variable base rate or the London Inter-bank Offered Rate (“LIBOR”) plus the applicable margin. The rate selected at December 31, 2019 was LIBOR. The average interest rate paid for the year ended December 31, 2019 was 3.96%. This loan was retired in January 2020 with the issuance of the January 2020 senior note described above.

Interest Expense

Total interest expense, including amortization of debt discounts and issuance costs, on all obligations was \$64,038, \$62,250 and \$58,571 during the years ended December 31, 2021, 2020 and 2019, respectively. Total interest expense is included in investment expenses as a component of net investment income.

(13) Bank Line of Credit

In April 2016, the Company 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, the Company increased this credit facility by \$50,000 to \$575,000. On March 29, 2018, the Company increased this credit facility by \$325,000 to \$900,000. The credit facility now matures in March 2023. During 2021, this facility was closed.

The Company utilized \$440,000 of this facility as of December 31, 2020 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

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The Company utilized \$110,000 of this facility as of December 31, 2020 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles. The Company borrowed \$75,000 against the facility in December 2017 for the benefit of SYRE, which is recorded in Short-term borrowings on the Consolidated Balance Sheets. The \$15,000 the Company borrowed to fund the 2014 intercompany sale transaction of ONSP to the Dutch holding company from ONSA was transferred to the new facility. During 2019, these borrowings were repaid.

On March 30, 2020, the Company 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, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. In June 2020, the Company increased this facility by \$100,000 to \$300,000. The Company utilized \$300,000 of this facility as of December 31, 2020 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles. This facility was not renewed and terminated in 2021.

On December 31, 2019, the Company entered into a \$50,000, 364-day letter of credit facility with two banks in order to finance and support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. The Company utilized \$30,000 of this facility as of December 31, 2019 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles. On December 28, 2020, this facility was renewed for ninety days and matured on March 29, 2021. This facility was not utilized as of December 31, 2020. This facility was not renewed and terminated in 2021.

On May 7, 2021, the Company entered into a \$1,500,000 senior unsecured, syndicated credit facility. The credit facility is established for the purpose of issuing letters of credit and loans for general corporate purposes and will mature in May 2026. Letters of credit can be issued up to the maximum credit facility, however loans under the credit facility are limited to \$500,000 with total combined amounts not to exceed \$1,500,000.

The Company utilized \$670,000 of this facility as of December 31, 2021 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

The Company utilized \$100,000 of this facility as of December 31, 2021 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

Total interest and fees paid on these credit facilities were \$21,195, \$18,275 and \$14,429 in 2021, 2020 and 2019, respectively.

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(14) Income Taxes

The provision for income taxes is as follows:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|-----------------------------|------------------|----------------|-----------------|
| Current expense (benefit) | \$ 20,737 | (2,599) | 991 |
| Deferred expense (benefit) | <u>31,261</u> | <u>189</u> | <u>(32,139)</u> |
| Provision for income taxes | <u>\$ 51,998</u> | <u>(2,410)</u> | <u>(31,148)</u> |

The following table is the reconciliation of the provision for income taxes based on enacted U.S. federal income tax rates to the provision for income taxes reported in the consolidated financial statements for the years ended December 31:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|------------------|----------------|-----------------|
| Pre-tax income times U.S. enacted tax rate | \$ (6,850) | (398) | (18,536) |
| Tax-preferred investment income | (16,348) | (10,379) | (12,359) |
| Foreign subsidiaries statutory tax differential | 2,666 | (2,087) | (2,531) |
| Deemed income from foreign operations | 1,369 | 6,435 | — |
| Outbound Gain on International Restructuring | 61,120 | — | — |
| Prior Period Adjustments | 3,212 | 5,850 | — |
| State Taxes | 3,813 | — | — |
| Tax contingencies | (126) | (1,933) | (298) |
| Other, net | <u>3,142</u> | <u>102</u> | <u>2,576</u> |
| Provision for income taxes | <u>\$ 51,998</u> | <u>(2,410)</u> | <u>(31,148)</u> |
| Effective tax rate | (159.4)% | 127.2% | 35.3% |

The Company files income tax returns in the U.S. federal jurisdiction, foreign countries and various state jurisdictions.

The largest component of tax-preferred investment income in the rate reconciliation above is the Dividends Received Deduction (“SA DRD”) on separate account assets held in connection with variable annuity and life contracts. For 2021, 2020 and 2019 tax returns, the Company recognized an income tax benefit of \$12,831, \$5,645 and \$8,145, respectively.

As of December 31, 2021, the Company had no uncertain tax positions related to the SA DRD company share percentages. As of December 31, 2020, the Company had \$126 of uncertain tax positions related to the SA DRD company share percentages. The \$126 change in uncertain tax positions is included in the above rate reconciliation.

In 2021, the Company restructured its foreign subsidiaries within the organization as described in Note 1. In the third quarter of 2021, SYRE provided a dividend to ONFS, consisting of its ownership in ONFH and foreign subsidiaries creating a deferred intercompany gain of \$153,582 which was recognized when ONFS made an entity classification election to treat ONFH as a disregarded entity for tax purposes. A new Dutch

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holding company, ONOH, was formed under ONFH in 2021 and ONNH was contributed to the newly formed entity. For tax purposes this is considered an outbound transfer and a \$137,464 gain was realized on the transaction. ONFS then contributed ONFH to ONLI. The Company recognized an income tax expense of \$61,120 related to the restructuring.

The Company has made the decision to permanently re-invest the foreign subsidiaries' earnings, thus local foreign country tax rules and tax rates govern the reporting of taxes rather than the U.S. tax rules and tax rate.

The tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities that give rise to significant components of the net deferred tax liability relate to the following as of December 31:

| | 2021 | 2020 |
|---|-------------|-------------|
| Deferred tax assets: | | |
| Pension and benefit obligations | \$ 21,437 | 24,218 |
| Future policy benefits | 1,491,191 | 1,426,998 |
| Derivatives | 37,525 | 34,908 |
| Net operating loss carryforwards | 77,172 | 189,985 |
| Tax credits | 2,425 | 47,483 |
| Fixed asset capitalization and depreciation | 64,463 | 49,016 |
| Section 481(a) adjustment | 6,063 | 7,211 |
| Other | 31,507 | 15,203 |
| | 1,731,783 | 1,795,022 |
| Total gross deferred tax assets | | |
| Valuation allowance on deferred tax assets | — | — |
| | 1,731,783 | 1,795,022 |
| Net deferred tax assets | | |
| Deferred tax liabilities: | | |
| Investments | 90,712 | 196,883 |
| Deferred policy acquisition costs | 225,784 | 216,322 |
| Reinsurance recoverable | 1,527,933 | 1,574,194 |
| Other | 26,411 | 14,056 |
| | 1,870,840 | 2,001,455 |
| Total gross deferred tax liabilities | | |
| Net deferred tax liability | \$ 139,057 | 206,433 |

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future income, and prudent and feasible tax planning strategies in making this assessment. Based upon the level of historical taxable income, projections for future income over the periods in which the deferred tax assets are deductible and available tax planning strategies, the Company believes it is more likely than not that it will realize the benefits of these deductible differences.

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As of December 31, 2021, the Company has non-life net operating loss carryforwards of \$150,314 expiring in years 2035 through 2037. As of December 31, 2020, the Company has non-life net operating loss carryforwards of \$406,091 expiring in years 2030 through 2037. As of December 31, 2021, the Company has no remaining life net operating loss carryforward. As of December 31, 2021, SYRE has a net operating loss of \$217,171, which can be carried forward indefinitely and used only to offset future taxable income of SYRE. As of December 31, 2020, SYRE has a net operating loss of \$475,540, of which \$35,532 expires in 2036 and the remaining portion can be carried forward indefinitely and used only to offset future taxable income of SYRE. All loss carryforwards are expected to be fully utilized before expiring.

As of December 31, 2021 and 2020, the Company had no federal valuation allowances recorded. As of December 31, 2021 and 2020, the Company had no net capital loss carryforwards. As of December 31, 2021, the Company has no non-life charitable contribution carryforward. As of December 31, 2021, the Company has tax credit carryforwards of \$2,425 expiring in 2030. As of December 31, 2020, the Company has tax credit carryforwards of \$46,056 expiring in years 2020 through 2036.

(15) Pensions and Other Post-Retirement Benefits

a) Home Office Pension Plan

The Company sponsors a funded qualified 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. 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 Company also sponsors unfunded pension plans covering certain home office employees where benefits exceed Code 401(a)(17) and Code 415 limits.

The Company also has other deferred compensation and supplementary plans. One of the supplementary plans was also amended, effective December 31, 2019, to freeze the accrual of future benefits.

The measurement dates were December 31, 2021 and 2020.

b) Home Office Post-Retirement Benefit Plans

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.

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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, 2021 and 2020.

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, 2021 and 2020.

d) Agents' Post-Retirement Benefits Plans

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 plans are 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, 2021 and 2020.

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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 | |
|---|-------------------------|-----------------|-----------------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | \$ 105,541 | 95,607 | 10,885 | 7,558 |
| Service cost | 676 | 659 | 47 | 37 |
| Interest cost | 2,705 | 3,278 | 234 | 263 |
| Actuarial loss (gain) | (6,402) | 14,054 | (1,302) | 3,804 |
| Benefits paid* | (25,442) | (605) | (789) | (777) |
| Settlement | 859 | (7,452) | — | — |
| Projected benefit obligation at end of year | <u>\$ 77,937</u> | <u>105,541</u> | <u>9,075</u> | <u>10,885</u> |
| Accumulated benefit obligation | <u>\$ 77,370</u> | <u>101,887</u> | | |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$ 70,928 | 56,609 | — | — |
| Plan sponsor contribution | — | 10,000 | — | — |
| Actual return on plan assets | 10,021 | 10,065 | — | — |
| Benefits and expenses paid | (4,899) | (5,746) | — | — |
| Fair value of plan assets at end of year | <u>\$ 76,050</u> | <u>70,928</u> | <u>—</u> | <u>—</u> |
| Funded status** | <u>\$ (1,887)</u> | <u>(34,613)</u> | <u>(9,075)</u> | <u>(10,885)</u> |

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

** Funded status is recorded in other liabilities in the consolidated balance sheets.

The following tables show the funded status of the pension plans as of December 31:

| | Funded | | Total |
|------------------------------|-------------------------------|------------------------------|-----------------|
| | Qualified Pension Plan | Unfunded Pension Plan | |
| 2021 | | | |
| Projected benefit obligation | \$ 69,156 | 8,781 | 77,937 |
| Fair value of plan assets | <u>76,050</u> | <u>—</u> | <u>76,050</u> |
| Funded status | <u>\$ 6,894</u> | <u>(8,781)</u> | <u>(1,887)</u> |
| 2020 | | | |
| Projected benefit obligation | \$ 76,226 | 29,315 | 105,541 |
| Fair value of plan assets | <u>70,928</u> | <u>—</u> | <u>70,928</u> |
| Funded status | <u>\$ (5,298)</u> | <u>(29,315)</u> | <u>(34,613)</u> |

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| | Pension benefits | | Other benefits | |
|---|------------------|----------|----------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Amounts recognized in the balance sheet consist of: | | | | |
| Other liabilities | \$ (1,887) | (34,613) | (9,075) | (10,885) |

Amounts recognized in other comprehensive income (loss) arising during the period consist of the following:

| | Pension benefits | | | Other benefits | | |
|---------------------------|------------------|-------|--------|----------------|-------|-------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Net actuarial (gain) loss | \$ (10,496) | 8,155 | 17,535 | (1,302) | 3,803 | 1,404 |

| | Pension benefits | | Other benefits | |
|---|------------------|--------|----------------|-------|
| | 2021 | 2020 | 2021 | 2020 |
| Amounts recognized in accumulated other comprehensive income: | | | | |
| Net actuarial loss | \$ 12,982 | 32,335 | 4,151 | 6,075 |
| Total | \$ 12,982 | 32,335 | 4,151 | 6,075 |

| | Pension benefits | | |
|--|------------------|---------|---------|
| | 2021 | 2020 | 2019 |
| Components of net periodic benefit cost: | | | |
| Service cost | \$ 676 | 659 | 2,121 |
| Interest cost | 2,705 | 3,278 | 4,711 |
| Expected return on plan assets | (5,067) | (4,167) | (3,568) |
| Amortization of net loss/(gain) | 2,948 | 2,727 | 3,194 |
| Settlement/curtailment | 5,909 | 1,784 | 60 |
| Net periodic benefit cost | \$ 7,171 | 4,281 | 6,518 |

| | Other benefits | | |
|--|----------------|------|-------|
| | 2021 | 2020 | 2019 |
| Components of net periodic benefit cost: | | | |
| Service cost | \$ 47 | 37 | 25 |
| Interest cost | 234 | 263 | 280 |
| Amortization of prior service cost | — | — | (127) |
| Amortization of net loss/(gain) | 622 | 315 | 95 |
| Net periodic benefit cost | \$ 903 | 615 | 273 |

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Information for defined benefit pension plans with an accumulated benefit obligation in excess of fair value of plan assets as of December 31:

| | Pension benefits | |
|--------------------------------|-------------------------|-------------|
| | 2021 | 2020 |
| Projected benefit obligation | \$ 8,781 | 105,541 |
| Accumulated benefit obligation | 8,420 | 101,886 |
| Fair value of plan assets | — | 70,928 |

f) Assumptions

| | Pension benefits | | Other benefits | |
|---|-------------------------|-------------|-----------------------|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| Weighted average assumptions used to determine net periodic benefit cost at January 1: | | | | |
| Discount rate | 2.70% | 3.61% | 2.53% | 3.49% |
| Expected long-term return on plan assets | 7.50% | 7.50% | — | — |
| Rate of compensation increase | 3.56% | 3.56% | 4.25% | 4.25% |
| Health care cost trend rate assumed for next year: | | | | |
| Before 65 | — | — | 8.80% | 8.70% |
| Age 65 and older | — | — | 0.50% | 0.60% |
| Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate): | | | | |
| Before 65 | — | — | 8.70% | 8.60% |
| Age 65 and older | — | — | 0.40% | 0.50% |
| Year that the rate reaches the ultimate trend rate | — | — | 2024 | 2024 |
| Weighted average assumptions used to determine benefit obligations at December 31: | | | | |
| Discount rate | 3.06% | 2.70% | 2.99% | 2.53% |
| Rate of compensation increase | 3.70% | 3.56% | 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:

| | 1 Percentage point increase | 1 Percentage point decrease |
|---|------------------------------------|------------------------------------|
| Effect on total of 2021 service cost and interest cost | \$ 25 | (21) |
| Effect on 2021 other post-retirement benefit obligation | 620 | (550) |

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g) Plan Assets

The following table presents the hierarchy of the Company's 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> |
|--------------|------------------|----------------|----------------|---------------|
| 2021 | | | | |
| Bond funds | \$ 31,245 | — | — | 31,245 |
| Equity funds | 44,805 | — | — | 44,805 |
| Total assets | <u>\$ 76,050</u> | <u>—</u> | <u>—</u> | <u>76,050</u> |
| 2020 | | | | |
| Bond funds | \$ 20,219 | — | — | 20,219 |
| Equity funds | 50,709 | — | — | 50,709 |
| Total assets | <u>\$ 70,928</u> | <u>—</u> | <u>—</u> | <u>70,928</u> |

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy described in Note 6.

The Company's other post-retirement benefit plans were unfunded at December 31, 2021 and 2020.

The assets of the Company's defined benefit pension plan ("the Plan") are invested in group variable annuity contracts with ONLIC offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2021 and 2020, \$56,283 and \$50,228, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of equity securities, debt securities 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 60% equity securities and 40% debt securities.

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 equity securities and U.S. domestic, global and high yield for debt securities. To the extent possible, each sub asset class utilizes multiple fund choices, and no single fund contains more than 25% of 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 equity and debt benchmarks in weights determined by the Plan committee.

The overall expected long-term rate of return on assets is determined by a weighted average return of fixed income and equity indexes. Fixed income securities (including cash) make up 40% of the weighted average return and equity securities make up 60% of the weighted average return.

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The following table shows the weighted average asset allocation by class of the Company's qualified pension plan assets as of December 31:

| | 2021 | 2020 |
|-------------------|-------------|-------------|
| Equity securities | 59% | 71% |
| Debt securities | 41 | 29 |
| Total | 100% | 100% |

h) Cash Flows

Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2021 and 2020 was \$0. The Plan Sponsor contributed \$10,000 to the qualified pension plan for the year ended December 31, 2020. No contributions were made to the qualified pension plan for the years ended December 31, 2021 or 2019. There is no planned contribution to the qualified pension plan for the 2022 plan year.

Estimated Future Benefit Payments

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

| | Pension benefits | Other benefits |
|-------------|-----------------------------|---------------------------|
| 2022 | \$ 9,332 | 743 |
| 2023 | 7,591 | 789 |
| 2024 | 7,966 | 774 |
| 2025 | 6,728 | 713 |
| 2026 | 5,927 | 707 |
| 2027 – 2031 | 27,609 | 2,825 |

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 2021, 2020 and 2019 was \$4,472, \$3,665 and \$6,011, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was \$3,351, \$2,618 and \$2,615 in 2021, 2020 and 2019, respectively.

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

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The Company has other deferred compensation and supplemental pension plans not included in the tables above. The expenses for these plans were \$33,464, \$18,608 and \$14,345 in 2021, 2020 and 2019, respectively.

(16) Closed Block

Effective August 1, 1998, ONLIC was reorganized with approval of the Board of Directors, the Company's policyholders, and the Ohio Department of Insurance under provisions of the Ohio Revised Code to become a stock company 100% owned by ONFS. This reorganization contained an arrangement, known as a closed block (the "Closed Block"), to provide for dividends on policies that were in force on the effective date and were within classes of individual policies for which the Company had a dividend scale in effect at the time of the reorganization. The Closed Block was designed to give reasonable assurance to owners of affected policies that assets will be available to support such policies, including maintaining dividend scales in effect at the time of the reorganization, if the experience underlying such dividend scales continues. The assets, including revenue therefrom, allocated to the Closed Block will accrue solely to the benefit of the owners of policies included in the Closed Block until the Closed Block is no longer in effect. The Company is not required to support the payment of dividends on the Closed Block policies from its general funds.

The financial information of the Closed Block is consolidated with all other operating activities, and is prepared in conformity with FASB ASC 944-805, *Financial Services-Insurance-Business Combinations*. This presentation reflects the contractual provisions and not the actual results of operations and financial position. Many expenses related to the Closed Block operations are charged to operations outside the Closed Block; accordingly, the contribution from the Closed Block does not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

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Summarized financial information of the Closed Block as of December 31, 2021 and 2020 and for each of the years in the three-year period ended December 31, 2021 follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|----------------|
| Closed Block liabilities: | | |
| Future policy benefits and claims | \$ 540,978 | 553,833 |
| Policyholders' dividend accumulations | 29,070 | 30,794 |
| Other policyholder funds | 29,116 | 41,840 |
| Deferred federal income taxes | 7,261 | 10,627 |
| Other liabilities | 1,252 | 1,340 |
| Total Closed Block liabilities | <u>\$ 607,677</u> | <u>638,434</u> |
| Closed Block assets: | | |
| Fixed maturity securities available-for-sale, at fair value (amortized cost of \$400,821 and \$416,528 as of December 31, 2021 and 2020, respectively) | \$ 435,399 | 467,132 |
| Mortgage loans on real estate, net | 17,254 | 23,097 |
| Policy loans | 74,560 | 77,256 |
| Cash and short-term investments | 21,645 | 7,302 |
| Accrued investment income | 4,021 | 4,054 |
| Deferred policy acquisition costs | 23,323 | 26,605 |
| Reinsurance recoverable | 940 | 1,082 |
| Other assets | 406 | 470 |
| Total Closed Block assets | <u>\$ 577,548</u> | <u>606,998</u> |
| Excess of reported Closed Block liabilities over Closed Block assets | <u>\$ 30,129</u> | <u>31,436</u> |
| Amounts included in accumulated other comprehensive income: | | |
| Unrealized investment gains, net of tax | 36,301 | 52,026 |
| Allocated to policyholder dividend obligation, net of tax | <u>(1,725)</u> | <u>(1,422)</u> |
| Maximum future earnings to be recognized from Closed Block assets and liabilities | <u>\$ 64,705</u> | <u>82,040</u> |

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| | 2021 | 2020 | 2019 |
|--|-------------|-------------|-------------|
| Change in policyholder dividend obligation: | | | |
| Balance at beginning of year | \$ 30,794 | 32,216 | 33,633 |
| Net unrealized investment activity | (1,724) | (1,422) | (1,417) |
| Balance at end of year | \$ 29,070 | 30,794 | 32,216 |
| Closed Block revenues and expenses: | | | |
| Traditional life insurance premiums | \$ 12,693 | 14,900 | 16,922 |
| Net investment income | 25,450 | 26,324 | 26,979 |
| Net realized gains (losses) on investments | 28 | 260 | 425 |
| Benefits and claims | (23,644) | (27,952) | (27,989) |
| Provision for policyholders' dividends on participating policies | (3,710) | (4,745) | (6,312) |
| Amortization of deferred policy acquisition costs | (3,289) | (3,182) | (3,089) |
| Other operating costs and expenses | (1,521) | (1,692) | (1,635) |
| Income before federal income taxes | 6,007 | 3,913 | 5,301 |
| Income tax expense | 1,478 | 593 | (50) |
| Closed Block net income | \$ 4,529 | 3,320 | 5,351 |

(17) Regulatory RBC and Dividend Restrictions

The Company's domestic insurance subsidiaries, ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, file Annual Statements with their respective insurance departments prepared on a basis of accounting practices prescribed or permitted by such regulatory authority in their respective states of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not prescribed.

The Company's Ohio domiciled life insurance subsidiaries, ONLIC, ONLAC, CMGO and SUNR, do not have any permitted statutory accounting practices as of December 31, 2021 or 2020. NSLAC, a New York domiciled life insurance company, does not have any permitted statutory accounting practices as of December 31, 2021 or 2020.

The Company's subsidiary, SUNR, applies a prescribed practice, which values assumed GMDB and GLWB risks on variable annuity contracts from ONLIC using separate reserving bases from the Statutory Accounting Principles detailed within the NAIC *Accounting Practices and Procedures manual* ("NAIC SAP") pursuant to Ohio Revised Code Chapter 3964 and approved by the Ohio Department of Insurance.

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The prescribed practice related to ONLIC guaranteed risks affects the Company's carrying value of SUNR, included in common stocks – affiliates on the statutory statements of admitted assets, liabilities, capital and surplus. The affect is an increase of \$176,150 and \$186,173 as of December 31, 2021 and 2020, respectively. If the prescribed practices were not applied, ONLIC's risk-based capital would continue to be above regulatory action levels.

The Company's Vermont domiciled life insurance subsidiary, MONT, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2014. The approval continues indefinitely. MONT was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a stop loss agreement. This stop loss agreement is from a third-party unauthorized reinsurer and is used to fund the reinsurer's obligation to ONLAC. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

The Company's Vermont domiciled life insurance subsidiary, KENW, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2013. The approval continues indefinitely. KENW was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a letter of credit and a stop loss agreement. This stop loss agreement is from a third-party unauthorized reinsurer and is used to fund the reinsurer's obligation to ONLAC. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

The Company's Cayman Islands domiciled subsidiary, SYRE, received approval from the Cayman Islands Monetary Authority ("CIMA") regarding the use of permitted practices to use GAAP as the basis of accounting and to recognize, as an admitted asset, a letter of credit. The approval continues indefinitely.

Statutory Surplus and Income

State insurance regulators and the NAIC have adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. As of December 31, 2021, ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR exceeded the minimum RBC requirements.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2021, the Company's primary life insurance subsidiary, ONLIC, had total adjusted capital and company action level RBC of \$1,473,128 and \$234,003, respectively, providing an RBC ratio of 630%. Additionally, as of December 31, 2021, ONLIC's authorized control level RBC was \$117,002.

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The combined statutory basis net income (loss) of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was \$384,583, \$150,349 and \$(204,121) for the years ended December 31, 2021, 2020 and 2019, respectively.

The combined statutory basis capital and surplus of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was \$1,455,536 and \$1,078,507 as of December 31, 2021 and 2020, respectively.

The primary reasons for the difference between statutory and GAAP accounting for reporting purposes include the following provisions for GAAP:

- the costs related to successful efforts to acquire business, principally commissions and certain policy issue expenses, are amortized over the period benefited rather than charged to operations 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 available-for-sale securities are carried at fair value rather than amortized cost;
- certain assets designated as non-admitted under statutory accounting are excluded from the balance sheet; under GAAP, these assets would be included on the Consolidated Balance Sheets, net of any valuation allowance;
- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at estimated fair value as opposed to a component of separate account assets;
- the fixed maturity securities that are related to NSLAC's funds withheld reinsurance arrangement are classified as trading securities recorded at estimated fair value as opposed to amortized cost;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive income (loss) and comprehensive income (loss);
- consolidation for GAAP is based on whether the Company has voting control, or for certain VIEs, has the power to direct the activities most significant to the VIE while for statutory, consolidation is not applicable; and
- 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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Additionally, state regulators and rating agencies do not always use the same methodologies for calculating RBC ratios. There is a risk that a rating agency will not give the Company credit for certain regulatory RBC rules or permitted practices, which could result in a reduced rating even though the Company's RBC ratio and those of its insurance subsidiaries remain high based upon state regulatory rules and practices.

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 ONLIC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately \$419,000 may be paid by ONLIC to ONFS in 2022 without prior approval. Dividends of \$115,000, \$40,000 and \$55,000 were declared and paid by ONLIC to ONFS in 2021, 2020 and 2019, respectively.

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 \$25,000 may be paid by ONLAC to ONLIC in 2022 without prior approval. ONLAC did not declare or pay any ordinary dividends to ONLIC during 2021. ONLAC declared and paid ordinary dividends to ONLIC of \$12,000 and \$30,857 in 2020 and 2019, respectively. Extraordinary dividends of \$75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid during 2021 or 2020.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter 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 2021, 2020 or 2019.

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. SUNR declared and paid extraordinary dividends to ONLIC of \$253,000 in 2021. SUNR declared an extraordinary dividend of \$200,000 to ONLIC as of December 31, 2021 that was paid in March 2022. Due to dividend limitations, approximately \$30,000 was classified as a dividend with the remaining \$170,000 classified as a return of capital. No ordinary dividends were paid by SUNR to ONLIC during 2021. No dividends were declared or paid during 2020 or 2019.

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 immediately 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 2022 without prior approval. No dividends were declared or paid by NSLAC in 2021, 2020 or 2019.

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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 2021, 2020 or 2019. No dividends were declared or paid by KENW to ONLIC in 2021, 2020 or 2019.

SYRE is subject to limitations, imposed by CIMA, on the payment of dividends to its stockholder, ONFS. Dividends shall only be paid out of the SYRE's retained earnings and any paid-in capital in excess of par, provided that, after giving effect to each such dividend, the remaining capital is in excess of any capital requirements as prescribed by the CIMA. SYRE cannot pay any dividends without prior approval from CIMA. During 2021, SYRE declared and paid a non-cash dividend to the Company of \$259,176, consisting of SYRE's ownership of its subsidiaries. No dividends were declared or paid by SYRE in 2020 or 2019.

(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, bonds, common stocks, limited partnerships and limited liability companies of \$146,106 and \$57,496 as of December 31, 2021 and 2020, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the consolidated 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 determines if an arrangement is, or contains, a lease at the inception date. Operating and finance lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the discount rate for the lease at the commencement date. As the rate implicit in the lease is not readily determinable for operating leases, an incremental borrowing rate based on information available at the commencement date to determine the present value of future lease payments is utilized. Variable components of the lease payments such as fair value adjustments, utilities and maintenance costs are expensed as incurred and not included in determining the present value. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. The Company accounts for lease and non-lease components separately and does not apply the lease guidance under ASC 842 to short-term lease arrangements.

Operating leases are included in Operating lease right-of-use assets and Operating lease liabilities on the Consolidated Balance Sheets. Finance leases are included in Other assets and Other liabilities on the Consolidated Balance Sheets.

The Company has operating leases for hardware, software, office space and transportation equipment, and finance leases for office equipment.

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Additional information related to leases is as follows:

The components of lease expense for the years ended December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-----------------|--------------|
| Financing lease cost | | |
| Amortization of right-of-use assets | \$ 510 | 389 |
| Interest on lease liabilities | 23 | 26 |
| Operating lease cost | 1,812 | 1,895 |
| Short term lease cost | 42 | 39 |
| | <u>2,387</u> | <u>2,349</u> |
| Total lease expense | <u>\$ 2,387</u> | <u>2,349</u> |

Maturity of lease liabilities under non-cancelable operating and finance leases as of December 31, 2021 are as follows:

| | <u>Operating leases</u> | <u>Financing leases</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| 2022 | \$ 1,617 | 526 |
| 2023 | 1,485 | 490 |
| 2024 | 1,139 | 261 |
| 2025 | 1,103 | 102 |
| 2026 | 953 | — |
| Thereafter | 509 | — |
| Total future minimum lease payments | <u>6,806</u> | <u>1,379</u> |
| Less imputed interest | <u>(492)</u> | <u>(23)</u> |
| Total | <u>\$ 6,314</u> | <u>1,356</u> |

The following table provides a summary of lease terms and discount rates for the year ended December 31, 2021:

| | |
|--|-------|
| Weighted-average remaining lease term (years) - financing leases | 2.86 |
| Weighted-average remaining lease term (years) - operating leases | 5.11 |
| Weighted-average discount rate - financing leases | 1.34% |
| Weighted-average discount rate - financing leases | 2.93% |

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Supplemental information related to leases for the years ended December 31, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from financing leases | \$ 23 | 26 |
| Operating cash flows from operating leases | 1,812 | 1,895 |
| Financing cash flows from financing leases | 510 | 384 |
| Right-of-use assets obtained in exchange for new finance lease liabilities | — | 2,139 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 1,259 | 576 |

Information as Lessor

The Company adopted ASC 842 using the modified retrospective approach whereby the cumulative effect of adoption was recognized on the adoption date, and prior periods were not restated. Upon adoption of the standard, the Company elected the package of practical expedients provided for under ASC 842 as a single election, which was consistently applied to all existing leases as of January 1, 2019. The Company also elected the practical expedient related to separating lease and non-lease components, provided certain conditions are met. Under ASC 842, the Company is required to account for leases using an approach that is substantially equivalent to ASC 840's guidance for operating leases.

As a lessor, the Company leases office properties to lessees in exchange for monthly payments that cover rent and certain cost recoveries. The Company's operating leases qualify for single component accounting, and the non-lease components follow the same timing and pattern of transfer as the lease payments; therefore, all revenue from operating leases is classified within Net investment income on the Consolidated Statements of Operations. The Company's operating lease income does not include material amounts of variable payments.

Some of the Company's leases have termination options and/or extension options. Termination options allow the customer to terminate the lease prior to the end of the lease term under certain circumstances. Lease agreements generally do not contain an option to purchase the office property at the end of the lease term.

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The Company recognized rental revenues related to operating lease payments of \$5,786 and \$5,773 during the years ended December 31, 2021 and 2020, respectively. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at December 31, 2021 for operating leases:

| | | |
|--|----|----------------------|
| 2022 | \$ | 3,897 |
| 2023 | | 2,533 |
| 2024 | | 1,895 |
| 2025 | | 1,275 |
| 2026 | | 788 |
| Thereafter | | <u>1,315</u> |
| Total undiscounted future minimum cash flows | \$ | <u><u>11,703</u></u> |

(20) Commitments and Contingencies

Several subsidiaries of the Company are a party to five court cases stemming from the strategic changes announced in September 2018, 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 ONLIC's contracts with the broker dealers who sold ONLIC's annuities. One case purports to be on behalf of a class, and a motion for class certification has been filed, but no class has been certified. Ten previously pending court cases and nine previously pending Financial Industry Regulatory Authority ("FINRA") arbitrations have been resolved. The next case currently set for trial is in October 2022. 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.