

## DISCLAIMER

**Regarding the business operations and prospects of Ohio National Financial Services, Inc. and its subsidiaries on a consolidated basis (collectively, “Ohio National”, the “Company”, “we”, “us” and “our”)**

**Forward-Looking Statements:** Certain of the information included in this document constitute forward-looking statements. Words such as “expects,” “believes,” “anticipates,” “includes”, “plans”, “assumes”, “estimates,” “projects,” “intends,” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon the Company. There can be no assurance that future developments affecting the Company will be those anticipated management. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in the forward-looking statements, including without limitation: (i) difficult conditions in the capital markets and U.S. economy, (ii) certain changes in the accounting standards issued by the Financial Accounting Standards Board, (iii) extensive regulations designed to benefit or protect policyholders, (iv) changes in interest rates, (v) the failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, (vi) the default of a major reinsurer of our variable annuities, (vii) a lack of available, affordable or adequate reinsurance, (viii) the default or failure to perform by counterparties to our reinsurance or indemnification arrangements or to the derivatives we use to hedge our business risks, (ix) regulatory challenges, (x) changes in the valuation of derivatives entered into in connection with our annuity riders, (xi) losses or decreases in the value of our investment in our foreign operations, (xii) a ratings downgrade, (xiii) a material change in the RBC ratio of Ohio National’s insurance subsidiaries, (xiv) earnings influenced by our claims experience, (xv) differences between actual experience and actuarial assumptions and the effectiveness of our actuarial models, (xvi) litigation risks, (xvii) the failure to properly perform services or the misrepresentation of our products or services. (xviii) the continued threat of terrorism and ongoing military and other actions, (xix) a pandemic or a natural disaster, (xx) increased competition in our core business, (xxi) new, innovative approaches through FinTech, InsurTech, Artificial Intelligence or other sources that transform insurance processes, service, administration or distribution, (xxii) Setting Every Community up for Retirement Enhancement Act of 2019, (xxiii) changes in tax treatment, (xxiv) changes to our eligibility for dividends received deductions, (xxv) changes in tax laws or interpretations of such laws, (xxvi) differing interpretations of the methodologies, estimations and assumptions used in the valuation of our fixed maturity securities, (xxvii) fluctuations in foreign currency exchange rates, (xxviii) uncertainty in the commercial real estate market, (xxviii) computer system failures or security breaches, (xxix) excessive risks taken by our associates, (xxx) the ability to attract and retain key personnel, (xxxi) incorrect estimates and assumptions in our accounting statements, (xxxii) risk management policies and procedures that may leave us exposed to unidentified or unanticipated risks, (xxxiii) the failure to protect the confidentiality of client information, (xxxiv) difficulties, unforeseen liabilities, asset impairments or ratings actions arising from business acquisitions or dispositions, (xxxv)

the ineffectiveness of our Corporate Strategy and further ratings actions arising from the implementation thereof, (xxxvi) other risks and uncertainties that have not been identified at this time, and (xxxvii) our response to these factors. Consequently, any forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs and are based on management's beliefs and assumptions about the businesses in which the Company competes, global and domestic economic conditions and other factors. The Company does not intend, and will not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances or changed assumptions after the date of such statements.

**Financial Presentation:** The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting periods. Financial information provided throughout this Presentation is prepared in accordance with U.S. generally accepted accounting principles ("GAAP") unless otherwise specified as having been prepared in accordance with statutory accounting principles.

**Non-GAAP Financial Measures:** In these financial documents the Company may refer to non-GAAP financial measures, including "Pre-tax Operating Earnings", "Core Earnings", "Total GAAP Equity ex. FAS-115", "Total GAAP Equity ex. AOCI" and "Operating Revenues". "Pre-tax Operating Earnings" is a non-GAAP financial measure which represents income (loss) before federal and state income taxes, primarily excluding net realized gains (losses), and their related DAC amortization and certain non-recurring items. "Core Earnings" is a non-GAAP financial measure which represents Pre-tax Operating Earnings adjusted primarily for market-related impacts and certain non-recurring items. "Operating Revenues" is a non-GAAP financial measure which represents revenue adjusted primarily for net realized gains and losses. "Total GAAP Equity ex. FAS-115" is a non-GAAP financial measure which represents Total GAAP Equity adjusted primarily for net unrealized gains and losses of available for sale, at fair value, fixed maturity securities and associated DAC and federal income taxes. "Total GAAP Equity ex. AOCI" is a non-GAAP financial measure which represents Total GAAP Equity adjusted for accumulated other comprehensive income ("AOCI").

**Industry and Market Data:** These financial documents presentation may include industry data that Ohio National obtained from publicly available sources and periodic industry publications and analyses from industry consultants. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Ohio National has not independently verified any of the data from third-party sources nor has it ascertained the underlying economic assumptions relied upon therein.

**Ohio National Holdings, Inc.**

**Management's Discussion and Analysis**

**For the Six Months Period Ended**

**June 30, 2022**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### Overview

Ohio National Life, the largest operating subsidiary of Ohio National Financial Services traces its origins to 1909. In 1998, we converted to a mutual insurance holding company structure. Ohio National Financial Services ("ONFS") and Ohio National Mutual Holdings ("ONMH") were formed in this process and Ohio National Life, previously a mutual life insurance company, became a stock company wholly owned by ONFS. As a result of the conversion, eligible policyholders of Ohio National Life acquired the right to vote at annual meetings of ONMH and to elect its Board of Directors. ONFS was wholly owned by ONMH.

In March 2022, ONMH and its wholly owned subsidiary, ONFS, successfully completed a sponsored demutualization transaction with Constellation Insurance, LP ("Constellation"). Following the approval of the transaction by member vote on March 11, 2022 and a public hearing on March 18, 2022 conducted by the Ohio Department of Insurance, ONMH converted to a stock company, was renamed Ohio National Holdings, Inc. ("ONH", "Company", "we", or "our"), and has become an independently managed subsidiary of Constellation as of March 31, 2022. ONFS remains a subsidiary to ONH and will maintain its brand, management team, infrastructure and will continue to be headquartered in Cincinnati, Ohio. Eligible members were compensated for the extinguishment of their membership interests with additional policy benefits, or cash, as applicable. In addition to member compensation, Constellation also committed a \$500.0 million capital infusion into Ohio National Life Insurance Company ("ONLIC") evenly over a four-year period beginning one year after the closing of the transaction, further strengthening the Company's strong capital position and ability to fulfill its obligations, as well as invest in organic and inorganic growth opportunities.

Our strategic focus is to continue to provide protection and wealth accumulation products to drive long-term growth and financial strength. This follows evaluation of our businesses and considers economic headwinds as well as developing a broader, well-diversified organic and inorganic growth platform. It also considers the strategic transaction with Constellation that provides us with continued financial flexibility to fuel our future growth. The Company will focus on growing our core product lines of life insurance and annuities, continue to grow our broker/dealer, The O.N. Equity Sales Company ("ONESCO"), and assess market opportunities in Latin America.

We will continue to grow our protection and wealth accumulation businesses providing a differentiated product portfolio through a diverse distribution network; we focus on customers in the following three categories:

- middle and upper-income individuals who seek income protection, asset preservation or retirement savings;
- high net worth individuals with estate conservation needs; and
- small businesses and professionals desiring life and disability insurance, annuities, and related products and services.

As of June 30, 2022, we had \$36.2 billion of total assets, with approximately \$181.0 billion of life insurance in force. Our Total GAAP Equity (Excluding Accumulated Other Comprehensive Income "AOCI") was \$2.5 billion as of June 30, 2022. For the six months ended June 30, 2022, we generated \$1,061.0 million of Operating Revenues and \$108.5 million of Core Earnings, both of which are non-GAAP measures defined in the Management's Discussion and Analysis of Financial Condition and Results of Operations section ("MD&A").

As reflected in the table below, our products and services fall into one of six business segments.

Life Insurance	Disability Insurance	Latin America	Annuities	Retirement Plans	Corporate
<ul style="list-style-type: none"> <li>• Whole life</li> <li>• Universal life</li> <li>• Indexed universal life (“IUL”)</li> <li>• Indexed whole life (“IWL”)</li> <li>• Term life</li> </ul>	<ul style="list-style-type: none"> <li>• Disability income</li> </ul>	<ul style="list-style-type: none"> <li>• International               <ul style="list-style-type: none"> <li>• Brazil</li> <li>• Chile</li> <li>• Peru</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Individual fixed annuities               <ul style="list-style-type: none"> <li>• Immediate</li> <li>• Deferred</li> <li>• Index-linked (“FIA”)</li> </ul> </li> <li>• Individual variable annuities (“VA”)<sup>(1)</sup></li> <li>• Funding agreements</li> <li>• Guaranteed investment contracts (“GICs”)</li> </ul>	<ul style="list-style-type: none"> <li>• Group fixed and variable annuities               <ul style="list-style-type: none"> <li>• 401(k) plans</li> <li>• Other tax-qualified retirement plans<sup>(2)</sup></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Retail broker dealer</li> <li>• Asset management</li> </ul>

(1) The Company no longer issues new variable annuity contracts.

(2) The Company no longer issues group annuity contracts or sells retirement plans.

The sum of the results of our six business segments represents our total results.

This MD&A includes references to some of our financial performance measures that are not based on accounting principles generally accepted in the United States of America (“GAAP”) such as Pre-Tax Operating Earnings and Core Earnings, in addition to providing GAAP measures such as consolidated total revenues, total benefits and expenses, income (loss) before income taxes, and net income (loss). These non-GAAP and GAAP measures are used by management to evaluate performance on a consolidated and business segment basis relative to our business plan and to facilitate comparisons to industry results. Our management believes that Pre-Tax Operating Earnings and Core Earnings explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable or non-recurring and not necessarily indicative of current operating fundamentals or future performance of the business segments. Accordingly, we currently define revenues, benefits and expenses, Pre-Tax Operating Earnings, and Core Earnings in the following sections.

## Our Key Strengths

We believe the following are our key strengths:

- *Broad Suite of Complementary Products.* We offer a broad suite of protection and wealth accumulation products, including life insurance, annuities, disability insurance, and other related products in the U.S. and Latin America. Our products are designed to be capital efficient while focusing on long-term performance.
- *Sizable Life Insurance In force Business with Strong Renewal Premium Growth.* Products are distributed through a network of producers who market in part to the emerging affluent, the affluent, and business owners. We manage mortality risk through disciplined and consistent underwriting. We maintain relatively low retention on any given life, with a current maximum limit of \$2 million and have no 30-year term exposure and minimal universal life with secondary guaranty exposure. Our low lapse and favorable mortality experience contribute to growth in recurring premiums.
- *Differentiated Value Proposition Driving Distribution Growth.* We differentiate ourselves by providing an aggregate value proposition that features a broad array of products, contract choice, field support, and a variable-cost distribution model that offers producer independence. Our product and distribution vision for the future includes offering a range of products that offer protection and value to our policyholders. We distribute our products through a builder general agency network (the “Builder General Agency”), through personal producing general agents (“PPGAs”), and through the brokerage space via Independent Marketing Organizations (“IMOs”)/Brokerage General Agencies (“BGAs”). Having these distribution outlets gives us the flexibility to attract new producers to the Company. Builder General Agencies grow by recruiting career agents, brokers and producers. PPGAs grow through their own personal production and may recruit some additional sales associates known as managing agents and independent producing agents. Our compensation packages and incentive

programs appeal to both PPGAs and Builder General Agents who are independent contractors responsible for their own site selection, rent, overhead and other office maintenance expenses. We intend to continue to expand our traditional distribution force, which will be an important part of our ability to continue to grow our sales. We believe our financial stability, attractive product suite and overall value proposition will continue to fuel distribution growth. The IMO/BGA distribution outlet offers additional growth opportunities for all of our product lines.

- *Disciplined Enterprise Risk Management Framework with Active Management of In Force Block.* Ohio National's Enterprise Risk Management is integrated with the overall management of the organization and is a critical element of the strategic planning and management process. In the case of our variable annuity riders, we have utilized reinsurance, product design, investment restrictions, managed volatility portfolios ("MVPs"), and hedging strategies to mitigate risks associated with contract guarantees.
- *Strong Balance Sheet and Healthy Liquidity Profile.* Our strong balance sheet reflects focus and ongoing discipline in our investment approach, risk management, operations and expense management.
- *Conservatively Managed and Highly Rated Investment Portfolio.* We maintain a diversified investment portfolio and seek to generate attractive returns while preserving our financial strength. Our product design and risk mitigation strategies result in a liability profile that enables us to take a long-term approach to investing.

### **Summary of Significant Accounting Changes**

The Company is exposed to potential risk associated the Coronavirus ("COVID-19"). Risks related to the outbreak include disruptions to business operations resulting from quarantines of employees, policyholders, or our distribution in areas affected by the outbreak, disruptions to business operations resulting from travel restrictions, and uncertainty around the duration of the virus' impact. The Company has business continuity plans in place to attempt to mitigate the risk posed to business operations by disruptive incidents such as these. We have adapted well to operating in the different environment and we remain strategically focused to build on our strengths and leverage our value proposition.

The Company received \$401.4 million in contributed capital for the Constellation acquisition. The contribution was the initial infusion of capital in order to compensate voting members for the extinguishment of their membership interests. The Company recognized an increase in capital with a corresponding increase in benefits and claims. As this is a non-recurring transaction, the Company has excluded the impact of the Consideration, net of reinsurance and DAC impact from reported Core Earnings.

### **Revenues, Benefits, and Expenses**

We derive our Operating Revenues primarily from (1) premiums and policy charges on life and other insurance products, (2) net investment income from general account assets, (3) asset management fees and mortality and expense fees related to variable annuities and variable life insurance policies and (4) fees for other services. All of these factors can contribute to earnings volatility in a given year. Under GAAP, total premiums paid on guaranteed premium policies are included in revenues with a corresponding expense for increases in policy reserves. For flexible premium and deposit-type policies, amounts received from policyholders are considered deposits and are not recorded as revenues and increases in reserves are not shown as an expense. Only the amounts we deduct from policy values for mortality and expenses, when earned, are recorded as revenues on flexible premium and deposit-type policies.

Our operating earnings result primarily from the spread between the rates we earn on invested assets and the rates we credit to policyholders, the mortality and expense charges on our variable products, and investment advisory fees earned on separate account assets. Our operating earnings are affected by our claims experience, the persistency of policies and their continuing premiums, and investment markets. Our operating earnings are also affected by changes in the value of certain reinsurance contracts and hedges related to our variable annuity contracts, which is described more fully in the "Core Earnings" section below. In addition, we seek to increase earnings by carefully managing operating expenses through an extensive budgeting process and improvements in technology.

### **Investments**

We had total consolidated assets of \$36.2 billion as of June 30, 2022, of which \$13.6 billion were investments. Assets held in separate accounts for which Ohio National generally does not bear investment risk were \$15.1 billion. Because we generally do not bear investment risk on assets held in the separate accounts, the discussion and financial information below

does not include such assets. The remaining consolidated assets are comprised primarily of Reinsurance recoverable, Deferred Acquisition Cost (“DAC”), Reinsurance deposit asset, and Other assets.

We have a prudent investment philosophy which seeks to achieve competitive rates of return while carefully managing investment risk. Our primary investment objective is the preservation of principal to ensure that we can meet contractual obligations to policyholders and general obligations. We achieve this objective by maintaining a diversified portfolio to reduce credit risk, managing assets and liabilities to control interest rate risk, and holding a core amount of high-quality marketable securities to meet liquidity demands.

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. The management of credit risk is central to our business, and we devote considerable resources to the credit analysis underlying each investment acquisition. We employ a staff of highly specialized, experienced, and well-trained credit analysts.

We maintain single industry, issuer, asset type and geographical limits. Our Investment Management Committee, comprised of a group of senior management responsible for reviewing and monitoring investments, reviews these limits on a regular basis and recommends modifications to them as necessary. Any such modifications are reported to our Board.

Interest rate risk relates to the market price and/or cash flow variability associated with changes in market yield curves. We manage interest rate risk through a variety of techniques. In general, our risk management philosophy is to limit the net impact of interest rate changes on our assets and liabilities. Assets are invested predominately in fixed maturity securities, and the asset portfolio is matched with the liabilities to mitigate our exposure to changes in the overall level of interest rates. Our investment portfolio holds fixed maturity securities, mortgages and other asset types that meet the projected cash needs of our underlying liabilities.

Liquidity risk relates to our ability to have access to sufficient funds to meet our liabilities when due. We manage this risk within investments by establishing specific guidelines for holding high-grade marketable securities that can be liquidated in order to meet policyholder or other general obligations.

### Total GAAP Equity (excluding AOCI)

In addition to Pre-Tax Operating Earnings and Core Earnings, Ohio National uses Total GAAP Equity (excluding AOCI), which is a non-GAAP measure as defined herein. The following table shows a reconciliation of Total GAAP Equity (excluding AOCI) to Total GAAP Equity for the periods indicated:

	As of June 30,	
	2022	2021
(Unaudited) (in millions)		
Total GAAP Equity	\$ 1,667.1	\$ 2,537.7
AOCI.....	818.8	(254.0)
Total GAAP Equity (excluding AOCI) <sup>(1)</sup> .....	<u>\$ 2,485.9</u>	<u>\$ 2,283.7</u>

(1) Total GAAP Equity (excluding AOCI) is a non-GAAP financial measure which represents Total GAAP equity adjusted primarily for net unrealized gains and losses of available for sale, at fair value, fixed maturity securities and associated DAC and federal income taxes.

### Pre-tax Operating Earnings

Pre-Tax Operating Earnings is a Company defined non-GAAP measure that excludes the impact of realized gains and losses, net of related policy DAC amortization; change in value of trading securities, excluding Latin America activity; impairment of goodwill and intangible assets; and loss on debt retirement. Pre-Tax Operating Earnings are commonly used in the life insurance industry to evaluate the normalized results of operations.

The following table shows a reconciliation of income (loss) before income taxes to Pre-Tax Operating Earnings for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
<b>Income (loss) before income taxes</b> ..... \$	<b>(312.6)</b>	<b>(171.8)</b>	<b>(140.8)</b>	(82.0%)
Investment (gains) losses.....	(0.5)	(15.3)	14.8	96.7%
Other, net.....	5.6	(1.3)	6.9	N/M
Pre-tax effects of adjustments.....	5.1	(16.6)	21.7	N/M
<b>Pre-tax operating earnings</b> ..... \$	<b>(307.5)</b>	<b>(188.4)</b>	<b>(119.1)</b>	(63.2%)

## Core Earnings

In addition to Pre-Tax Operating Earnings, Ohio National uses Core Earnings which is a Company defined non-GAAP measure. We believe that Core Earnings is a more meaningful measure of our operating performance. It is calculated by adjusting Pre-Tax Operating Earnings for certain items that fluctuate from period to period in a manner unrelated to our core operations. These adjustments consist principally of non-economic and asymmetrical accounting items and certain non-recurring items of:

- Changes in the value of certain reinsurance contracts and hedges related to our variable annuity contracts, and related DAC amortization;
- Impact from actuarial valuation systems conversion;
- Market effects on DAC amortization on variable products;
- Changes in Guaranteed Lifetime Withdrawal Benefit (“GLWB”)/Guaranteed Principal Protection (“GPP”)/Guaranteed Principal Access (“GPA”) fair value reserves, related hedges, and DAC amortization; and
- FIA credit spread for non-performance risk (“NPR”).

Additionally, we 5-year averaging all DAC and unearned front-end loads (“UFEL”) unlockings not accounted for within another Core Earnings adjustment category as management believes these unlockings are not primarily related to current year core operations and this adjustment produces a more meaningful long-term view of our operating performance.

The following table shows a reconciliation of Pre-Tax Operating Earnings to Core Earnings for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
<b>Pre-tax operating earnings</b> ..... \$	<b>(307.5)</b>	<b>(188.4)</b>	<b>(119.1)</b>	(63.2%)
Changes in value of certain reinsurance contracts and hedges, and related reserves and claims on our variable annuity	75.4	202.4	(127.0)	(62.7%)
Market effects on DAC amortization.....	12.0	(3.3)	15.3	N/M
5-year averaging of GLWB/GPP and annuity persistency.....	(16.9)	0.2	(17.1)	N/M
5-year averaging of DAC and UFEL unlocking.....	(28.2)	(7.4)	(20.8)	N/M
Financial statement corrections related to prior years.....	0.1	(0.1)	0.2	N/M
Annuity inforce management.....	-	32.2	(32.2)	(100.0%)
Consideration, net of external reinsurance and DAC impact.....	325.1	-	325.1	N/M
Corporate strategy expenses.....	56.3	16.6	39.7	N/M
FIA's credit spread for NPR.....	(13.9)	25.4	(39.3)	N/M
Other, net.....	6.1	7.5	(1.4)	(18.7%)
<b>Core earnings</b> ..... \$	<b>108.5</b>	<b>85.1</b>	<b>23.4</b>	27.5%

All of the adjustments to derive Core Earnings from Pre-Tax Operating Earnings are reported only in the Corporate business segment.

## Operating Revenues

Operating Revenues is a non-GAAP measure, which represents revenue adjusted primarily for net realized gains and losses. Management believes that Operating Revenues focus on the long-term nature of the business by principally adjusting for net realized gains and losses. The following table shows a reconciliation of Operating Revenues to Total Revenues for the periods indicated:

	<b>Six Months Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total GAAP Revenues:		<b>(in millions)</b>	
Life Insurance.....	\$ 582.1	632.4	624.9
Annuities.....	320.0	340.1	314.9
Retirement Plans.....	4.9	5.4	6.2
Disability Insurance.....	20.3	19.3	17.5
Latin America.....	124.4	131.9	117.6
Total Revenues (Excluding Corporate):.....	1,051.7	1,129.1	1,081.1
Corporate.....	19.9	(56.7)	87.8
Total Revenues:.....	<u>\$ 1,071.6</u>	<u>1,072.4</u>	<u>1,168.9</u>
Total Operating Revenues Adjustments:			
Life Insurance.....	\$ 8.8	6.8	2.4
Annuities.....	(1.7)	(1.7)	(1.7)
Retirement Plans.....	-	-	-
Disability Insurance.....	-	-	-
Latin America.....	2.2	-	-
Total Adjustments to Operating Revenues.	9.3	5.1	0.7
Corporate.....	(9.3)	(5.1)	(0.7)
Total Revenues Adjustments.....	<u>\$ -</u>	<u>-</u>	<u>-</u>
Total Operating Revenues:			
Life Insurance.....	\$ 590.9	639.2	627.3
Annuities.....	318.3	338.4	313.2
Retirement Plans.....	4.9	5.4	6.2
Disability Insurance.....	20.3	19.3	17.5
Latin America.....	126.6	131.9	117.6
Total Operating Revenues:.....	1,061.0	1,134.2	1,081.8
Corporate.....	10.6	(61.8)	87.1
Total Revenues:.....	<u>\$ 1,071.6</u>	<u>1,072.4</u>	<u>1,168.9</u>

	<b>Six Months Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>		
Traditional life insurance premiums..... \$	363.5	408.1	419.3
Annuity premiums and charges.....	207.6	221.8	206.1
Universal life policy charges.....	82.4	81.9	71.5
Group life and health insurance premiums....	28.1	51.8	52.1
Accident and health insurance premiums.....	17.1	16.0	14.3
Investment management fees.....	26.0	23.8	20.5
Change in value of equity securities.....	(7.6)	3.3	(1.3)
Net investment income.....	277.7	239.6	221.3
Net realized gains (losses)			
Investment gains.....	0.5	15.3	6.5
Derivative instruments.....	15.9	(80.0)	88.5
Loss on debt retirement.....	-	-	-
Other income.....	60.4	90.8	70.1
Total revenues.....	<u>1,071.6</u>	<u>1,072.4</u>	<u>1,168.9</u>
Corporate entity operating revenues	<u>(10.6)</u>	<u>61.8</u>	<u>(87.1)</u>
Total operating revenues..... \$	<u><u>1,061.0</u></u>	<u><u>1,134.2</u></u>	<u><u>1,081.8</u></u>

***Changes in value of certain reinsurance contracts and hedges, and related reserves and claims on our variable annuity contracts***

Through our variable annuity contracts, we have exposure to Guaranteed Minimum Income Benefits (“GMIB”), Guaranteed Minimum Death Benefits (“GMDB”) and GLWBs (non-fair value GLWB reserves) associated with economic risks. The future policy benefits and claim reserves associated with these benefits are determined under traditional GAAP accounting models with reserves accumulating over time.

We mitigate a significant portion of the economic risks associated with the GMIB, GMDB and GLWB benefits through reinsurance or hedging. This hedging activity does not meet the criteria for hedge accounting. We have various coinsurance agreements on the GMIB riders sold with variable annuities through March 2008, and some of the GMDB riders sold with variable annuities through March 2008. The ceded amounts are up to 100% quota share on individual claims, subject to various caps and limits in the treaties. The Company entered into an external coinsurance agreement on certain GLWB riders sold with variable annuities that cover business issued from May 1, 2013 through December 31, 2017. The ceded amount under this GLWB coinsurance agreement is a 70% quota share and is accounted for under a traditional GAAP accounting model similar to the direct GLWB benefit reserve. The external coinsurance agreement on GLWB riders was terminated during Q4 2021.

We are required to account for the GMIB reinsurance contract and hedging activity based on the strict accounting model, FASB Accounting Standards Codification (“ASC”) Topic 815, *Derivatives and Hedging*, which incorporates concepts from several accounting pronouncements, including:

- ASC Topic 815 (formerly FAS 133), which relates to fair value accounting for derivative instruments and hedging activities; and
- ASC Topic 825, *Financial Instruments*, (formerly FAS 157), which further clarified certain fair value measurements promulgated in previous pronouncements.

The changes in the fair values established under ASC Topic 815 and ASC Topic 825 can be volatile, as they are correlated to the performance and volatilities in the equity markets, and interest rates. The fair value of reinsurance contracts is reported in Reinsurance recoverable on our balance sheets and hedging instruments are reported in Other long-term

investments and Other liabilities on our balance sheets. Changes in the fair value of these instruments flow through our statements of operations, and therefore affect our publicly reported operating earnings.

The reinsurance contracts and hedging instruments are related to the GMIB, GMDB and GLWB riders that are a component of future policy benefits and claim reserves. However, the fair value of the reinsurance contracts and hedging instruments may have significantly greater volatility than the related book value reserves, thereby having an asymmetrical relationship between the fair value reinsurance and hedging calculations, and book value reserve calculations. Because of this asymmetrical relationship, changes in the values of our reinsurance contracts (non-economic) and hedging instruments can cause significant fluctuations, either positively or negatively, on our publicly reported operating earnings. Therefore, we adjust for the change in the book value reserves and the related change in the fair value of the reinsurance contracts and hedging instruments, net of the related DAC amortization, when deriving Core Earnings.

#### ***Market effects on DAC amortization***

The costs of acquiring new business, principally commissions, certain policy issuance and underwriting department expenses, and certain variable sales expenses that relate to the production of new and renewal business are capitalized as a DAC asset. DAC is amortized relative to the future gross profits or future gross revenues.

One of the most significant assumptions in the estimation of future gross profits is the future net separate account performance. The change in DAC amortization, caused by the difference between the expected future net separate account performance that is mean reverted and the actual net separate account performance, is deemed to be the overall market effect on DAC amortization. Although we use reversion to the mean to estimate this long-term assumption, significant differences may arise between the actual and projected net separate account performance. As such, this change in DAC amortization is reflected as a “true-up” in the consolidated financial statements, and we adjust for this market effect on DAC amortization in deriving Core Earnings to produce a more meaningful long-term view of our operating performance.

#### ***FIA credit spread for NPR***

The Company’s Core Earnings excludes the impact related to FIA’s credit spread for NPR. NPR refers to the risk that the Company’s underlying FIA obligation will not be fulfilled. It affects the calculation of the estimated fair value of the future policy benefits and claims liabilities and includes the Company’s own credit risk. The Company calculates NPR by comparing its own spreads to the discount benchmark curve and applying the difference to the netted uncollateralized obligation. NPR can cause volatility in the periodic measurement of FIA liabilities that management believes can be inconsistent with the long-term economics of the annuity business. Management believes that separating these impacts as a core adjustment provides a better view of the fundamental performance of the business. Prior period amounts have been updated to conform to current period presentation.

#### ***Other, net***

“Other, net” principally consists of non-recurring items.

## Consolidated Results of Operations

Except as otherwise stated, the following tables set forth the Company's summary consolidated financial information that has been prepared in accordance with GAAP and other financial information. The Company's summary consolidated GAAP financial information for the periods indicated below has been derived from the Company's unaudited consolidated financial statements.

Summary results for our consolidated operations are shown and discussed below for the periods indicated:

### OHIO NATIONAL HOLDINGS, INC. AND SUBSIDIARIES

#### Consolidated Statements of Operations

(Dollars in millions)

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
Revenues:				
Traditional life insurance premiums.....	\$ 363.5	408.1	(44.6)	(10.9%)
Annuity premiums and charges.....	207.6	221.8	(14.2)	(6.4%)
Universal life policy charges.....	82.4	81.9	0.5	0.6%
Group life and health insurance premiums.....	28.1	51.8	(23.7)	(45.8%)
Accident and health insurance premiums.....	17.1	16.0	1.1	6.9%
Investment management fees.....	26.0	23.8	2.2	9.2%
Change in value of equity securities.....	(7.6)	3.3	(10.9)	N/M
Net investment income.....	277.7	239.6	38.1	15.9%
Net realized gains (losses)				
Investment gains.....	0.5	15.3	(14.8)	(96.7%)
Derivative instruments.....	15.9	(80.0)	95.9	N/M
Other income.....	60.4	90.8	(30.4)	(33.5%)
Total revenues.....	<u>1,071.6</u>	<u>1,072.4</u>	<u>(0.8)</u>	<u>(0.1%)</u>
Benefits and expenses:				
Benefits and claims.....	1,092.3	877.2	215.1	24.5%
Provision for policyholders' dividends.....	46.1	53.8	(7.7)	(14.3%)
Amortization of deferred policy acquisition costs.....	(27.2)	68.3	(95.5)	N/M
Commissions, net.....	91.6	94.0	(2.4)	(2.6%)
Other operating costs and expenses.....	181.4	150.9	30.5	20.2%
Total benefits and expenses.....	<u>1,384.2</u>	<u>1,244.2</u>	<u>140.0</u>	<u>11.3%</u>
Income (loss) before income taxes.....	(312.6)	(171.8)	(140.8)	(82.0%)
Income taxes.....				
Current expense (benefit).....	29.4	7.5	21.9	N/M
Deferred expense (benefit).....	(98.3)	(41.7)	(56.6)	N/M
	(68.9)	(34.2)	(34.7)	N/M
Net income (loss).....	<u>\$ (243.7)</u>	<u>(137.6)</u>	<u>(106.1)</u>	<u>(77.1%)</u>

**Six months ended June 30, 2022 compared to the six months ended June 30, 2021**

*Income (loss) Before Income Taxes.* Income (loss) before income taxes for the six months ended June 30, 2022 was a loss of \$312.6 million and represents a \$140.8 million decrease over the \$171.8 million loss reported in the prior year.

The following table summarizes the significant components effecting the changes in the consolidated Income (loss) before income taxes for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
All other items of income before income taxes.....	\$ 78.0	91.4	(13.4)	(14.7%)
Changes in value of certain reinsurance contracts and hedges, and related reserves and claims on our variable annuity contracts.....	(75.4)	(202.4)	127.0	62.7%
Net realized investment gains (losses), net of related DAC amortization excluding other-than-temporary losses on securities.....	0.5	15.3	(14.8)	(96.7%)
Market effects on DAC amortization.....	(12.0)	3.3	(15.3)	N/M
Base DAC and UFEL true-ups and unlockings.....	46.9	(3.5)	50.4	N/M
GLWB/GPP related reserves, hedges, and DAC.....	16.9	(1.7)	18.6	N/M
Consideration, net of external reinsurance and DAC impact.....	(325.1)	-	(325.1)	N/M
Corporate strategy expenses.....	(56.3)	(16.6)	(39.7)	N/M
FIA's credit spread for NPR.....	13.9	(25.4)	39.3	N/M
Annuity inforce management.....	-	(32.2)	32.2	100.0%
Income (loss) before income taxes.....	\$ (312.6)	(171.8)	(140.8)	(82.0%)

The decrease was primarily driven by the Consideration, net of external reinsurance and DAC impact of \$325.1 million. As described in the “Summary of Significant Accounting Changes” section this was a result of Constellation transaction, as the company compensated the voting members for the extinguishment of their membership interest after the approval of the transaction.

Partially offset by the effects of the components of the Changes in value of certain reinsurance contracts and hedges, and related reserves and claims on our variable annuity contracts as detailed in the table below:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Fair value reinsurance contracts.....	\$ 12.0	(171.1)	183.1	N/M
Hedging.....	33.1	(72.1)	105.2	N/M
GMIB/GMDB/GLWB (non-fair value) reserves.....	(130.4)	11.8	(142.2)	N/M
DAC amortization.....	9.9	29.0	(19.1)	(65.9%)
	\$ (75.4)	(202.4)	127.0	62.7%

The \$183.1 million increase in impact from the Fair value annuity reinsurance, was due to increase in the annuity reinsurance asset as a result of NPR increasing for ONLIC and decreasing for the reinsurer during the first six months of 2022.

Gains and losses from hedges move opposite to the equity markets, since the primary objective of the hedges is to generate gains in market declines, offsetting the guarantees written on GMIB, GMDB, and GLWB economic risks. The magnitude of equity losses for the six months ended June 30, 2022, versus equity gains for the same period in 2021 resulted in a decrease to hedging losses of \$105.2 million from 2021 to 2022.

The primary driver impacting the variance of \$50.4 million in Base DAC and UFEL true-ups and unlockings from the first six months of 2021 to the same period of 2022 is true-up due to changes in methodology for calculating impact from excess lapses for the open whole life block of business.

The Company increased the NPR used in the measurement of FIA liabilities which in turn led to a decrease in the future policy benefits and claims liability of \$13.9 million for the six months ended June 30, 2022 compared to an increase in the liability of \$25.4 million for the same period of 2021.

The Company offered certain variable annuity policyholders a GMIB cash bonus offer program, in which the Company offered the policyholder an additional cash offer exceeding current account value when the policyholder surrendered. The program began during the fourth quarter of 2020 and concluded at the end of March 2021 with an additional 30 days to

complete outbound transfer requirements for acceptances submitted prior to the deadline. The cost of the variable annuity buyout program was \$32.2 million and resulted in \$300.6 million in account value surrendered for the six months ended June 30, 2021. The Company did not offer a similar buyout program during the first half of 2022 thus creating a period over period increase to income of \$32.2 million.

*Traditional Life Insurance Premiums.* Traditional life insurance premiums consist of payments by policyholders for individual whole life insurance and individual term life insurance less premiums ceded for reinsurance for all individual insurance products. Life insurance premiums are recognized when due. Life insurance premiums were \$363.5 million for the six months ended June 30, 2022, which represents a 10.9% decrease from \$408.1 million for the same period in 2021. The following table provides more information on life premiums for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in million)		(in millions)	
Whole life direct.....	\$ 324.5	368.6	(44.1)	(12.0%)
Reinsurance whole life direct.....	(4.7)	(4.8)	0.1	2.1%
Net whole life.....	319.8	363.8	(44.0)	(12.1%)
Term direct.....	102.0	106.4	(4.4)	(4.1%)
Reinsurance Term direct.....	(32.1)	(31.2)	(0.9)	(2.9%)
Net Term.....	69.9	75.2	(5.3)	(7.0%)
Total whole life and term.....	389.7	439.0	(49.3)	(11.2%)
Reinsurance universal life.....	(46.0)	(49.3)	3.3	6.7%
Latin America operations.....	19.8	18.4	1.4	7.6%
Total traditional life.....	\$ 363.5	408.1	(44.6)	(10.9%)

The decrease in 2022 was primarily due to a decrease in net whole life and term premiums of \$49.3 million. The drop in premiums was due to a decrease in new sales.

*Annuity Premiums and Charges.* Annuity premiums and charges consist mainly of premiums for immediate annuities, administrative fees and surrender charges on deferred annuities, and charges for mortality and expense guarantees on variable annuity products (“M&E”). Fees and charges are generally deducted from annuity account balances when earned and M&E and administrative fees vary with the variable annuity separate account balances. The following table sets forth the primary components of such premiums and charges for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in million)		(in millions)	
Premiums				
Variable annuity reinsurance premiums.....	\$ (17.6)	(34.5)	16.9	49.0%
Immediate annuity/ GIC premiums.....	4.4	18.7	(14.3)	(76.5%)
Policy Charges				
M&E and administrative fees.....	107.1	121.7	(14.6)	(12.0%)
Rider charges.....	111.9	113.5	(1.6)	(1.4%)
Other charges.....	1.8	2.4	(0.6)	(25.0%)
Policy Charges.....	220.8	237.6	(16.8)	(7.1%)
Latin America operations.....	-	-	-	N/M
Total annuity premiums and charges.....	\$ 207.6	221.8	(14.2)	(6.4%)

Annuity premiums and charges were \$207.6 million for the six months ended June 30, 2022, down \$14.2 million or 6.4% from \$221.8 million for the same period in 2021. During 2021 the Company recaptured a block of its interest sensitive

GLWB variable annuity business. In recapturing the block of business, the Company reduced its variable annuity reinsurance thus causing an increase from prior period of \$16.9 million. The decrease in immediate annuity/ GIC premiums was driven by decrease in annuitization of group annuity contracts. The \$14.6 million decrease in policy charges was driven by a decrease in average daily separate account asset balance during the first six months ended June 30, 2022 as compared to the same period in 2021.

*Universal Life Policy Charges.* Universal life policy charges consist of cost-of-insurance charges, surrender charges, expense loads, and other fees related to our universal life (“UL”) and variable universal life (“VUL”) insurance policies. These charges and fees are generally deducted from policy account balances when earned. The following table summarizes the components of the universal life policy charges for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Fixed universal life excluding bank-owned life insurance ("BOLI") policy charges. \$	61.1	62.3	(1.2)	(1.9%)
Index universal life policy charges.....	7.7	5.2	2.5	48.1%
Universal life - BOLI policy charges.....	1.8	1.7	0.1	5.9%
Variable universal life policy charges.....	6.9	6.7	0.2	3.0%
UFEL true-ups.....	(1.3)	(3.6)	2.3	63.9%
Change in UFEL liability, excluding true-ups, unlockings.....	4.7	7.9	(3.2)	(40.5%)
Latin America operations.....	1.5	1.7	(0.2)	(11.8%)
Total universal life policy charges..... \$	<u>82.4</u>	<u>81.9</u>	<u>0.5</u>	0.6%

The \$3.2 million decrease in change in UFEL liability, excluding true-ups, and unlockings was due to a decrease in UFEL amortization. The decrease in UFEL amortization change is being driven by the decrease in estimated gross profits (“EGPs”) which is generating a decrease in amortization.

*Group Life and Health Premiums.* Group life and health premiums, net of reinsurance, related to ancillary coverages for disability and survivorship through participation in the nationalized pension system (“SIS”) for the Peruvian and Chilean insurance subsidiaries were \$28.1 million for the six months ended June 30, 2022 and \$51.8 million for the same period in 2021. The \$23.7 million decrease is primarily due to Peru's decrease in premiums as a result of higher reinsurance cession for SIS business, in order to mitigate the increasing effects of COVID on SIS business.

*Accident and Health Insurance Premiums.* Accident and health insurance premiums consist of payments by customers for disability insurance and are generally recognized when due. Accident and health insurance premiums were \$17.1 million for the six months ended June 30, 2022 and \$16.0 million for the same period in 2021, an increase of \$1.1 million or 6.9%.

*Investment Management Fees.* Investment management fees are earned by an affiliated investment adviser and are net of unaffiliated subadvisor fees. These fees were \$26.0 million for the six months ended June 30, 2022 and \$23.8 million for the same period in 2021. Investment management fees vary with total separate account balances.

*Net Investment Income.* Our driving principles remain the same in any economic environment: maintain a balanced, disciplined approach to investing and managing risk. We earn investment income on the assets in our general account portfolio, which mainly comprises fixed maturity securities, mortgage loans on real estate, short-term investments and cash. Sources of funds for investment are primarily sales of insurance and annuity products invested in the general account. We seek to earn investment returns that exceed the rates we credit to policyholders.

Net investment income increased 15.9% or \$38.1 million from \$239.6 million for the six months ended June 30, 2021 to \$277.7 for the same period in 2022. The following table sets forth the components of net investment income for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Gross Investment Income				
Domestic operations.....	\$ 242.6	246.9	(4.3)	(1.7%)
Latin America operations.....	88.1	45.0	43.1	95.8%
Investment Expenses:				
Domestic operations.....	(51.0)	(50.8)	(0.2)	(0.4%)
Latin America operations.....	(2.0)	(1.5)	(0.5)	(33.3%)
Net investment income.....	\$ <u>277.7</u>	<u>239.6</u>	<u>38.1</u>	15.9%

The increase in Latin America operations net investment income is primarily due to a higher monetary correction caused by the Unidad de Fomento (“UF”) value being higher during the first six months of 2022 as compared to the same period in 2021. The decrease in Domestic operations Gross Investment Income is attributed to decrease in portfolio yields from the first six months of 2021 versus the same period in 2022, partially offset by increases in investments purchased in order to support reserves and account value. The following table summarizes the components of the reserves:

Year and Product	Domestic Reserves and Account Value (in millions)	Year-over-Year Growth
UL account value.....	\$ 4,130.7	
RGA BOLI reinsurance.....	(1,867.5)	
Annuities account value.....	4,288.9	
RGA SPDA deposit asset.....	(828.5)	
Whole life and term net level reserves..	5,952.0	
DI net level reserves.....	299.8	
June 30, 2022 total.....	\$ <u>11,975.4</u>	6.0%
UL account value.....	\$ 4,101.4	
RGA BOLI reinsurance.....	(1,846.8)	
Annuities account value.....	4,198.7	
RGA SPDA deposit asset.....	(796.4)	
Whole life and term net level reserves..	5,353.8	
DI net level reserves.....	291.4	
June 30, 2021 total.....	\$ <u>11,302.1</u>	

*Investment Gains.* Investment gains include gains and losses on the sale of securities and impairment losses on fixed maturity securities and mortgage loans on real estate. For the six months ended June 30, 2022, net realized investment gains were \$0.5 million compared to net realized investment gains of \$15.3 million for the same period in 2021.

*Derivative Instruments.* Derivative instruments increased \$95.9 million from a loss of \$80.0 for the six months ended June 30, 2021 million to a gain of \$15.9 million for the six months ended June 30, 2022.

We enter into a variety of derivative instruments with a number of counterparties in order to hedge various risks, including risks associated with the GMIB and GLWB riders, for the portion not reinsured, our death benefits and other riders contained in many of our variable annuity products. Our variable annuity derivative hedges are designed to reduce risks on an economic basis with the understanding that their impact on accounting results may not be perfectly correlated with rider valuation changes on a GAAP basis.

The reason for the increase in derivatives is due to impact in the market. As indicative by the change in price of the S&P 500 index, the magnitude of the market performance was greater during the first six months of 2021 vs the same period in 2022. The following chart illustrates fluctuations in equity markets and interest rates:

### Period-Over-Period Comparison

Index	June 30, 2022	December 31, 2021	Change	June 30, 2021	December 31, 2020	Change
S&P 500	3,785	4,766	-20.6%	4,298	3,756	14.4%
10 Year Treasury	2.97%	1.51%	146 BPS	1.44%	0.92%	52 BPS

*Other Income.* Other income principally consists of revenue sharing fees from externally advised separate accounts and dealer concessions from our retail broker dealer operation. Other income was \$60.4 million for the six months ended June 30, 2022, which is a 33.5% decrease from \$90.8 million for the same period in 2021. On average, 88% of our retail broker dealer concessions are paid out in commissions. The \$30.4 million decrease in other income is primarily driven by Latin America due to a decrease in the administration fee income related to the Chilean SIS 7.2, SIS 7.3 and SIS 8 tranches that went into effect July 1, 2020. Revenue sharing fees vary in relation to total average separate account balances. The following table summarizes the components of such other income:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Revenue sharing fee.....	\$ 15.9	21.4	(5.5)	(25.7%)
Retail broker dealer concessions.....	34.1	37.9	(3.8)	(10.0%)
Latin America.....	(7.5)	14.6	(22.1)	N/M
Reinsurance ceded trails.....	17.7	17.2	0.5	2.9%
Other.....	0.2	(0.3)	0.5	N/M
Other income.....	<u>\$ 60.4</u>	<u>90.8</u>	<u>(30.4)</u>	<u>(33.5%)</u>

*Benefits and Claims.* Benefits consist primarily of interest credited to policyholder accounts within universal life insurance policies and within individual and group annuities, including GICs, and amounts paid under immediate annuities and settlement certificates. Benefits also include sales inducements and benefit guarantees with the variable annuities. Claims consist of payments on life insurance, accident and health insurance products, and variable annuity guaranteed benefits. Both benefits and claims are mitigated through the use of reinsurance and hedging programs. Benefits and claims were \$1,092.3 million for the six months ended June 30, 2022, up \$215.1 million from \$877.2 million for the same period in 2021. The following table sets forth the components of benefits and claims for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Fair value of annuity reinsurance.....	\$ (12.0)	171.1	(183.1)	N/M
Consideration, net of external reinsurance.....	400.6	-	400.6	N/M
Other fair value annuity guaranteed benefit reserves, net.....	(4.0)	(14.0)	10.0	71.4%
Non-fair value annuity guaranteed benefit reserves, net.....	130.4	(11.8)	142.2	N/M
Latin America.....	99.3	107.9	(8.6)	(8.0%)
Interest credited, excluding consideration.....	89.9	114.9	(25.0)	(21.8%)
Whole life change in reserves, excluding reserves released & consideration.....	110.5	223.7	(113.2)	(50.6%)
Term change in reserves, excluding reserves released.....	12.3	16.0	(3.7)	(23.1%)
Mortality and morbidity, net of reserves released.....	125.0	116.5	8.5	7.3%
Variable annuity guaranteed benefit claims, net.....	25.9	23.8	2.1	8.8%
Fixed index annuity change in excess & guaranteed benefit reserves, excluding NPR.....	(30.5)	(19.3)	(11.2)	(58.0%)
Fixed index annuity credit spread for NPR.....	(13.9)	25.4	(39.3)	N/M
Domestic immediate annuity benefits and change in reserves.....	18.2	30.2	(12.0)	(39.7%)
UL secondary guarantee reserves.....	4.1	(0.2)	4.3	N/M
Sales inducements including amortization.....	2.2	(2.4)	4.6	N/M
Annuity inforce management.....	-	32.2	(32.2)	(100.0%)
Other benefits & claims.....	134.3	63.2	71.1	N/M
Total benefits and claims.....	<u>\$ 1,092.3</u>	<u>877.2</u>	<u>215.1</u>	<u>24.5%</u>

The \$183.1 million decrease in impact from the Fair value annuity reinsurance, was due to increase in the annuity reinsurance asset as a result of NPR increasing for ONLIC and decreasing for the reinsurer in 2022. In isolation, a higher

NPR spread decreases the reserve calculation due to higher discount rates and lower present values. The GMIB FAS133 is an asset from the enterprise’s perspective, so a decrease in the reinsurers NPR will increase the value of the reinsurance asset and vice-versa.

The increase in benefits and claims was primarily driven by the Consideration, net of external reinsurance of \$400.6 million. As described in the “Summary of Significant Accounting Changes” section this was a result of Constellation transaction, due to the Company compensating the voting members for the extinguishment of their membership interest through an increase in account value or paid-up addition to their policy.

Other fair value annuity guaranteed benefit reserves, net, impacted with movements in equity markets and interest rates. The S&P was down 20.6% during the first six months of 2022 compared to increase of 14.4% for the same period in 2021. This movement along with rising interest rates are the primary driver of the \$10.0 million decrease in Other fair value annuity guaranteed benefit reserves, net.

The \$142.2 million decrease in Non-fair value annuity guaranteed benefit reserves, net was due to an increase in SOP 03-1 (ASC 944) rider reserves driven by increase in projected claims due to increase in mortality.

Whole life change in reserves, excluding reserves released, decreased \$113.2 million as a result of the amount of current year premiums to reserves released on surrenders and lapses being greater in the first six months of 2022 than in similar period of 2021.

The Company had an increase in its NPR used in the measurement of FIA liabilities which in turn lead to a decrease in the future policy benefits and claims liability of \$13.9 million for the first six months of 2022 compared to an increase in the liability of \$25.4 million for the same period of 2021.

The cost of the variable annuity buyout program was \$32.2 million for the six months ended June 30, 2021. The Company did not offer a similar buyout program during the first six months of 2022 thus creating a period over period increase to income of \$32.2 million.

Other benefits and claims increased \$71.1 million due to increases in life surrender benefits for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021.

*Provision for Policyholders’ Dividends.* Policyholder dividends are paid primarily to whole life insurance policies. Dividends to policyholders were \$46.1 million and \$53.8 million for the six months ended June 30, 2022 and 2021 respectively, as summarized in the following table:

	<b>Six Months Ended June 30,</b>		<b>\$</b>	<b>%</b>
	<b>2022</b>	<b>2021</b>	<b>2022 vs. 2021</b>	<b>2022 vs. 2021</b>
	<b>(in millions)</b>		<b>(in millions)</b>	
Whole life.....	\$ 45.3	52.9	(7.6)	(14.4%)
Disability insurance.....	0.8	0.9	(0.1)	(11.1%)
Provision for policyholders’ dividends.....	<u>\$ 46.1</u>	<u>53.8</u>	<u>(7.7)</u>	<u>(14.3%)</u>

The decrease was primarily due to decrease in future dividend scale from the six months ended June 30, 2021 to the same period in 2022. Reduction in the dividend scale was partially offset by an increase in participating whole life reserves over the same period. The following table summarizes such increase in participating whole life reserves:

<b>Year</b>	<b>Whole Life Policies U.S. GAAP Reserves</b>	<b>Year-over-Year Growth</b>
	<b>(in millions)</b>	
June 30, 2022	5,380.2	12.3%
June 30, 2021	4,789.1	

*Amortization of Deferred Policy Acquisition Costs.* We incur costs in connection with acquiring new and renewal insurance business. Costs (commissions and other costs of issuing policies) that are related directly to the successful

acquisition or renewal of insurance contracts are capitalized as DAC and amortized based on premiums, margins, or profits over various lengths of time depending upon product type. DAC amortization was \$27.2 million to income for the six months ended June 30, 2022 and \$68.3 million loss for the same period in 2021. The primary driver impacting the variance in amortization of DAC from the first six months of 2021 to the same period of 2022 is the positive to income due to DAC impact from consideration of \$75.5 million. The consideration increased the reserve balance resulting in a large change in reserve amount, which lowered the earnings for the quarter. Since earnings were negative, the amortization calculation increased the DAC balance. Also causing a variance in amortization of DAC is \$52.3 million decrease in Base true-ups and unlockings due to changes in methodology for calculating impact from assumption changes for the open whole life block of business. The following table summarizes the components of such amortization for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Base amortization.....	\$ 93.40	97.1	(3.7)	(3.8%)
Base true-ups and unlockings.....	(48.4)	3.9	(52.3)	N/M
DAC impact from consideration.....	(75.5)	-	(75.5)	N/M
Changes in value of certain reinsurance contracts and hedges, and related reserves and claims on our variable annuity contracts.....	(9.9)	(29.0)	19.1	65.9%
Market effects on DAC amortization.....	12.0	(3.3)	15.3	N/M
GLWB/GPP/GPA 5 year average.....	1.2	(0.4)	1.6	N/M
Total Amortization of DAC.....	\$ <u>(27.2)</u>	<u>68.3</u>	<u>(95.5)</u>	N/M

*Commissions, net.* Commissions were \$91.6 million for the six months ended June 30, 2022, a decrease of \$2.4 million, or 2.6%, from \$94.0 million for the same period in 2021. Decrease in Capitalized commissions is offset with the decrease in Domestic commissions, net of reinsurance. The following table sets forth the primary components of the commissions for the periods indicated:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Commissions:				
Annuity trail commissions.....	\$ 36.6	36.7	(0.1)	(0.3%)
Retail broker dealer commissions.....	29.8	33.3	(3.5)	(10.5%)
Domestic commissions, net of reinsurance.....	37.6	59.2	(21.6)	(36.5%)
Latin America commissions.....	15.9	13.4	2.5	18.7%
Capitalized commissions.....	<u>(28.3)</u>	<u>(48.6)</u>	<u>20.3</u>	<u>41.8%</u>
Total commissions.....	\$ <u>91.6</u>	<u>94.0</u>	<u>(2.4)</u>	<u>(2.6%)</u>

*Other Operating Costs and Expenses.* Other operating costs and expenses include premium taxes, and general corporate expense items. These expenses were \$181.4 million for the six months ended June 30, 2022, an increase of \$30.5 million, or 20.2%, from \$150.9 million for the same period in 2021, as summarized in the following table:

	Six Months Ended June 30,		\$	%
	2022	2021	2022 vs. 2021	2022 vs. 2021
	(in millions)		(in millions)	
Operating expenses - Domestic operations.....	\$ 113.2	120.7	(7.5)	(6.2%)
Corporate strategy expenses.....	56.3	16.6	39.7	N/M
Operating expenses - Latin America Operations.....	7.4	8.7	(1.3)	(14.9%)
Capitalized administration expenses for DAC.....	(3.5)	(5.8)	2.3	39.7%
Premium taxes, net.....	8.0	10.7	(2.7)	(25.2%)
Total other operating cost and expenses.....	\$ <u>181.4</u>	<u>150.9</u>	<u>30.5</u>	<u>20.2%</u>

## Financial Condition

### OHIO NATIONAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

For the years ended December 31, 2019 and 2018

(Dollars in millions)

Assets	June 30, 2022	December 31, 2021	\$ Change	% Change
Investments:				
Securities available-for-sale at fair value:				
Fixed maturities.....	\$ 9,875.4	10,713.6	(838.2)	(7.8%)
Equity securities, at fair value.....	105.4	100.7	4.7	4.7%
Equity securities - on loan, at fair value.....	-	0.2	(0.2)	(100.0%)
Mortgage loans on real estate, net.....	1,634.2	1,577.6	56.6	3.6%
Real estate, net.....	49.9	48.6	1.3	2.7%
Policy loans.....	1,057.6	1,036.4	21.2	2.0%
Other long-term investments.....	288.1	272.8	15.3	5.6%
Short-term investments securities lending collateral.....	338.5	374.3	(35.8)	(9.6%)
Short-term investments.....	287.6	205.1	82.5	40.2%
Total investments.....	<u>13,636.7</u>	<u>14,329.3</u>	<u>(692.6)</u>	<u>(4.8%)</u>
Cash.....	280.9	514.7	(233.8)	(45.4%)
Accrued investment income.....	91.7	85.9	5.8	6.8%
Deferred policy acquisition costs.....	1,951.9	1,622.0	329.9	20.3%
Reinsurance recoverable.....	3,641.5	3,610.4	31.1	0.9%
Reinsurance deposit asset.....	828.5	860.6	(32.1)	(3.7%)
Operating lease right-of-use assets.....	5.5	6.3	(0.8)	(12.7%)
Other assets.....	343.8	365.7	(21.9)	(6.0%)
Federal income tax recoverable.....	68.6	23.6	45.0	N/M
Deferred federal income taxes.....	222.3	-	222.3	N/M
Assets held in separate accounts.....	15,149.3	19,376.5	(4,227.2)	(21.8%)
Total assets.....	<u>\$ 36,220.7</u>	<u>40,795.0</u>	<u>(4,574.3)</u>	<u>(11.2%)</u>
<b>Total Liabilities and Equity</b>				
Future policy benefits and claims.....	\$ 17,266.4	16,713.2	553.2	3.3%
Policyholders' dividend accumulations.....	29.0	30.1	(1.1)	(3.7%)
Other policyholder funds.....	89.2	119.4	(30.2)	(25.3%)
Short-term debt.....	0.1	1.6	(1.5)	(93.8%)
Notes payable net of unamortized discount and issuance costs.....	977.1	976.7	0.4	0.0%
Deferred federal income taxes.....	-	139.1	(139.1)	(100.0%)
Operating lease liabilities.....	5.5	6.3	(0.8)	(12.7%)
Other liabilities.....	698.5	612.5	86.0	14.0%
Payables for securities lending collateral.....	338.5	374.3	(35.8)	(9.6%)
Liabilities related to separate accounts.....	15,149.3	19,376.5	(4,227.2)	(21.8%)
Total liabilities.....	<u>34,553.6</u>	<u>38,349.7</u>	<u>(3,796.1)</u>	<u>(9.9%)</u>
Equity:				
Stockholder's equity:				
Common stock and additional paid-in-capital.....	901.4	-	901.4	N/M
Preferred stock and additional paid-in-capital.....	489.5	-	489.5	N/M
Treasury stock.....	(390.9)	-	(390.9)	N/M
Commitment receivable.....	(500.0)	-	(500.0)	N/M
Accumulated other comprehensive income.....	(818.8)	109.2	(928.0)	N/M
Retained earnings.....	1,985.9	2,336.1	(350.2)	(15.0%)
Total stockholder's equity.....	<u>1,667.1</u>	<u>2,445.3</u>	<u>(778.2)</u>	<u>(31.8%)</u>
Total liabilities and equity.....	<u>\$ 36,220.7</u>	<u>40,795.0</u>	<u>(4,574.3)</u>	<u>(11.2%)</u>

*Securities Available-for-Sale, at Fair Value: Fixed Maturity.* We have diversified our investment portfolio to limit exposure to any single industry, issuer or asset type. The maximum exposure to a single industry, issuer or asset type is limited to a set percentage of the securities portfolio. These limits are reviewed on a regular basis and modified as necessary to reflect changing market conditions for the industry, issuer or asset type by the Board of Directors. As a result of our diversification efforts, the risk of adverse events affecting a single industry, issuer or asset type having a material negative impact on the portfolio has been minimized.

Securities available-for-sale, at fair value: fixed maturity decreased by \$838.2 million from December 31, 2021 to June 30, 2022. This decrease was primarily due to:

- Decrease in unrealized gains of \$1,488.1 million from increase in interest rates as measured by the 10-year Treasury and increase in corporate bond spreads; and partially offset by
- Future policy benefits and claims, excluding guaranteed benefits on annuities, increased \$418.9 million from the sale of fixed products producing funds that were invested in fixed maturities available-for-sale.

*Equity securities, at fair value:* Equity securities, at fair value increased \$4.7 million from \$100.7 million at December 31, 2021 to \$105.4 million at June 30, 2022. In late 2020, the Investment Management Committee approved a plan for the Company to begin investing in high dividend paying common stocks to grow the portfolio overtime.

*Mortgage loans on real estate, net:* Mortgage loans increased \$56.6 million from December 31, 2021 to June 30, 2022. Mortgage loans consist of commercial mortgage loans originated in the United States 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.

*Policy loans:* Policy loans increased \$21.2 million or 2.0% from December 31, 2021 to June 30, 2022. Policy loans vary with total reserves. Net level reserves on whole life and term increased 7.3% from December 31, 2021 to June 30, 2022. Once adjusted for the \$317.5 million in additional paid-up insurance for the extinguishment of participating whole life policy member's membership interest, the period over period increase in policy loans is reasonable as the increase is in line with the increase in net level reserves less whole life consideration during the same period.

*Other long-term investments.* Other long-term investments increased \$15.3 million from December 31, 2021 to June 30, 2022. The Company's other long-term investments are primarily comprised of put options. The value of the option is calculated based on market performance. Increase in Other long-term investments were due to decrease in market performance as indicated by S&P movement.

*Short-term Investments Securities Lending Collateral.* Short-term investments securities lending collateral decreased \$35.8 million from December 31, 2021 to June 30, 2022. When the Company lends out its securities, the Company's securities lending agent (US Bank) receives cash collateral that is 102% of the value of the bonds loaned out. US Bank then invests this cash collateral in short-term investments in a separately managed accounts for Ohio National.

*Short-term Investments and Cash.* Liquidity needs are managed through both short-term investments and cash. We maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. The majority of our short-term investments consist of money market funds. Cash includes funds used to operate our hedge program and cash equivalents that consist of U.S. Treasury notes, commercial paper, and reverse repurchase agreements. Short-term investments and cash decreased \$151.3 million from December 31, 2021 to June 30, 2022. The company had several cash movements over the first half of 2022, primarily bond purchases, which contributed to the large decrease in cash. Offsetting these transactions and as described in the "Summary of Significant Accounting Changes" section, to compensate participating members for their membership interest, the Company received \$401.4 million in cash from Constellation. Short-term investments increased from December 31, 2021 to June 30, 2022 offsetting a portion of the decrease in cash.

*Deferred Policy Acquisition Costs.* The recoverable costs of acquiring new business, principally commissions, certain expenses of the policy issue and underwriting department and certain variable sales expenses that relate to and vary with the production of new and renewal business have been capitalized as DAC. 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 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 profits from projected interest margins, asset fees, cost of insurance charges, policy administration fees, surrender charges and net realized gains and losses less policy benefits and policy maintenance expenses. DAC for participating life and investment and universal life business is adjusted to reflect the impact of unrealized gains and losses on the related fixed maturity securities available for sale.

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 experience differs from assumptions or assumptions are revised, we are required to record an increase or decrease in DAC amortization expense (“DAC Unlocking”), which could be significant. In general, increases in the projected general and net separate account returns result in increased projected margins and may lower the rate of DAC amortization, while decreases in the projected general and net separate account returns and/or increases in lapse/surrender and/or mortality assumptions reduce projected margins, and may increase the rate of DAC amortization. Any resulting DAC unlocking adjustments are reflected currently in Ohio National’s consolidated statements of operations.

We offer certain sales inducements to policyholders. Sales inducements are product features that enhance the investment yield on a contract. We utilize the following sales inducements: (1) day-one bonuses, which increase the account value at inception and (2) enhanced yield options, which credit interest for a specified period in excess of rates currently being offered for other similar contracts. Sales inducement costs are deferred and amortized using the same methodology and assumptions used to amortize capitalized acquisition costs.

Deferred policy acquisition costs increased \$329.9 million or 20.3% from December 31, 2021 to June 30, 2022. The primary driver of the increase in DAC is a \$272.2 million increase in Shadow DAC related to the decrease in unrealized gains on securities available for sale. The following table sets forth the primary components of the deferred policy acquisition costs for the periods indicated:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
	(in millions)		(in millions)	
Whole life.....	\$ 710.8	607.2	103.6	17.1%
Term.....	116.7	120.9	(4.2)	(3.5%)
Universal life.....	110.5	113.1	(2.6)	(2.3%)
Total life.....	<u>938.0</u>	<u>841.2</u>	<u>96.8</u>	<u>11.5%</u>
Variable annuities.....	786.2	823.3	(37.1)	(4.5%)
Fixed index annuities.....	34.5	36.7	(2.2)	(6.0%)
Group annuities.....	2.7	3.7	(1.0)	(27.0%)
Total annuities.....	<u>823.4</u>	<u>863.7</u>	<u>(40.3)</u>	<u>(4.7%)</u>
Individual disability insurance.....	35.9	34.8	1.1	3.2%
Latin America operations.....	8.8	8.7	0.1	1.1%
Shadow DAC.....	<u>145.8</u>	<u>(126.4)</u>	<u>272.2</u>	N/M
Total deferred policy acquisition costs.....	<u>\$ 1,951.9</u>	<u>1,622.0</u>	<u>329.9</u>	<u>20.3%</u>

(in millions)

<b>Deferred policy acquisition costs at December 31, 2021</b> .....	\$	<b>1,622.0</b>
Capitalized commissions/administrative expenses/sales inducements.....		32.8
Amortization including sales inducements.....		24.9
Shadow DAC.....		272.2
<b>Deferred policy acquisition costs at June 30, 2022</b> .....	\$	<b><u>1,951.9</u></b>

*Reinsurance Recoverable.* Reinsurance recoverable increased \$31.1 million from December 31, 2021 to June 30, 2022. The increase was primarily due to an increase in the fair value of the variable annuity reinsurance contract of \$12.0 million.

*Reinsurance Deposit Asset.* The Company cedes a portion of its SPDA block of business to a third party. Per GAAP guidance, SPDA policies are not insurance contracts and reinsurance agreements covering these blocks are accounted for under deposit accounting. The Company has deposit assets of \$828.5 million at June 30, 2022, a decrease of \$32.1 million from December 31, 2021. The reinsurance deposit asset is reduced by the cash flows on the underlying business reinsured and increased by asset accretion over the life of the treaty or until the value of the asset reduces to zero.

*Deferred Federal Income Taxes and Federal Income Tax Recoverable.* Deferred federal income tax liability net of federal income tax recoverable decreased \$406.4 million from a net liability of \$115.5 million at December 31, 2021 to a net asset of \$290.9 million at June 30, 2022. The primary driver of the \$406.4 million decrease is a decrease in Other Comprehensive Income of \$250.5 million due to mark-to-market adjustment on fixed income securities recorded in other comprehensive income. The following table summarizes the components of such taxes for the periods indicated:

	December 31, 2021	Federal Income Tax Provision	Non Federal Income Tax Provision	Other Comprehensive Income	Cash Settlements	True-Ups/ Other	Net Change	June 30, 2022
Federal income tax	\$ (23.6)	29.4	-	-	(65.0)	(9.4)	(45.0)	(68.6)
Deferred federal income	139.1	(98.3)	-	(250.5)	-	(12.6)	(361.4)	(222.3)
Net federal income tax	\$ 115.5	(68.9)	-	(250.5)	(65.0)	(22.0)	(406.4)	(290.9)

*Assets Held in Separate Accounts and Liabilities Related to Separate Accounts.* Separate account assets and liabilities decreased \$4,227.2 million from December 31, 2021 to June 30, 2022, as shown in the table below.

(in millions)

<b>Separate account assets at December 31, 2021</b> .....	\$	<b>19,376.5</b>
Net Appreciation.....		(3,215.0)
Fund transfers, net.....		(1,012.2)
<b>Separate account assets at June 30, 2022</b> .....	\$	<b><u>15,149.3</u></b>

2022 year-to-date separate account return was -17.7%

The majority of the decrease was due to \$3,215.0 million loss in net appreciation primarily as a result of negative market performance during the first six months of 2022.

*Future Policy Benefits and Claims.* Future policy benefits and claims were \$17,266.4 million at June 30, 2022, an increase of \$553.2 million from \$16,713.2 million at December 31, 2021. The following table summarizes the significant components of future policy benefits and claims:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
	(in millions)		(in millions)	
Account value on UL.....	\$ 4,130.7	4,130.7	-	0.0%
Account value on annuities.....	4,288.9	4,191.1	97.8	2.3%
Guaranteed benefits on annuities.....	1,521.0	1,386.7	134.3	9.7%
Net level reserves on whole life and term.....	5,952.0	5,545.0	407.0	7.3%
Net level reserves on DI.....	299.8	292.8	7.0	2.4%
Latin America reserves.....	897.1	964.0	(66.9)	(6.9%)
Domestic policy & contract claims.....	153.3	152.8	0.5	0.3%
Domestic shadow reserve.....	-	35.2	(35.2)	(100.0%)
Other.....	23.6	14.9	8.7	58.4%
Total future policy benefits and claims.....	<u>\$ 17,266.4</u>	<u>16,713.2</u>	<u>553.2</u>	<u>3.3%</u>

The \$134.3 million increase in guaranteed benefits on annuity reserves was primarily due to the persistent low interest rate environment, which has increased the value of the guarantees.

Net level reserves on whole life and term increased \$407.0 million from \$5,545.0 million at December 31, 2021 to \$5,952.0 million at June 30, 2022. The increase in net level reserves on whole life and term was primarily due to \$317.5 million in additional paid-up insurance for the extinguishment of participating whole life policy member's membership interest. Also impacting the block of business is current year premiums being greater than reserves released on surrenders and lapses as a result of favorable persistency and mortality on the block of business.

Shadow reserves move in inverse relation with interest rates and are floored at zero. The \$35.2 million decrease in domestic shadow reserves from December 31, 2021 to June 30, 2022 was caused by the increase in 10-year treasury rate of 146 BPS during 2022.

*Other policyholder funds.* Other policyholder funds decreased \$30.2 million, or 25.3%, from \$119.4 million at December 31, 2021 to \$89.2 million at June 30, 2022. The decrease is primarily due to a decrease in Securities available-for-sale, at fair value: fixed maturity unrealized gain (loss) impact for the whole life closed block of \$45.9 million, partially offset by a decrease in shadow UFEL of \$14.9 million. The fluctuations in the whole life closed block and shadow UFEL are due to an increase in unrealized losses on available-for-sale securities, which is a result of interest rate and corporate bond spread movement from December 31, 2021. Shadow UFEL is a contra liability to UFEL.

*Notes Payable net of Unamortized Discount and Issuance Costs.* Notes payable were \$976.7 million at December 31, 2021 and \$977.1 million at June 30, 2022. The following table summarizes notes payable outstanding.

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
	(in millions)		(in millions)	
Surplus notes:				
6.875% fixed rate due 2042.....	\$ 250.0	250.0	-	0.0%
5.000% fixed rate due 2031.....	4.1	4.1	-	0.0%
5.800% fixed rate due 2027.....	5.9	5.9	-	0.0%
8.500% fixed rate due 2026.....	49.9	49.9	-	0.0%
Debt issuance costs.....	(2.2)	(2.3)	0.1	4.3%
Senior notes:				
6.625% fixed rate due 2031.....	247.8	247.7	0.1	0.0%
5.800% fixed rate due 2030.....	421.6	421.4	0.2	0.0%
Notes payable net of unamortized discount.....	<u>\$ 977.1</u>	<u>976.7</u>	<u>0.4</u>	<u>0.0%</u>

*Other Liabilities.* Other liabilities increased \$86.0 million, or 14.0% from \$612.5 million at December 31, 2021 to \$698.5 million at June 30, 2022.

*Payables for Securities Lending Collateral.* The decrease in payables for securities lending collateral of \$35.8 million was due to decrease in demand on the part of borrowers for the securities that are owned by Ohio National.

*Common Stock and Additional Paid-In-Capital.* Common Stock and Additional Paid-In-Capital increased \$901.4 million at June 30, 2022. The increase is due to the Constellation acquisition transaction signed on March 31, 2022. Constellation and its investors contributed \$401.4 million in the initial infusion of capital in order to compensate voting members for the extinguishment of their membership interests. In addition to member compensation, Constellation and its investors also committed a \$500.0 million capital infusion into the Company evenly over a four-year period beginning one year after the closing of the transaction.

*Preferred Stock and Additional Paid-In-Capital.* The company has converted from a mutual to a stock company. As a result of the demutualization the Company issued class A and Class B shares of common stock. On April 1, 2022 the Company exchanged its class B of common stock shares for Junior and Senior preferred stock shares valued at \$489.5 million.

*Treasury Stock.* Treasury Stock (a contra-equity account) increased \$390.9 million at June 30, 2022. The increase is due to the company's class B common stock share split and exchange of those common stock shares for senior and junior preferred stock shares.

*Commitment Receivable.* Commitment Receivable (a contra-equity account) increased \$500.0 million at June 30, 2022. The increase is due to Constellation's commitment to contribute \$500.0 million to the company over the next four years.

*Accumulated Other Comprehensive Income.* The following table summarizes, in millions, the components of the \$928.0 million decrease in accumulated other comprehensive income from December 31, 2021 to June 30, 2022.

<b>Accumulated other comprehensive income at December 31, 2021.....</b>	<b>\$ 109.2</b>
Other comprehensive income:.....	
Unrealized gains on securities available for sale, net.....	(1,488.1)
Deferred acquisition costs (shadow DAC).....	272.2
Unearned front end loads (shadow UFEL).....	(14.9)
SOP 03-1 reserves (shadow SOP 03-1).....	22.8
Pensions liability adjustment.....	0.6
Future policy benefits and claims (shadow reserves).....	40.5
Foreign currency translation adjustment.....	(11.6)
Deferred income taxes.....	250.5
Total other comprehensive income.....	<u>(928.0)</u>
<b>Accumulated other comprehensive income at June 30, 2022.....</b>	<b>\$ <u><u>(818.8)</u></u></b>

## **Liquidity, Asset/Liability Matching, and Capital Resources**

Liquidity and capital resources both demonstrate our ability to generate cash flows from operations. Effectively managing our liquidity and capital resources contributes to the financial strength of the Company and our ability to borrow funds at competitive rates to meet operating and growth needs. Management reviews the Company's liquidity position on a regular basis and monitors internal and external factors and events that could have a bearing on liquidity.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Historically and in the long term, our investment philosophy is to generally remain fully invested in assets with maturities and yields that we believe are reasonably matched to our product liabilities. As assets mature, are redeemed or are sold, we evaluate the available investment alternatives and reinvest according to existing and expected product liabilities and expected cash needs.

Our liquidity needs vary by business segment. Factors that affect each business segment's need for liquidity include interest rate levels, customer type, termination or surrender charges, federal income taxes, benefit levels and level of underwriting risk. Our asset/liability management process takes into account the varying liquidity needs of our various business segments. We also recognize the need for funding sources that go beyond the business segments' most stable and fundamental sources, premium collection and investment income, and maintains other sources of liquidity to meet unexpected needs. Funding alternatives that can be accomplished quickly, with the least cost and with the least disruption to normal Company activities, are given the highest priority.

### *Cash and Short-Term Investments*

Our principal capital resources are derived from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from other operations. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, taxes, payment of current operation expenses, and dividends paid to parent. Remaining funds not used as noted above are generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business. Total cash and short-term investments were \$568.5 million as of June 30, 2022, a decrease of \$151.3 million from \$719.8 million at December 31, 2021. The company had cash movements over the first half of 2022, primarily bond purchases, which contributed to the decrease in cash. Offsetting these transactions and as described in the "Summary of Significant Accounting Changes" section, in order to compensate participating members for their membership interest, the Company received \$401.4 million in cash from Constellation.

In addition to cash, cash equivalents and short-term investments, we also have a large available-for-sale fixed maturity portfolio that could be used to meet liquidity needs. This portfolio consists of U.S. Treasury securities and obligations of the U.S. Government, obligations of states and political subdivisions, debt securities issued by foreign governments, corporate securities, mortgage-backed securities and asset backed securities.

Additional sources of liquidity for Ohio National Financial include a revolving credit facility with a syndicate of banks and the membership of Ohio National Life and Ohio National Assurance in the FHLB.

### *Revolving Credit Facility*

In May 2021, the Company renewed the \$900.0 million five-year credit revolver, and \$300.0 million and \$50 million one-year credit facilities into a \$1.5 billion five-year credit facility which can be used for a combined line (maximum \$500 million) and letter of credit.

As of December 31, 2021, with the \$1.5 billion five-year credit facility, the Company utilized \$670.0 million to secure a letter of credit for Sycamore Re with Sunrise Re as the beneficiary, in order to recognize reserve credit under statutory accounting principles. The Company also utilized \$100.0 million of this facility to secure a letter of credit for Sycamore Re, with Ohio National Life as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

As of June 30, 2022, with the \$1.5 billion five-year credit facility, the Company utilized \$725.0 million to secure a letter of credit for Sycamore Re with Sunrise Re as the beneficiary, in order to recognize reserve credit under statutory accounting principles. The Company also utilized \$125.0 million of this facility to secure a letter of credit for Sycamore Re, with Ohio National Life as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

### *Other Liquidity Sources*

During 2017, ONSA obtained a new \$10.0 million line of credit. The line of credit is for loans for general corporate purposes and is annually renewable. The outstanding balance was \$0.1 million and \$1.6 million at June 30, 2022 and December 31, 2021 respectively.

Ohio National Life and Ohio National Assurance are members of the FHLB. As of June 30, 2022, Ohio National Life and Ohio National Assurance had issued \$455.0 million and \$250.0 million, respectively, in funding agreements to the FHLB. Ohio National Life and Ohio National Assurance amount of liability for funding agreements to the FHLB was \$350.0 million and \$175.0 million as of December 31, 2021, respectively. We utilize funding agreements primarily as a source of additional liquidity but can also be used as an alternative funding source for our spread lending business. The funding agreement liabilities are included in policyholder account balances. Assets are in a custodial account pledged as collateral for the funding agreements or are pledged under a blanket security agreement. The funding agreements were issued through our general account and were included in the liability for Other policyholder funds on Ohio National's consolidated balance sheet. When a funding agreement is issued, Ohio National Life and Ohio National Assurance are required to post collateral in the form of eligible securities including MBS, government and agency debt instruments and commercial mortgages, for each of the advances that are entered. Upon any event of default by Ohio National Life or Ohio National Assurance, the FHLB's recovery on the collateral is limited to the amount of our liability to the FHLB. Ohio National Life and Ohio National Assurance are required to maintain a specified investment in the stock of FHLB and must purchase stock in the FHLB each time it receives an advance. As of June 30, 2022, Ohio National Life and Ohio National Assurance held \$52.8 million of FHLB stock, which is recorded in equity securities and comprises 9.2% of our equity's portfolio. Ohio National Life and Ohio National Assurance's membership in the FHLB allows us to take advances up to approximately one billion, which includes the \$705.0 million that has already been accessed via funding agreements.

We believe our ability to take advances from the FHLB can be viewed as a redundant layer of liquidity protection to our policyholders. Our liquidity stress testing assumes high cash demands coupled with severely depressed market values for the assets we need to liquidate to meet these demands. These are conditions that might be experienced in times of economic stress coupled with rapidly rising interest rates. The ability to meet such severe circumstances by maintenance of proper asset-liability matching coupled with a redundant outlet provided by the FHLB ensures we can meet our obligations while minimizing harm to our own financial health

### *Holding Company Structure and Holding Company Information*

On March 22, 2021, the Board of ONMH unanimously approved an agreement to enter into a strategic transaction with Constellation whereby Constellation will acquire ONMH. On March 11, 2022, the members of ONMH voted to approve the transaction and after regulatory approval, ONMH closed the transaction on March 31, 2022 and is now a stock company wholly owned by Constellation, further strengthening our strong capital position and ability to invest in organic and inorganic growth opportunities. See "Overview" section for additional information.

In 1998, we converted to a mutual holding company structure. Ohio National Mutual, a mutual insurance holding company, had owned 100% of the outstanding common stock of Ohio National Financial, an intermediate stock holding company. Ohio National Life is a stock life insurance company wholly owned by Ohio National Financial.

In connection with the conversion to the mutual holding company structure, we established the Closed Block, which is primarily for the benefit of individual life insurance policies in effect on August 1, 1998 on which dividends were being paid. The Closed Block was designed to give reasonable assurance to the owners of the Closed Block policies that our basis for declaring policy dividends would not be changed as a result of the conversion. We assigned assets to the Closed Block in an amount that, together with anticipated revenues from the policies in the Closed Block, was expected to generate cash inflows sufficient to support the Closed Block policies, including the payment of claims and certain expenses and taxes, and to provide for continuation of the 1998 dividend scale, assuming the experience underlying that scale continues unchanged. However, dividends on policies in the Closed Block are not guaranteed and, as a result of changes in the cash flows of the Closed Block, the dividend scale on the policies in the Closed Block has been reduced on occasion. We are not required to support dividends on the Closed Block policies from our general funds. We are required to pay guaranteed benefits under all of our policies, including those in the Closed Block. If the assets and cash flows of the Closed Block prove to be insufficient to pay guaranteed benefits on Closed Block policies, we will be required to pay those benefits from our general account assets. The Closed Block will continue in effect until the earlier of the termination or expiration of the last Closed Block policy or the dissolution of the Closed Block. The amount of reserves related to the Closed Block was \$582.7 million as of June 30, 2022 and \$537.7 million as of December 31, 2021.

The payment of dividends by ONLIC to ONFS and ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS from ONLIC and to ONLIC from ONLAC without prior approval of the Department of Insurance is limited to the greater of ONLIC's or 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 ONLIC or ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law.

	ONLIC to ONFS		ONLAC to ONLIC	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	(in millions)		(in millions)	
Maximum ordinary dividends.....	\$ 419.1	135.0	24.7	23.0
Dividends declared.....	\$ 324.0	115.0	-	-
Dividends paid.....	\$ 324.0	115.0	-	-

### Surplus Notes

In June 2012, ONLIC issued a \$250.0 million, 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 \$4.5 million, 5% 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 \$6.0 million, 5.8% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued \$50.0 million, 8.5% 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.

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 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 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. In 2020, the note required an interest rate adjustment of 0.25%, increasing the interest rate payment from 5.55% to 5.80% effective with the Company's July 2021 interest payment.

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.

### 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

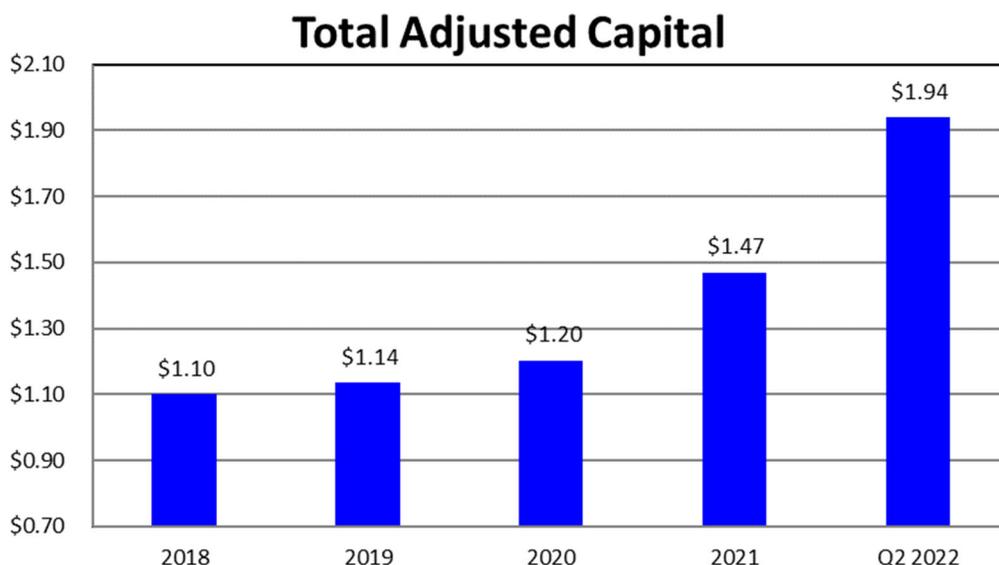
risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk, other business risks and such other relevant risks as are set forth in the RBC Instructions. The Ohio Department of Insurance uses the formula only as an early warning regulatory tool to identify possibly inadequately 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 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 as follows (dollars in billions):



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 our RBC ratio and those of our insurance subsidiaries remain high based upon state regulatory rules and practices. For our historical RBC ratios, please refer to our Annual Statement NAIC filings.