

Senior Notes

In April 2011, ONFS issued a \$250.0 million, 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 \$300.0 million, 6.375% fixed rate senior note due April 30, 2020. Interest was payable semi-annually on April 30 and October 30. ONFS redeemed this note April 10, 2019.

In January 2020, the Company issued a \$425.0 million, 5.550% fixed rate senior note due January 24, 2030. The proceeds of this note were used to retire the term note issued during 2019.

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 Notes

In April 2019, ONFS issued a \$400.0 million, 150 BPS plus LIBOR rate term note due April 5, 2022 with an option to extend one year. This loan was retired in January 2020 with the issuance of a new senior note as discussed above.

Statutory Capital and Surplus

Ohio law requires that Ohio-domiciled life insurers submit to the Ohio Department of Insurance on or before March 1 of each year a report of their RBC levels as of the end of the calendar year just ended based on a formula calculated by applying factors to various asset, premium and reserve items, in accordance with the instructions published by the NAIC (the "RBC Instructions") and adopted by the Ohio Department of Insurance by rule. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk, other business risks and such other relevant risks as are set forth in the RBC Instructions. The Ohio Department of Insurance uses the formula only as an early warning regulatory tool to identify possibly inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Ohio law imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on the Ohio Department of Insurance as to the use and publication of RBC data.

Ohio law gives the Ohio Department of Insurance explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital ("TAC") does not exceed certain RBC thresholds. RBC thresholds are determined by reference to an insurer's TAC and authorized control level RBC ("ACL"). An insurer's TAC is its statutory capital and surplus, increased or decreased by such other items, if any, as the RBC Instructions may provide. The RBC Instructions detail required weightings and adjustments to an insurer's TAC depending on its overall risk profile, including the insurer's particular asset risk, insurance risk, interest rate risk and other business risk. An insurer's ACL is determined pursuant to the RBC Instructions and is a level of risk-adjusted capital at which a state insurance regulator may seek rehabilitation or liquidation of the insurer. The value of an insurer's TAC in relation to its ACL, together with any trend in its TAC, is used as a basis for determining regulatory actions that a state insurance regulator may be authorized or required to take with respect to the insurer.

In addition to the triggers based on an insurer's TAC, certain other triggers can constitute RBC events. Such triggers include failure to comply with certain filing requirements, submission of an RBC Plan that is found to be unacceptable or unsatisfactory by the Ohio Department of Insurance, deviation from an RBC Plan, failure to respond to a corrective order and other triggers as specified under Ohio law.

The NAIC has recently adopted several changes to the formula used to calculate RBC for life insurance companies to account for the effects of the Tax Cuts and Jobs Act of 2017, specifically focusing on changes to the RBC ratio denominator in order to reflect the corporate tax rate decrease from 35% to 21%. These changes, which became effective for life insurance company RBC calculations as of December 31, 2018, have increased required capital, which in turn have decreased the statutory RBC ratios of U.S. life insurance companies, including certain of our insurance subsidiaries.

Our primary life insurance subsidiary, ONLIC, had total adjusted capital and authorized control level risk based capital as follows (dollars in millions):

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Total adjusted capital.....	\$ 1,137.2	1,102.1	1,182.1
Authorized control level.....	\$ 111.1	119.0	111.0

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 us credit for certain regulatory RBC rules or permitted practices, which could result in a reduced rating even though the our RBC ratio and those of our insurance subsidiaries remain high based upon state regulatory rules and practices.