OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Schedules

December 31, 2020, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors
Ohio National Mutual Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Ohio National Mutual Holdings, Inc. and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in *Schedule 1 Consolidating Information – Balance Sheet* and *Schedule 2 Consolidating Information – Income Statement* is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
March 26, 2021

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(Dollars in thousands)

Assets	**2020**	**2019**
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturity securities	$ 10,324,604	9,745,959
Fixed maturity securities on loan	358,808	238,652
Trading securities, at fair value:		
Fixed maturity securities	128	160
Equity securities, at fair value	53,733	40,468
Mortgage loans on real estate, net	1,474,388	1,446,093
Real estate, net	56,208	52,270
Policy loans	964,343	875,097
Other long-term investments	281,768	272,204
Short-term investments securities lending collateral	368,897	246,578
Short-term investments	207,770	213,529
Total investments	14,090,647	13,131,010
Cash and cash equivalents	687,657	288,218
Accrued investment income	80,118	77,849
Deferred policy acquisition costs	1,548,800	1,680,272
Reinsurance recoverable	3,994,380	3,993,047
Reinsurance deposit asset	825,369	905,770
Operating lease right-of-use assets	6,976	8,115
Other assets	357,680	386,324
Federal and foreign income tax recoverable	13,190	17,811
Assets held in separate accounts	19,486,193	19,926,103
Total assets	$ 41,091,010	40,414,519
Liabilities and Equity		
Future policy benefits and claims	$ 16,447,013	15,725,511
Policyholders’ dividend accumulations	31,680	32,964
Other policyholder funds	145,886	170,786
Short-term borrowings	1,792	1,675
Long-term debt obligations (net of unamortized discount and debt issuance costs of $9,590 in 2020 and $6,623 in 2019)	975,910	953,878
Deferred federal and foreign income taxes	206,433	149,116
Operating lease liabilities	6,992	8,107
Other liabilities	581,778	543,617
Payables for securities lending collateral	368,897	246,578
Liabilities related to separate accounts	19,486,193	19,926,103
Total liabilities	38,252,574	37,758,335
Equity:		
Accumulated other comprehensive income	417,126	234,922
Retained earnings	2,421,310	2,421,262
Total equity	2,838,436	2,656,184
Total liabilities and equity	$ 41,091,010	40,414,519

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

		2020	2019	2018
Revenues:				
Traditional life insurance premiums	$	864,652	862,166	847,496
Annuity premiums and charges		413,451	445,085	571,784
Universal life policy charges		155,135	147,999	146,529
Group life and health insurance premiums		111,455	113,099	100,632
Accident and health insurance premiums		29,074	25,238	21,284
Investment management fees		43,198	45,181	51,452
Change in value of trading fixed maturity securities		(2)	(4)	(45)
Change in value of equity securities		1,506	4,819	(7,208)
Net investment income		441,667	524,794	553,278
Net realized gains (losses):				
Investment gains (losses):				
Total other-than-temporary impairment losses on securities		(11,347)	2,426	2,312
Portion of impairment losses recognized in other comprehensive income (loss)		2,088	(7,386)	(4,539)
Net other-than-temporary impairment losses on securities recognized in earnings		(9,259)	(4,960)	(2,227)
Realized gains, excluding other-than-temporary impairment losses on securities		28,990	215,334	5,293
Total investment gains		19,731	210,374	3,066
Derivative instruments		(50,702)	(154,443)	(6,000)
Loss on debt retirement		—	(10,263)	—
Other income		152,619	126,424	106,448
		2,181,784	2,340,469	2,388,716
Benefits and expenses:				
Benefits and claims		1,452,664	1,566,068	1,504,423
Provision for policyholders' dividends on participating policies		109,808	114,298	108,640
Amortization of deferred policy acquisition costs		149,547	264,968	154,458
Commissions, net		165,687	175,902	235,802
Other operating costs and expenses		306,564	307,959	331,953
		2,184,270	2,429,195	2,335,276
(Loss) income before income taxes		(2,486)	(88,726)	53,440
Income taxes:				
Current (benefit) expense		(2,723)	895	(972)
Deferred expense (benefit)		189	(32,139)	(7,824)
		(2,534)	(31,244)	(8,796)
Net income (loss)	$	48	(57,482)	62,236

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

	Before tax	Tax (expense) benefit	After tax
2020			
Net income	$		48
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	6,047	—	6,047
Unrecognized net periodic benefit cost	(10,174)	2,137	(8,037)
Unrealized gains (losses) on derivative instruments	348	(73)	275
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	359,532	(78,517)	281,015
Deferred acquisition costs	(112,397)	23,603	(88,794)
Future policy benefits and claims	(27,863)	3,768	(24,095)
Other policyholder funds	35,839	(7,526)	28,313
Less:			
Net gains on securities available-for-sale realized during the period	19,289	(4,366)	14,923
Amortization of pension and other post-retirement benefits	(3,042)	639	(2,403)
Total other comprehensive income	235,085	(52,881)	182,204
Total comprehensive income			$ 182,252
2019			
Net loss	$		(57,482)
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	(10,027)	—	(10,027)
Unrecognized net periodic benefit cost	(1,202)	225	(977)
Unrealized gains (losses) on derivative instruments	299	(63)	236
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	649,764	(138,885)	510,879
Deferred acquisition costs	(114,252)	23,993	(90,259)
Future policy benefits and claims	(61,427)	14,497	(46,930)
Other policyholder funds	25,670	(5,391)	20,279
Less:			
Net gains on securities available-for-sale realized during the period	207,982	(43,682)	164,300
Amortization of pension and other post-retirement benefits	(3,162)	664	(2,498)
Total other comprehensive income	284,005	(62,606)	221,399
Total comprehensive income			$ 163,917
2018			
Net income	$		62,236
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustment	(17,497)	—	(17,497)
Unrecognized net periodic benefit cost	9,402	(1,975)	7,427
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	(285,061)	60,025	(225,036)
Deferred acquisition costs	81,269	(17,067)	64,202
Future policy benefits and claims	38,534	(9,645)	28,889
Other policyholder funds	(17,990)	3,778	(14,212)
Less:			
Net gains on securities available-for-sale realized during the period	15,464	(3,290)	12,174
Amortization of pension and other post-retirement benefits	(4,059)	852	(3,207)
Total other comprehensive loss	(202,748)	37,554	(165,194)
Total comprehensive loss			$ (102,958)

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

	Accumulated other comprehensive income	Retained earnings	Total equity
Balance, December 31, 2017	$ 184,076	2,373,756	2,557,832
Adjustment to beginning balance*	—	37,393	37,393
Balance, December 31, 2017 - Adjusted	184,076	2,411,149	2,595,225
Impact of adoption of ASU 2016-01*	(5,359)	5,359	—
Comprehensive loss:			
Net income	—	62,236	62,236
Other comprehensive loss	(165,194)	—	(165,194)
Total comprehensive loss			(102,958)
Balance, December 31, 2018	13,523	2,478,744	2,492,267
Comprehensive income:			
Net loss	—	(57,482)	(57,482)
Other comprehensive income	221,399	—	221,399
Total comprehensive income			163,917
Balance, December 31, 2019	234,922	2,421,262	2,656,184
Comprehensive income:			
Net income	—	48	48
Other comprehensive income	182,204	—	182,204
Total comprehensive income			182,252
Balance, December 31, 2020	$ 417,126	2,421,310	2,838,436

*See Note 3 for further detail.

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

		2020	2019	2018
Cash flows from operating activities:				
Net income (loss)	$	48	(57,482)	62,236
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Interest credited to policyholder account values		230,270	249,426	236,964
Universal life and investment-type product policy fees		(403,571)	(406,228)	(415,644)
Capitalization of deferred policy acquisition costs		(134,685)	(156,827)	(231,828)
Amortization of deferred policy acquisition costs		149,547	264,968	154,458
Amortization and depreciation		28,594	24,996	26,463
Net realized losses (gains) on investments, derivative instruments and debt retirement		30,971	(45,668)	2,934
Change in value of trading fixed maturity securities		2	4	45
Change in value of equity securities		(1,506)	(4,819)	7,208
Deferred income tax expense (benefit)		189	(32,139)	(7,824)
(Increase) decrease in accrued investment income		(2,269)	22,781	(6,300)
Decrease (increase) in operating lease right-of-use assets		1,139	(8,115)	—
Change in accretion of reinsurance deposit asset		(28,240)	—	—
Decrease (increase) in other assets and reinsurance recoverable		9,891	(117,451)	(50,233)
Increase in policyholder liabilities		620,062	600,212	783,913
(Decrease) increase in policyholders' dividend accumulations and other funds		(4,896)	11,258	25,613
Decrease in federal and foreign income tax recoverable		4,621	8,789	1,367
(Decrease) increase in operating lease liabilities		(1,115)	8,107	—
Increase in other liabilities		67,734	1,677	7,719
Other, net		(707)	418	(3,264)
Net cash provided by operating activities		566,079	363,907	593,827
Cash flows from investing activities:				
Proceeds from maturity of fixed maturity available-for-sale securities		265,082	212,081	368,308
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity available-for-sale securities		1,450,913	1,235,043	1,082,932
Proceeds from sale of equity securities		3,061	62,603	40,578
Proceeds from repayment of mortgage loans on real estate		150,579	166,304	203,250
Proceeds from sale of real estate		12,559	5,706	4,141
Cost of fixed maturity available-for-sale securities acquired		(2,028,629)	(1,720,935)	(2,770,215)
Cost of equity securities acquired		(12,873)	(31,207)	(33,377)
Cost of mortgage loans on real estate acquired		(178,582)	(281,005)	(271,261)
Cost of real estate acquired		(4,769)	(7,247)	(3,116)
Cost of property, plant and equipment acquired		(13,830)	(13,674)	(11,896)
Derivative (payments) receipts, net		(18,585)	(64,807)	(60,355)
Change in payables for securities lending collateral, net		122,319	(66,914)	303,811
Net decrease (increase) in short-term investments		7,065	(45,600)	(60,723)
Change in policy loans, net		(88,980)	(108,800)	(102,873)
Change in payable for securities and mortgage loans on real estate		17,266	2,668	(17,842)
Company owned life insurance settlement proceeds		—	—	98
Change in other invested assets, net		(62,944)	73,313	(27,350)
Net cash used in investing activities		(380,348)	(582,471)	(1,355,890)

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

		2020	2019	2018
Cash flows from financing activities:				
Universal life and investment product account deposits	$	569,098	606,197	1,826,006
Universal life and investment product account withdrawals		(353,339)	(440,231)	(953,230)
Change in reinsurance deposit asset		108,641	32,483	—
Change in short-term borrowings		117	(89,958)	147
Other financing activities		(5,322)	(3,836)	10,687
Issuance of notes payable		420,551	399,248	—
Repayment of notes payable		(400,000)	(310,263)	—
Net cash provided by financing activities		339,746	193,640	883,610
Foreign currency translation adjustment		(3,719)	(1,033)	(1,554)
Net increase (decrease) in cash and cash equivalents		521,758	(25,957)	119,993
Cash and cash equivalents, beginning of period		534,796	560,753	440,760
Cash and cash equivalents, end of period	$	1,056,554	534,796	560,753
Supplemental disclosures:				
Federal income tax (received) paid	$	(8,000)	(10,000)	2,239
Interest paid		69,664	69,761	62,318
Reinsurance funds withheld embedded derivative liability change		(136)	191	20
Non-cash proceeds for available-for-sale securities transferred into reinsurance trust		102,727	—	—
Non-cash cost for available-for-sale securities transferred into reinsurance trust		(102,727)	—	—
Non-cash consideration for reinsurance recoverable		—	1,858,332	—
Non-cash consideration for available-for-sale bonds transferred for reinsurance		—	(2,796,585)	—
Non-cash consideration for reinsurance deposit asset		—	938,253	—

See accompanying notes to consolidated financial statements.

(1) Organization and Business Description

Organization
Ohio National Mutual Holdings, Inc. is a mutual holding company organized under Ohio insurance laws and owns 100% of Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS owns 100% of The Ohio National Life Insurance Company ("ONLIC"), a life insurance subsidiary and Sycamore Re, Ltd. ("SYRE"), a special purpose financial captive life insurance company.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual holding companies. ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary; National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary; Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company; Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company; Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company; Sunrise Captive Re, LLC ("SUNR"), an Ohio authorized reinsurer; Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934; and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

SYRE owns 100% of a Delaware holding company, ON Foreign Holdings, LLC ("ONFH"), which owns 100% of Ohio National International Holdings Cooperatief U.A. ("ONIH"), a Dutch holding company. ONIH owns 100% of ON Netherlands Holdings B.V. ("ONNH"), a Dutch holding company. Effective December 27, 2019, ONIH was merged into ONNH, with ONNH being the surviving entity. As the transaction was between entities under common control, the operations of ONIH were transferred to ONNH at carrying value and, as such, there was no financial statement impact as a result of this transaction. ONNH owns Ohio National Seguros de Vida S.A. ("ONSP"), a Peruvian insurance company and ON Global Holdings, SMLLC ("ONGH"), a Delaware holding company. ONNH owns 100% of O.N. International do Brasil Participacoes, Ltda. ("OHIO"), which was formed to hold the equity method investment made when the Company entered into a 50% joint venture agreement with a Brazilian insurance company. Effective September 30, 2019, Ohio National Sudamerica S.A. ("ONSA"), a Chilean holding company, issued additional common equity shares to ONNH in exchange for a capital contribution of $5,283. ONGH now owns 92% of ONSA and ONNH owns 8%. Prior to this transaction, ONGH owned 100% of ONSA. ONSA owns 100% of Ohio National Seguros de Vida S.A. ("ONSV"), a Chilean insurance company.

Ohio National Mutual Holdings, Inc. and its subsidiaries are collectively referred to as "ONMH" or the "Company".

Business
ONLIC and ONLAC are life and health (disability) insurers licensed in 49 states, the District of Columbia and Puerto Rico. ONLIC and ONLAC offered a full range of life, disability, and annuity products through independent agents and other distribution channels and are subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018 that it would exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision followed a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective

September 15, 2018, the Company is no longer accepting applications for variable annuities or new retirement plans, while continuing to service and support existing clients in both product lines. During the second quarter for 2020, the Company made the strategic decision to relaunch its fixed indexed annuity product.

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

Additionally, in late 2018 and into 2019, ONLIC offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. ONLIC paid approximately $115,000 and $58,000 related to the buy-back, during 2019 and 2018, respectively, which is included in benefits and claims on the corresponding statements of operations. A second phase of the buy-back was offered in late 2020 and into 2021. ONLIC paid approximately $12,000 related to the buy-back in 2020, which is included in benefits and claims on the corresponding consolidated statements of operations.

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

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

SYRE reinsured certain fixed indexed annuity and variable annuity-related risks for ONLIC. The variable annuity reinsurance agreement covered living benefits and death benefits sold only with, or as a part of, such living benefit riders. During 2019, ONLIC recaptured the majority of variable annuity-related risks and reinsured them with SUNR. SUNR retrocedes the risks related to GMIB variable annuity contracts to SYRE. The effects of these transactions have no impact on the Company's financial statements, as they eliminate in consolidation.

SUNR was capitalized in 2018 and was approved on January 9, 2019 by the Ohio Department of Insurance to begin assuming contracts written by ONLIC, effective April 1, 2019.

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

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

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

(2) Basis of Presentation

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

(3) Summary of Significant Accounting Policies

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

(a) Change in Accounting Principle

The Company has, in previous years, accounted for direct financing leases under the legacy lease accounting guidance within Accounting Standards Codification ("ASC") 840. Upon adoption of ASC 842 in 2019, buyer-lessors are required to evaluate direct financing leases for whether the underlying asset has been purchased based on the transfer of control. The Company's direct financing leases do not qualify as a sale of the underlying asset; as such, effective January 1, 2019, the Company accounts for them as receivables under Financial Accounting Standards Board ("FASB") ASC Topic 310.

(b) Use of Estimates

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

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

(c) Fair Value

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

(d) Investments

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

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

Fixed maturity and equity securities classified as trading are reported at their estimated fair value. Changes in estimated fair value of these fixed maturity securities are included in change in value of trading fixed maturity securities in the consolidated statements of operations. Changes in estimated fair value of these equity securities are included in the change in value of equity securities in the consolidated statements of operations.

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

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

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

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

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

borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

Mortgage loans can be restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case by case basis to evaluate whether a TDR has occurred and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral based on a third party valuation. In response to the Coronavirus ("COVID-19") pandemic, there was an increase in the volume of loan modifications in the Company's mortgage portfolio. The COVID-19 related modifications were primarily in the form of principal and/or interest deferrals in accordance with the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customer Affected by the Coronavirus during the year ended December 31, 2020. Accordingly, these loans were not categorized as a TDR.

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

Real Estate
Real estate, net, which comprises of buildings and improvements, held for company investment and other real estate owned, is carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company-occupied real estate is 30 to 32 years, and the estimated useful life for building improvements is 5 to 30 years. The estimated useful life for real estate held for investment is 17 to 39 years, and the estimated useful life for building improvements is 5 to 16 years. Real estate, net also includes land which is carried at cost.

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

The cost basis of the real estate and building improvements was $65,341 and $58,645 at December 31, 2020 and 2019, respectively. Accumulated depreciation was $14,385 and $12,062 at December 31, 2020 and 2019, respectively. Related depreciation expense was $1,883, $1,907 and $1,922 for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in net investment income in the consolidated statements of operations. The cost basis of land was $5,252 and $5,687 at December 31, 2020 and 2019, respectively.

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

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

Other Long Term Investments
The direct financing leases entered into prior to the adoption of ASC 842, which consist principally of building and land purchase and leasing arrangements, will continue to be accounted for as capital leases under ASC 840. Direct financing leases are carried at minimum lease payments to be received less unearned

income. Building leases generally have a 75% - 80% loan-to-value ("LTV") at inception and a 9 to 21 year repayment schedule. Land leases generally have a 60% - 70% LTV at inception, a five-year repayment schedule and have several principal and interest cash flow structures.

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

Venture capital partnerships are carried on the equity method basis.

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

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

(e) Derivatives

The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company pursuant to FASB ASC Topic 815, *Derivatives and Hedging*. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. The futures derivative instruments are carried at estimated fair value in other long-term investments or other liabilities, and the remaining derivative instruments are carried at estimated fair value in other long-term investments, with changes in estimated fair value recorded in net realized gains (losses) derivative instruments in the consolidated statements of operations.

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

(Dollars in thousands)

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

- the combined instrument is not accounted for in its entirety at fair value with changes in fair value recorded in earnings;
- the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and
- a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument.

Such embedded derivatives are carried at estimated fair value with the reinsurance embedded derivatives reported in reinsurance recoverable in the consolidated balance sheets. The change in the estimated fair value is reported in benefits and claims in the consolidated statements of operations.

(f) Cash and Cash Equivalents

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

(g) Segregated Special Surplus Fund

ONLIC has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with a reinsurance agreement undertaken during 2019. The assets are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 200% of its authorized control level risk based capital. The segregated special surplus fund is held in a custodial account. At December 31, 2020 and 2019, the required amount to be segregated was $35,826. The value of the custodial account was $39,325 and $36,437, respectively, which was invested in the following assets at December 31, 2020 and 2019:

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

(h) Deferred Policy Acquisition Costs and Capitalized Sales Inducements

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

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

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

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

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

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

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

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

Changes in assumptions can have a significant impact on the amount of DAC reported for investment products and universal life insurance products and their related amortization patterns. In the event actual experience differs from assumptions or assumptions are revised, the Company is required to record an increase or decrease in DAC amortization expense ("DAC unlocking"), which could be significant. In general, increases in the estimated general and net separate account returns result in increased expected future profitability and may lower the rate of DAC amortization, while increases in lapse/surrender and mortality assumptions reduce the expected future profitability of the underlying business and may increase the rate of DAC amortization. Any resulting DAC unlocking adjustments are reflected currently in the amortization of DAC in the consolidated statements of operations.

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

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

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

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

(i) Reinsurance

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

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

Amounts recoverable under reinsurance agreements, which totaled $3,994,380 and $3,993,047 as of December 31, 2020 and 2019, respectively, include ceded reserves, paid and unpaid claims, and certain other amounts.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce bank owned life insurance ("BOLI") and single premium deferred annuity ("SPDA") blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio.

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

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

See Note 11 for additional reinsurance disclosures and information.

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

Equipment, which is included in other assets, is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated life is generally 2 to 20 years for equipment. The cost basis of the equipment was $71,249 and $68,123 at December 31, 2020 and 2019, respectively. Accumulated depreciation of equipment was $53,444 and $49,244 at December 31, 2020 and 2019, respectively. Related depreciation expense was $5,319, $5,871 and $5,742 for the years ended December 31, 2020, 2019 and 2018, respectively.

Computer software and hardware, which is included in other assets, is stated at cost less accumulated amortization. Purchased software costs, as well as certain internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized. Such costs are amortized generally over a 2 to 12 year period using the straight-line method based upon the estimated useful life of the assets. The cost basis of computer software was $124,787 and $117,386 at December 31, 2020 and 2019, respectively. Accumulated amortization of computer software and hardware was $74,220 and $64,972 at December 31, 2020 and 2019, respectively. Related amortization expense was $9,235, $9,380 and $9,908 for the years ended December 31, 2020, 2019 and 2018, respectively.

Properties occupied by the Company, which are included in other assets, are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company-occupied real estate is 30 to 32 years, and the estimated useful life for building improvements is 5 to 30 years. The cost basis of the buildings, improvements and land was $46,208 and $45,779 at December 31, 2020 and 2019, respectively. Accumulated depreciation of buildings and improvements was $21,761 and $20,133 at December 31, 2020 and 2019, respectively. Related depreciation expense was $1,676, $1,647 and $1,623 for the years ended December 31, 2020, 2019 and 2018, respectively. Properties occupied by the Company also include related land which is carried at cost.

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

The Company has $6,546 and $4,611 of capital projects in process recorded in other assets at December 31, 2020 and 2019, respectively.

(k) Goodwill and Intangible Assets

Goodwill and intangible assets are included in other assets. In a business combination, goodwill is the result of the excess of cost over the estimated fair value of the net assets acquired. Intangible assets are non-financial assets that lack physical substance resulting from a business combination.

Goodwill and intangible assets are assets acquired by the Company as a result of acquisitions in prior years of the NSLAC and ONSV entities. The Company has $1,314 of goodwill recorded in other assets at December 31, 2020 and 2019.

Goodwill is not amortized, but is evaluated for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, require an interim evaluation. The evaluation includes the use of management assumptions, which may be inherently uncertain. During the 2020 annual impairment tests, the Company concluded that the estimated fair value of the goodwill was in excess of its carrying value and, therefore, not impaired.

The Company has $172 and $179 of intangible assets recorded in other assets on the balance sheets at December 31, 2020 and 2019, respectively, related to insurance licenses acquired with the purchase of NSLAC by ONLIC in 2002. The value of the intangible is primarily dependent upon the maintenance of the New York license. License fees are paid annually in order to maintain the license in good standing. Each license remains intact and in good standing as there have been no events that would impact NSLAC's ability to do business in the New York or New Jersey markets. In 2018, the Company evaluated and concluded that its intangible assets had a useful life that was determinable and began amortizing the assets over that life. The Company amortized $7, $12 and $4, respectively, for the years ended December 31, 2020, 2019 and 2018.

(l) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. The activity of the separate accounts is not reflected in the consolidated statements of operations and cash flows except for the fees the Company receives for administrative services and risks assumed and the activity related to guaranteed contracts, which are riders to existing variable annuity contracts. These are recorded in either annuity premiums and charges or benefits and claims in the consolidated statements of operations. Separate account seed money is recorded as a trading security.

(m) Revenues and Benefits

Traditional Life Insurance Products

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

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

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

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

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

(n) Investment Management Fees

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

Revenue earned by the broker dealer operations, which is based on agreed upon commission rates, is recognized when the respective broker dealer entity's performance obligation is satisfied. For fees paid up front, the performance obligation is the sale of the contract and as such, is fulfilled on the trade date. Certain variable commission revenue is considered constrained, as it is dependent on the account value at future points in time as well as the length of time and whether the policy remains in force, all of which are highly susceptible to factors outside the Company's influence. The constraint is overcome when the account value and investor activities are known, usually monthly, at which point the revenue is recognized. The broker dealer operations had no remaining performance obligations to satisfy related to revenue from contracts with customers as of December 31, 2020.

The following table illustrates the revenue recognized from contracts with customers reported in investment management fees, net investment income and other income on the consolidated statements of operations, and the timing of revenue recognition, for the years ending December 31, 2020, 2019 and 2018:

(Dollars in thousands)

		Registered investment and variable contracts	General securities	Fee based and other	Total
December 31, 2020					
Revenues from contracts with customers					
Other income	$	50,935	3,118	16,920	70,973
Net investment income		—	—	27	27
Investment management fees		—	—	43,198	43,198
Total revenue from contracts with customers	$	50,935	3,118	60,145	114,198
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	50,935	3,118	60,145	114,198
Total revenue from contracts with customers	$	50,935	3,118	60,145	114,198
December 31, 2019					
Revenues from contracts with customers					
Other income	$	51,713	1,729	15,018	68,460
Net investment income		—	—	28	28
Investment management fees		—	—	45,181	45,181
Total revenue from contracts with customers	$	51,713	1,729	60,227	113,669
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	51,713	1,729	60,227	113,669
Total revenue from contracts with customers	$	51,713	1,729	60,227	113,669
December 31, 2018					
Revenues from contracts with customers					
Other income	$	61,298	2,334	13,503	77,135
Net investment income		—	—	29	29
Investment management fees		—	—	51,450	51,450
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	61,298	2,334	64,982	128,614
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614

(o) Other Income

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

Additionally, the various subsidiaries of the Company sold registered investment products and variable contracts sponsored by unaffiliated parties.

(p) Future Policy Benefits and Claims

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

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

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

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

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

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

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

The Company also issued nontraditional variable annuity contracts through its separate accounts in which the Company provides various forms of guarantees/riders to benefit the related contract holders. These guarantees are accounted for as insurance liabilities or as embedded derivatives depending on how and when the benefit is paid. Specifically, a guarantee is accounted for as an embedded derivative if a guarantee is paid out without requiring the occurrence of a specific insurable event or the policyholder to annuitize.

Alternatively, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either the occurrence of a specific insurable event or annuitization. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative, and in such cases the guarantee is split and accounted for under both models.

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

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

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider. The fixed indexed annuity contracts issued beginning in 2020 do not include the GLWB rider.

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

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

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

(q) Participating Business/Policyholder Dividends

Participating business, which refers to policies that participate in profits through policyholder dividends, represents 14.9%, 14.0% and 13.1% of the Company's ordinary life insurance in force as of December 31, 2020, 2019 and 2018, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholder funds in the accompanying consolidated balance sheets. Policyholder dividends incurred are recorded in the provision for policyholders' dividends on participating policies in the accompanying consolidated statements of operations.

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

(r) Income Taxes

The Company files a life/non-life consolidated federal income tax return, which includes its U.S. domestic subsidiaries. United States Department of the Treasury ("Treasury") regulations generally require a five-year waiting period as to when a life insurance company can be included in the consolidated federal income tax return. A subsidiary life insurance company may obtain approval sooner if the provisions of the Treasury regulations are met. SUNR met the Treasury regulations and received approval to join the consolidated return in 2019.

SYRE was formed in Bermuda in 2008 as a life insurance company and elected to be treated as a U.S. taxpayer. In 2013, SYRE was redomesticated to the United States. In 2015, SYRE was re-domiciled from the U.S. to the Cayman Islands and elected to be a U.S. taxpayer. SYRE joined the consolidated return on January 1, 2014.

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

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

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

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

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

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

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

(s) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred, and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred.

On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's consolidated financial statements. See Note 20 for further information.

(t) Foreign Currency

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

(u) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans. The Company recognizes an expense for differences between actual experience and estimates over the average future service period of participants. The actuarial gains (losses) and prior service costs (credit) not yet included in net periodic benefit costs are charged to accumulated other comprehensive income ("AOCI"), net of income tax.

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

(Dollars in thousands)

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

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

(v) Correction of Immaterial Error

During the year ended December 31, 2020, the Company identified out of period errors related to its calculation of variable annuity reserves under ASC 815; and Statement of Position 03-1 ("SOP03-1") and DAC balances. The majority of these errors involve certain riders that are covered by an external reinsurance agreement impacting the Company's reinsurance recoverable. The Company has concluded that the misstatements are not material to the consolidated financial statements. The following presents the effect of recording the immaterial correction in the consolidated financial statement as of and for the years ended December 31, 2019 and 2018 within this report to reflect the corrected numbers as follows:

		As reported	Adjustment	As adjusted
Consolidated Balance Sheets:				
December 31, 2019:				
Deferred policy acquisition costs	$	1,679,421	851	1,680,272
Reinsurance recoverable		3,946,180	46,867	3,993,047
Total assets		40,366,801	47,718	40,414,519
Future policy benefits and claims		15,724,764	747	15,725,511
Other policyholder funds		170,779	7	170,786
Deferred federal and foreign income taxes		139,253	9,863	149,116
Total liabilities		37,747,718	10,617	37,758,335
Retained earnings		2,384,161	37,101	2,421,262
Total equity		2,619,083	37,101	2,656,184
Total liabilities and equity		40,366,801	47,718	40,414,519

(Dollars in thousands)

		As reported	Adjustment	As adjusted
Consolidated Statements of Operations:				
December 31, 2019:				
Benefits and claims	$	1,578,810	(12,742)	1,566,068
Amortization of deferred policy acquisition costs		265,038	(70)	264,968
(Loss) income before income taxes		(101,538)	12,812	(88,726)
Income taxes: Deferred expense (benefit)		(34,830)	2,691	(32,139)
Net income (loss)		(67,603)	10,121	(57,482)
December 31, 2018:				
Benefits and claims	$	1,491,281	13,142	1,504,423
Amortization of deferred policy acquisition costs		154,419	39	154,458
(Loss) income before income taxes		66,621	(13,181)	53,440
Income taxes: Deferred expense (benefit)		(5,056)	(2,768)	(7,824)
Net income (loss)		72,649	(10,413)	62,236

		As reported	Adjustment	As adjusted
Consolidated Statements of Comprehensive Income (Loss)				
December 31, 2019:				
Net loss	$	(67,603)	10,121	(57,482)
Total comprehensive income		153,796	10,121	163,917
December 31, 2018:				
Net income	$	72,649	(10,413)	62,236
Total comprehensive loss		(92,545)	(10,413)	(102,958)

		As reported	Adjustment	As adjusted
Consolidated Statements of Changes in Equity				
Balance, December 31, 2017	$	2,557,832	37,393	2,595,225
Comprehensive loss: Net income		72,649	(10,413)	62,236
Total comprehensive loss		(92,545)	(10,413)	(102,958)
Balance, December 31, 2018	$	2,465,287	26,980	2,492,267
Comprehensive income: Net loss		(67,603)	10,121	(57,482)
Total comprehensive income		153,796	10,121	163,917
Balance, December 31, 2019	$	2,619,083	37,101	2,656,184

(Dollars in thousands)

		As reported	Adjustment	As adjusted
Consolidated Statements of Cash Flows:				
December 31, 2019:				
Net income (loss)	$	(67,603)	10,121	(57,482)
Amortization of deferred policy acquisition costs		265,038	(70)	264,968
Deferred income tax expense (benefit)		(34,830)	2,691	(32,139)
Decrease (increase) in other assets and reinsurance recoverable		(106,501)	(10,950)	(117,451)
Increase in policyholder liabilities		602,004	(1,792)	600,212
December 31, 2018:				
Net income (loss)	$	72,649	(10,413)	62,236
Amortization of deferred policy acquisition costs		154,419	39	154,458
Deferred income tax expense (benefit)		(5,056)	(2,768)	(7,824)
Decrease (increase) in other assets and reinsurance recoverable		(67,377)	17,144	(50,233)
Increase in policyholder liabilities		787,915	(4,002)	783,913

(w) Adoption and Future Adoption of New Accounting Pronouncements

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

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

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

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

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

Effective January 1, 2019, the Company adopted ASU 2019-10, Financial Instruments – *Derivatives and Hedging (Topic 815): Effective Dates,* ASU 2019-04, *Codification Improvements to Topic 815, Derivatives and Hedging*, ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The guidance refines, expands and simplifies hedge accounting for financial and nonfinancial risk. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures.

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

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

Effective January 1, 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows, (Topic 230): Restricted Cash*. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements, except for expanded disclosures.

Effective January 1, 2018, the Company adopted ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This guidance requires entities to immediately recognize the income tax consequences of intercompany asset transfers. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted guidance on cash flow statement presentation, ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The guidance addresses how certain specific cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This guidance requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This guidance requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). This guidance eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company adopted the standard using a modified retrospective approach. The adoption of the standard resulted in a reclassification of approximately $6,783, pre-tax and $5,359, net of tax as of December 31, 2018, from accumulated other comprehensive income to retained earnings.

Effective January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers and applies primarily to commissions, advisory fees and sales loads earned by the Company's broker dealer operations, as Topic 606 specifically excludes insurance contracts from its scope. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. In adopting the standard, the Company recognized approximately $17,000 in sub-advisory fees as a portion of other operating costs and expenses for the year ended December 31, 2018 (gross basis), where in previous years they were reported as part of investment management fees (net basis).

<u>Future Adoption of New Accounting Pronouncements</u>
In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs*. The new guidance is effective for fiscal years beginning after December 15, 2020. This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. Management has not yet assessed the impact that the guidance may have on the Company's consolidated financial statements.

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

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The new guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The guidance also provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. Management is in the process of assessing the impact that the guidance may have on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. The ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments-Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The ASU also clarifies that, when determining the accounting for certain forward contracts and purchased options, a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. Management has not yet assessed the impact that the guidance may have on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. Management is assessing the impact that the guidance may have on the Company's consolidated financial statements.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new guidance is effective for public business entities that are non-SEC filers for fiscal years beginning after December 15, 2020. The guidance eliminates some portions of the goodwill impairment test to simplify the test. The guidance also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

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

(x) Subsequent Events

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

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

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

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

The transaction will be structured as a sponsored demutualization, which means ONMH will convert to a stock company and will be indirectly owned by Constellation upon closing of the transaction. The conversion requires a vote by eligible members as well as regulatory review and approval. Eligible members will be compensated for the extinguishment of their membership interests with additional policy benefits, or cash, as applicable. In addition to member compensation, Constellation has committed a $500 million capital infusion into the Company over a four-year period following the closing of the transaction.

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

(4) Risks

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

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

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies, their products, and how those products may be sold. Changes in these laws and regulations may affect the Company's operating results.

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

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

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 14% and 13% of total individual annuity reserves as of December 31, 2020 and 2019, respectively. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

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

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

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

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

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

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

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

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

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

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, effective July 1, 2019, the Company has reinsured the majority of the block of business with a third party under a coinsurance agreement.

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

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

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

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

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

(Dollars in thousands)

(5) Changes in Accumulated Other Comprehensive Income

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

		Pensions and other post-retirement benefits	Foreign currency translation adjustment	Adjustment to: Future policy benefits and claims	Adjustment to: Other policyholder funds	Adjustment to: Deferred acquisition costs	Unrealized gains (losses) [1]	Total
December 31, 2018	$	(26,258)	(39,409)	(5,793)	(191)	(7,561)	92,735	13,523
Other comprehensive income (loss) before reclassifications		(977)	(10,027)	(46,930)	20,279	(90,259)	511,115	383,201
Amounts reclassified from accumulated other comprehensive income		2,498	—	—	—	—	(164,300)	(161,802)
Change		1,521	(10,027)	(46,930)	20,279	(90,259)	346,815	221,399
December 31, 2019	$	(24,737)	(49,436)	(52,723)	20,088	(97,820)	439,550	234,922
Other comprehensive income (loss) before reclassifications		(8,037)	6,047	(24,095)	28,313	(88,794)	281,290	194,724
Amounts reclassified from accumulated other comprehensive income		2,403	—	—	—	—	(14,923)	(12,520)
Change		(5,634)	6,047	(24,095)	28,313	(88,794)	266,367	182,204
December 31, 2020	$	(30,371)	(43,389)	(76,818)	48,401	(186,614)	705,917	417,126

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

(Dollars in thousands)

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

Details about accumulated other comprehensive income (loss) components		2020	2019	Consolidated statements of income location
Amortization of pensions and other post-retirement benefits:				
Prior service costs	$	—	127	Other operating costs and expenses
Actuarial losses		(3,042)	(3,289)	Other operating costs and expenses
		(3,042)	(3,162)	Loss before income taxes
		639	664	Income tax current benefit
		(2,403)	(2,498)	Net loss
Unrealized gains/(losses) on securities available-for-sale:				
		19,289	207,982	Realized gains, excluding other-than-temporary impairment losses on securities
		(4,366)	(43,682)	Income tax current expense
		14,923	164,300	Net gain
Total reclassification for the year	$	12,520	161,802	Total net gain

(6) Fair Value Measurements

Fair Value Hierarchy

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

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the consolidated balance sheets into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include U.S. government securities, actively traded equity securities, cash and cash equivalents, short-term investments, separate account assets, and exchange traded derivatives.
- **Level 2 –** Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable in active markets or that are derived principally from, or corroborated by, observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, private placement, equity securities, derivatives, securities lending collateral, cash equivalent securities, and short-term investments.
- **Level 3 –** Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management's best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain U.S. treasury securities and other government obligations (including certain investments in debt instruments issued by the U.S. military which are supported by lease payments), corporate debt, asset-backed or mortgage-backed securities, embedded derivatives associated with fixed indexed annuity contracts, and reinsurance contracts and embedded derivatives associated with living benefit contracts.

(Dollars in thousands)

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

Assets		**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:					
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government[1]	$	16,822	46,352	4,086	67,260
Obligations of states and political subdivisions		—	1,303,291	—	1,303,291
Debt securities issued by foreign governments		—	5,557	—	5,557
Corporate		—	6,914,397	248,248	7,162,645
Asset-backed		—	1,205,116	45,103	1,250,219
Mortgage-backed		—	890,736	3,704	894,440
Trading securities:					
Fixed maturity securities:					
Corporate		—	128	—	128
Equity securities		41,028	10,214	2,491	53,733
Other long-term investments:					
Derivative assets:					
Equity put options		—	40,813	—	40,813
Equity index call options		—	51,506	—	51,506
Swap		—	803	—	803
Swaptions		—	26,506	—	26,506
Short-term investments securities lending collateral		—	368,897	—	368,897
Short-term investments		142,890	64,880	—	207,770
Cash and cash equivalents		687,657	—	—	687,657
Reinsurance recoverable:					
GMIB reinsurance contracts		—	—	1,357,034	1,357,034
Assets held in separate accounts		19,486,193	—	—	19,486,193
Total assets	$	20,374,590	10,929,196	1,660,666	32,964,452
Liabilities					
Future policy benefits and claims:					
GMAB/GMWB embedded derivatives	$	—	—	25,510	25,510
GLWB embedded derivatives		—	—	17,382	17,382
Fixed indexed annuity embedded derivatives[2]		—	—	154,678	154,678
Derivative liabilities:					
Currency futures		3,866	—	—	3,866
Equity put options		—	33,416	—	33,416
Total liabilities	$	3,866	33,416	197,570	234,852

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

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

(Dollars in thousands)

The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2019:

Assets		**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:					
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government[1]	$	26,801	60,222	4,403	91,426
Obligations of states and political subdivisions		—	960,817	—	960,817
Debt securities issued by foreign governments		—	5,373	—	5,373
Corporate		—	6,483,347	22,023	6,505,370
Asset-backed		—	1,287,120	75,839	1,362,959
Mortgage-backed		—	1,053,978	4,688	1,058,666
Trading securities:					
Fixed maturity securities:					
Corporate		—	154	—	154
Asset-backed		—	6	—	6
Equity securities		34,709	5,759	—	40,468
Other long-term investments:					
Derivative assets:					
Currency futures		98	—	—	98
Equity put options		—	9	—	9
Equity index call options		—	52,554	—	52,554
Swap		—	1,192	—	1,192
Swaptions		—	60,212	—	60,212
Short-term investments securities lending collateral		—	246,578	—	246,578
Short-term investments		121,787	91,742	—	213,529
Cash and cash equivalents		287,223	—	—	287,223
Reinsurance recoverable:					
GMIB reinsurance contracts		—	—	1,290,896	1,290,896
Other assets:					
GMAB/GMWB embedded derivatives[2]		—	—	17,298	17,298
Assets held in separate accounts		19,926,103	—	—	19,926,103
Total assets	$	20,396,721	10,309,063	1,415,147	32,120,931
Liabilities					
Future policy benefits and claims:					
GLWB embedded derivatives	$	—	—	19,706	19,706
Fixed indexed annuity embedded derivatives[3]		—	—	166,353	166,353
Derivative liabilities:					
Currency futures		2,143	—	—	2,143
Equity put options		—	56,756	—	56,756
Total liabilities	$	2,143	56,756	186,059	244,958

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

2 All GMAB riders. The reserve balance for the GMAB riders was negative and thus reclassifed as an asset.

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

Determination of Fair Values
The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

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

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

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

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

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

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

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

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

At December 31, 2020, 82.0% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 14.9% from the Company's internal pricing matrices and 3.1 % from other sources. At December 31, 2019, 83.0% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 15.7% from the Company's internal pricing matrices and 1.3% from other sources.

Derivative instruments - The Company enters into derivative transactions comprised of equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. The equity and currency futures are exchange traded derivatives, and the estimated fair value is based on an active market quotation. The Company has classified the estimated fair values of the exchange traded derivatives as Level 1 assets and liabilities. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. These derivative assets are classified as Level 2 assets.

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

Cash and cash equivalents - Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash equivalents are comprised of publicly traded money market accounts. The publicly traded money market accounts are considered to be Level 1 assets.

Assets held in separate accounts - Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the consolidated balance sheets. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified the estimated separate account assets as Level 1 assets.

GMIB reinsurance contracts and GMAB/GMWB/GLWB embedded derivatives – Certain of the Company's individual variable annuity contracts that include guaranteed benefit riders accounted for as embedded derivatives are measured at estimated fair value separately from the host variable annuity contract. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuity products.

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

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

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

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

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

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

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

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

(Dollars in thousands)

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

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

	Investments					Reinsurance Recoverable	Other Assets	
Assets	**U.S. treasury securities and obligations of U.S. government**	**Corporate**	**Asset - backed**	**Mortgage - backed**	**Equity Securities**	**GMIB reinsurance**	**GMAB/ GMWB embedded derivatives**	**Total assets**
December 31, 2018	$ —	16,295	54,634	13,063	—	1,316,822	—	1,400,814
Net investment gains/(losses):								
In earnings								
(realized and unrealized)[1]	—	897	8,203	(29)	—	(25,926)	17,298	443
Unrealized in OCI[2]	137	227	(70)	308	—	—	—	602
Purchases	—	852	17,999	—	—	—	—	18,851
Settlements	(160)	(9,981)	(1,134)	(1,007)	—	—	—	(12,282)
Transfers into Level 3	4,426	13,733	8,288	5,416	—	—	—	31,863
Transfers out of Level 3	—	—	(12,081)	(13,063)	—	—	—	(25,144)
December 31, 2019	4,403	22,023	75,839	4,688	—	1,290,896	17,298	1,415,147
Net investment gains/(losses):								
In earnings								
(realized and unrealized)[1]	—	(8)	(12,319)	(24)	—	66,138	(17,298)	36,489
Unrealized in OCI[2]	(145)	(9,325)	(150)	9	405	—	—	(9,206)
Purchases	—	88,988	23,375	—	2,086	—	—	114,449
Settlements	(172)	(8,108)	(35,218)	(969)	—	—	—	(44,467)
Transfers into Level 3	—	154,678	13,698	—	—	—	—	168,376
Transfers out of Level 3	—	—	(20,122)	—	—	—	—	(20,122)
December 31, 2020	$ 4,086	248,248	45,103	3,704	2,491	1,357,034	—	1,660,666
Change in unrealized gains (losses):								
Still held at December 31:								
2019	$ —	(4)	142	(28)	—	(25,926)	29,543	3,727
2020	$ —	(4)	(80)	(23)	—	66,138	—	66,031

(Dollars in thousands)

	Future policy benefits and claims			
Liabilities	**GMAB/ GMWB embedded derivatives[3]**	**GLWB embedded derivatives**	**Fixed indexed annuity embedded derivatives**	**Total liabilities**
December 31, 2018	$ (12,245)	(19,360)	(124,953)	(156,558)
Net investment gains/(losses):				
In earnings (realized and unrealized)[1]	12,245	(346)	(41,400)	(29,501)
December 31, 2019	—	(19,706)	(166,353)	(186,059)
Net investment gains/(losses):				
In earnings (realized and unrealized)[1]	(25,510)	2,324	11,675	(11,511)
December 31, 2020	$ (25,510)	(17,382)	(154,678)	(197,570)
Change in unrealized gains/(losses):				
Still held at December 31:				
2019	$ —	(346)	(41,400)	(41,746)
2020	$ (42,808)	2,324	11,675	(28,809)

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

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

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

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

(Dollars in thousands)

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

(Dollars in thousands)

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

[1] All GMAB riders.
[2] Sys = Systematic

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2019						
Assets						
Reinsurance recoverable:						
GMIB reinsurance contracts	1,290,896	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.4% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.3% - 7.6%	*	Decrease
			duration 11+	3.6% - 6.6%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Increase
			Sys with rates (%Rollup)	95% - 100%	*	Increase
			Sys with utilization	0% - 13%	*	Increase
			IB Utilization	0.3% - 60%	*	Increase
			Non-performance risk (Credit Spread)	0.58% - 0.85%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase
GMAB/GMWB embedded derivatives[1]	17,298	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			dur 1-10	0.7% - 18.6%	*	Decrease
			dur 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 1.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	2.68% - 3.32%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2019						
Liabilities						
GLWB embedded derivatives	19,706	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.2% - 16.8%	*	Decrease
			duration 11+	7.0% - 8.6%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	95% - 100%	*	Increase
			Sys with utilization	0% - 29%	*	Increase
			Non-performance risk (Credit Spread)	2.68% - 3.32%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase
Fixed indexed annuity embedded derivatives	166,353	Option budget method	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.5% - 25.0%	*	Decrease
			duration 11+	4.0% - 25.0%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90%	*	N/A
			Sys with utilization	0% - 30%	*	Decrease
			Non-performance risk (Credit Spread)	2.37% - 2.95%	*	Decrease
			Equity market volatility surface rates	5.0% - 20.2%	*	Increase

[1] All GMAB riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.
[2] Sys = Systematic

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

(Dollars in thousands)

Asset Transfers Between Levels

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

		Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 2
2020			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
Corporate	$	154,678	—
Asset-backed		13,698	20,122
2019			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
US Treasury securities	$	4,426	—
Corporate		13,733	—
Asset-backed		8,288	12,081
Mortgage-backed		5,416	13,063

During the years ended December 31, 2020 and 2019, the Company transferred investments totaling $168,376 and $31,863, respectively, into Level 3 from Level 2 as a result of lack of visibility to observe significant inputs to price. During the years ended December 31, 2020 and 2019, the Company transferred investments totaling $20,122 and $25,144, respectively, out of Level 3 into Level 2 as a result of the availability of observable pricing inputs for these securities. There were no transfers from Level 2 or Level 3 into Level 1 in 2020 or 2019.

Fair Value Measurement on a Nonrecurring Basis

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

There were no assets measured at fair value on a nonrecurring basis for the years ended December 31, 2020 and 2019.

(Dollars in thousands)

Financial Instruments Not Carried at Fair Value

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

	Carrying value	Estimated fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
2020					
Assets:					
Mortgage loans on real estate	$ 1,474,388	1,549,286	—	97,527	1,451,759
Policy loans	964,343	1,138,647	—	—	1,138,647
Liabilities:					
Investment contracts	3,513,987	3,152,258	—	3,152,258	—
Policyholders' dividend accumulations and other policyholder funds	177,566	177,566	177,566	—	—
Short-term debt	1,792	1,792	—	1,792	—
Long-term debt obligations	975,910	1,036,907	—	1,036,907	—
2019					
Assets:					
Mortgage loans on real estate	$ 1,446,093	1,487,044	—	92,738	1,394,306
Policy loans	875,097	987,296	—	—	987,296
Liabilities:					
Investment contracts	3,573,055	3,362,956	—	3,362,956	—
Policyholders' dividend accumulations and other policyholder funds	203,750	203,750	203,750	—	—
Short-term debt	1,675	1,675	—	1,675	—
Long-term debt obligations	953,878	1,014,148	—	614,148	400,000

(Dollars in thousands)

FASB ASC Topic 825, *Financial Instruments*, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). The following table presents the Company's financial assets and liabilities contained in other assets, other invested assets, and other liabilities on the consolidated balance sheet:

	Carrying amount		
Financial assets identified in other assets	**2020**	**2019**	
Accounts receivable due from external parties	$ 9,280	8,358	Carrying value approximates fair value
Other[1]	348,400	377,965	
Total other assets	$ 357,680	386,323	

	Carrying amount		
Financial assets identified in other long-term investments	**2020**	**2019**	
Derivative instruments	$ 119,628	114,065	Carrying value approximates fair value
Receivable for securities	514	1,824	Carrying value approximates fair value
Joint venture	21,727	22,239	Carrying value approximates fair value
Other invested assets	1,570	1,570	Carrying value approximates fair value
Other[1]	138,329	132,506	
Total other long-term investments	$ 281,768	272,204	

	Carrying amount		
Financial liabilities identified in other liabilities	**2020**	**2019**	
Interest payable	$ 14,087	7,724	Carrying value approximates fair value
Derivative liabilities	37,282	58,899	Carrying value approximates fair value
Collateral liabilities	77,920	78,280	Carrying value approximates fair value
Investments in transit and payable for securities	24,125	7,648	Carrying value approximates fair value
Other[1]	428,364	391,066	
Total other liabilities	$ 581,778	543,617	

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

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

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has mortgage loans that are valued based on market observable quotes and are classified as Level 2. The Company has mortgage loans that are valued using internally obtained credit ratings and are classified as Level 3.

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

Investment contracts – The fair value of the Company's liabilities under investment contracts is estimated using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Cash flows are discounted at a rate that reflects the nonperformance risk of the Company. The amounts shown in the above table are net of reinsurance. The inputs are market observable; therefore, the Company classifies these as Level 2 liabilities.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the consolidated balance sheets for these instruments approximates their estimated fair value. The amounts can be converted to cash by the policyholder; therefore, the Company classifies these amounts as Level 1.

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

Long-term debt obligations – The fair value of senior and surplus notes is estimated by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments. The valuation inputs are based on market observable information; therefore, the Company classifies these as Level 2 liabilities. The fair value of the term loan is determined by the bank to be the carrying value of the loan as it is not traded on the open market. The Company classifies this as a Level 3 liability.

(7) Investments

Investment Risks and Uncertainties

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

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have a greater impact on the issuer than anticipated;
- the risk that foreign currency exchange rates could negatively impact the valuation of certain investments that are not denominated in U.S. dollars;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other-than-temporary impairments; and

(Dollars in thousands)

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

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

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

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

Fixed Maturity and Equity Securities

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

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

(Dollars in thousands)

	2019				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Non-credit OTTI
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government	$ 85,161	6,265	—	91,426	—
Obligations of states and political subdivisions	921,056	42,634	(2,873)	960,817	—
Debt securities issued by foreign governments	4,971	402	—	5,373	—
Corporate	6,014,219	500,317	(9,166)	6,505,370	—
Asset-backed	1,329,751	35,545	(2,337)	1,362,959	(2,377)
Mortgage-backed	1,030,526	29,763	(1,623)	1,058,666	(14,408)
Total fixed maturity securities	$ 9,385,684	614,926	(15,999)	9,984,611	(16,785)
Trading securities:					
Fixed maturity securities:					
Corporate	$ 149	5	—	154	—
Asset-backed	6	—	—	6	—
Total fixed maturity securities	$ 155	5	—	160	—

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

The Company's fixed maturities portfolio is comprised primarily of investment grade securities. Based upon designations by the NAIC, investment grade securities comprised 95.8% and 97.3% of the Company's total available-for-sale and trading securities portfolio as of December 31, 2020 and 2019, respectively.

Investments with a fair value of $14,277 and $14,427 as of December 31, 2020 and 2019, respectively, were on deposit with various regulatory agencies as required by law and are included in securities available-for-sale.

Maturities of Fixed Maturity Securities
The amortized cost and estimated fair value of fixed maturity securities available-for-sale and trading as of December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration as of December 31, 2020.

(Dollars in thousands)

	Fixed maturity securities			
	Available-for-sale		Trading	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$ 343,955	351,049	125	128
Due after one year through five years	1,849,348	1,983,319	—	—
Due after five years through ten years	2,759,221	3,064,053	—	—
Due after ten years	4,774,133	5,284,991	—	—
Total	$ 9,726,657	10,683,412	125	128

Continuous Gross Unrealized Losses for Fixed Maturity and Equity Securities

The following tables present the estimated fair value and gross unrealized losses of the Company's fixed maturity (aggregated by sector) and equity securities in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
2020						
Obligations of states and political subdivisions	$ 40,903	(240)	4,755	(610)	45,658	(850)
Corporate	300,802	(9,500)	38,845	(4,536)	339,647	(14,036)
Asset-backed	184,472	(4,823)	33,717	(1,056)	218,189	(5,879)
Mortgage-backed	31,449	(1,273)	2,141	(62)	33,590	(1,335)
Total fixed maturity securities	$ 557,626	(15,836)	79,458	(6,264)	637,084	(22,100)
2019						
Obligations of states and political subdivisions	$ 156,152	(2,340)	5,747	(533)	161,899	(2,873)
Corporate	191,232	(1,896)	131,390	(7,270)	322,622	(9,166)
Asset-backed	232,682	(2,138)	21,388	(199)	254,070	(2,337)
Mortgage-backed	124,749	(872)	45,125	(751)	169,874	(1,623)
Total fixed maturity securities	$ 704,815	(7,246)	203,650	(8,753)	908,465	(15,999)

(Dollars in thousands)

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

Unrealized losses		Less than 12 months	12 months or longer	Total	Number of Securities
2020					
99.9%-80%					
Obligations of states and political subdivisions	$	(240)	(610)	(850)	15
Corporate		(9,500)	(2,502)	(12,002)	182
Asset-backed		(4,823)	(1,056)	(5,879)	83
Mortgage-backed		(1,273)	(62)	(1,335)	24
Below 80%					
Corporate		—	(2,034)	(2,034)	2
Total	$	(15,836)	(6,264)	(22,100)	306
2019					
99.9%-80%					
Obligations of states and political subdivisions	$	(2,340)	(533)	(2,873)	50
Corporate		(1,833)	(5,620)	(7,453)	147
Asset-backed		(2,138)	(199)	(2,337)	131
Mortgage-backed		(872)	(751)	(1,623)	74
Below 80%					
Corporate		(63)	(1,650)	(1,713)	6
Total	$	(7,246)	(8,753)	(15,999)	408

Evaluation of Other-Than-Temporarily Impaired Investments

Management regularly reviews its fixed maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value of investments.

An analysis is prepared, which focuses on the issuer's ability to service its debts and the extent and length of time the security has been valued below cost. This review process includes an assessment of the credit quality and an assessment of the present value of future cash flows of the identified investment in the securities portfolio and for equity securities, an assessment of near-term recovery and whether the security will recover its amortized cost basis in a reasonable period of time.

For corporate securities, the Company evaluates the present value of cash flows using the financial performance of the issuer based upon credit performance and investment ratings. Residential mortgage-backed securities and asset-backed securities are assessed for impairment using default estimates based on the underlying collateral performance including default rates, recovery rates and prepayment speeds. Cash flows generated by the collateral are then utilized, along with consideration for the issue's position in the overall structure, to determine cash flows associated with the security.

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

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

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

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

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

(Dollars in thousands)

Current Year Evaluation
The Company has concluded that securities in an unrealized loss position as of December 31, 2020 and 2019 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold the fixed maturity security investments until recovery of estimated fair value or amortized cost and for equity securities, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2019 to December 31, 2020 due to wider credit spreads on certain bond holdings in the energy and airline industries that were negatively affected by the recession caused by the COVID-19 pandemic. No write-downs were deemed necessary for these securities as prices are expected to increase as the economy continues its recovery. Accordingly no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage Loans by Portfolio Segment
Mortgage loans consist of both commercial mortgage loans originated in the United States and Chile and residential mortgage loans originated in Chile. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of the mortgage loan portfolio as of December 31 were as follows:

		2020	2019
Mortgage loans			
Commercial mortgage loans	$	1,379,838	1,356,976
Residential mortgage loans		98,468	93,353
Total amortized cost		1,478,306	1,450,329
Valuation allowance		3,918	4,236
Net carrying value	$	1,474,388	1,446,093

Concentration of Credit Risk
The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. 93.4% of the Company's portfolio is collateralized by properties located in the United States, with the remaining 6.6% located in Chile. Total loans in any state did not exceed 15.2% of the total loan portfolio as of December 31, 2020 and 2019.

As of December 31, 2020, loans in the states of Texas, Ohio and California exceeded 10.0% of the total loan portfolio and had carrying values of $208,760, $153,253 and $140,983, respectively. As of December 31, 2019, loans in the states of Texas and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $177,018 and $147,536, respectively.

Furthermore, the Company manages risk by underwriting relatively nominal individual commercial loans. The average loan, at origination, was approximately $2,767 and $2,638 in 2020 and 2019, respectively.

(Dollars in thousands)

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

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

		DSC						
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2020								
0% - 50%	$	293,944	128,880	136,564	126,242	57,626	9,952	753,208
50% - 60%		30,863	18,138	60,867	73,790	31,896	1,750	217,304
60% - 70%		6,190	—	72,304	96,564	44,895	—	219,953
70% - 80%		—	—	3,032	47,147	28,391	12,596	91,166
80% and greater		—	—	7,129	35,628	33,105	19,023	94,885
Total	$	330,997	147,018	279,896	379,371	195,913	43,321	1,376,516
2019								
0% - 50%	$	284,557	73,016	144,925	138,914	55,935	7,892	705,239
50% - 60%		33,628	22,091	99,932	91,486	41,843	4,133	293,113
60% - 70%		—	7,395	35,513	125,792	21,459	6,470	196,629
70% - 80%		—	—	3,891	35,079	28,989	4,703	72,662
80% and greater		—	—	—	8,213	35,330	42,078	85,621
Total	$	318,185	102,502	284,261	399,484	183,556	65,276	1,353,264

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. The Company's corporate policy directs that the LTV on new mortgages not exceed 75% for standard mortgages.

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

(Dollars in thousands)

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

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

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

		2020	2019
Residential mortgage loans			
Performing	$	93,335	92,800
Nonperforming		4,537	29
Total	$	97,872	92,829

Allowance for Loan Losses
The allowance for loan losses is comprised of two components, specific and general, based on amounts collectively and individually evaluated for impairment. The Company's commercial mortgage loan portfolio has experienced minimal historical losses throughout the years, including the last three years. The residential mortgage loans are individually evaluated for impairment once a residential mortgage goes past due. The Company did not have any TDRs in 2020 or 2019.

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

(Dollars in thousands)

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

		Commercial	Residential	Total
Balance, December 31, 2018	$	3,480	525	4,005
Provision		288	65	353
Charge-offs		—	(13)	(13)
Recoveries		(56)	(62)	(118)
Effect of exchange rates		—	9	9
Balance, December 31, 2019		3,712	524	4,236
Provision		55	242	297
Charge-offs		(396)	—	(396)
Recoveries		(49)	(212)	(261)
Effect of exchange rates		—	42	42
Balance, December 31, 2020	$	3,322	596	3,918

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

Mortgage Loan Aging

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

		30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2020								
Commercial mortgage loans	$	727	—	—	727	1,375,789	1,376,516	—
Residential mortgage loans		4,948	1,322	3,942	10,212	87,660	97,872	62
Total	$	5,675	1,322	3,942	10,939	1,463,449	1,474,388	62
2019								
Commercial mortgage loans	$	—	—	—	—	1,353,264	1,353,264	—
Residential mortgage loans		5,199	1,096	10,323	16,618	76,211	92,829	60
Total	$	5,199	1,096	10,323	16,618	1,429,475	1,446,093	60

(Dollars in thousands)

Performance, Impairment and Foreclosures
At December 31, 2020 and 2019, the Company had no mortgage loans in the process of foreclosure. There were no mortgage loan write-downs in 2020, 2019 or 2018. There were three and four foreclosures of residential mortgage loans during 2020 and 2019, respectively.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the balance sheet date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

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

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

		2020	2019
Mortgage loans			
Residential mortgage loans	$	4,537	2,117
Total	$	4,537	2,117

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

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
2020						
With an allowance recorded:						
Commercial mortgages	$	743	1,032	(289)	1,166	80
Residential mortgages		4,418	5,014	(596)	2,283	—
Total	$	5,161	6,046	(885)	3,449	80
2019						
With an allowance recorded:						
Commercial mortgages	$	1,589	1,926	(337)	1,628	125
Residential mortgages		2,281	2,805	(524)	1,169	—
Total	$	3,870	4,731	(861)	2,797	125

(Dollars in thousands)

Other Long Term Investments

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

		2020	2019
Direct financing leases	$	63,796	57,533
FHLB common stock		52,039	50,039
Derivative instruments		119,628	114,065
Receivable for securities		514	1,823
Joint venture		21,727	22,239
Chilean financing receivables		18,507	21,147
Other invested assets		5,557	5,358
Total	$	281,768	272,204

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

Effective January 1, 2019, contracts that previously qualified for direct financing lease classification under FASB ASC Topic 840 no longer qualify for lease accounting under Topic 842 and will be accounted for as financing receivables under Topic 310.

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

		2020	2019
Total minimum lease payments to be received	$	98,863	84,182
Less unearned income		(35,067)	(26,649)
Net investment in direct financing leases	$	63,796	57,533

The minimum lease payments did not include executory costs, allowance for uncollectibles, or unguaranteed residual values of leased property for 2020 and 2019. Past favorable payment experience, a minimum required LTV ratio of 75% - 80% at lease inception as well as the Company's right to repossess the property after two missed payments have resulted in not holding an allowance for uncollectibles by the Company, and no leases are on nonaccrual status. Credit quality is monitored based on past payment history.

(Dollars in thousands)

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

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2020	$ 2,321	—	—	2,321	61,475	63,796	—
2019	$ 965	—	—	965	56,568	57,533	—

Future undiscounted cash flows from direct financing leases as of December 31, 2020 are as follows:

2021	$ 6,826
2022	6,708
2023	8,493
2024	6,241
2025	5,529
Thereafter	58,134
Total undiscounted lease payments	91,931
Less imputed interest	(28,135)
Lease receivable	$ 63,796

Securities Lending

As of December 31, 2020 and 2019, the Company received $368,897 and $246,578, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in the consolidated balance sheets in short-term investments securities lending collateral with a corresponding liability recorded in payables for securities lending collateral to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2020 and 2019. As of December 31, 2020 and 2019, the Company had loaned securities with a fair value of $358,808 and $238,652, respectively, which are recognized in the consolidated balance sheets in securities available-for-sale and equity securities.

Variable Interest Entities

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

(Dollars in thousands)

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

Net Investment Income

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

	Investment income		
	2020	**2019**	**2018**
Gross investment income:			
Securities available-for-sale:			
Fixed maturity securities	$ 409,252	478,703	507,723
Fixed maturity trading securities	7	23	68
Fixed maturity held-to-maturity securities	—	—	3,080
Equity securities	410	923	4,173
Mortgage loans on real estate	73,523	71,298	67,643
Real estate	5,791	5,804	5,865
Policy loans	42,513	39,156	35,166
Short-term investments	4,481	12,931	11,304
Other long-term investments	5,489	7,145	7,941
Total gross investment income	541,466	615,983	642,963
Interest expense	(62,777)	(58,582)	(63,196)
Other investment expenses	(37,522)	(32,607)	(26,489)
Net investment income	$ 441,167	524,794	553,278

(Dollars in thousands)

Net Realized Gains (Losses)

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

		Realized (losses) gains on investments		
		2020	**2019**	**2018**
Securities available-for-sale:				
Fixed maturity securities[1]	$	19,289	207,982	2,356
Trading securities:				
Fixed maturity securities		—	—	1
Equity securities, at fair value		22	920	783
Mortgage loans on real estate**		(502)	(126)	(92)
Real estate		22	1,896	(72)
Other long-term investments		510	(66)	157
Total realized losses on investments		19,341	210,606	3,133
Change in allowances for mortgage loans on real estate*		390	(232)	(67)
Net realized gains (losses) on investments	$	19,731	210,374	3,066

* Commercial mortgage loans

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

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

Realized gains (losses) on investments, as shown in the table above, include write-downs for OTTI of $9,259, $4,960 and $2,227 for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, fixed maturity securities with a carrying value of $40,411, which had a cumulative write-down of $14,445 due to OTTI, remained in the Company's investment portfolio.

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

		Total OTTI	**Recognized in OCI**	**Recognized in earnings**
2020				
Fixed maturity securities:				
Corporate	$	8,615	—	8,615
Asset-backed		725	336	389
Mortgage-backed		2,007	1,752	255
Total other-than-temporary impairment losses	$	11,347	2,088	9,259

(Dollars in thousands)

		Total OTTI	Recognized in OCI	Recognized in earnings
2019				
Fixed maturity securities:				
Corporate	$	4,703	—	4,703
Asset-backed		(451)	(643)	192
Mortgage-backed		(6,678)	(6,743)	65
Total other-than-temporary impairment losses	$	(2,426)	(7,386)	4,960
2018				
Fixed maturity securities:				
Obligation of states and political subdivisions	$	878	878	—
Corporate		1,722	—	1,722
Asset-backed		(1,703)	(1,835)	132
Mortgage-backed		(3,209)	(3,582)	373
Total other-than-temporary impairment losses	$	(2,312)	(4,539)	2,227

Credit Loss Rollforward

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

		2020	2019	2018
Cumulative credit loss, beginning of year	$	16,336	22,288	32,069
New credit losses		6,301	3,058	1,172
Change in credit losses on securities included in the beginning balance		2,958	1,902	1,055
Subtotal		25,595	27,248	34,296
Less:				
Losses related to securities included in the current year beginning balance sold or paid down during the period		11,150	10,912	12,008
Cumulative credit loss, end of year	$	14,445	16,336	22,288

(Dollars in thousands)

Sales of Fixed Maturity Securities, Available-for-Sale

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

		2020	2019	2018
Proceeds	$	1,437,306	1,146,781	1,013,556
Gross realized gains	$	38,840	226,532	7,657
Gross realized losses	$	(9,503)	(7,223)	(4,640)

The Company had no securities classified as held-to-maturity securities in 2020, 2019 or 2018.

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

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

		2020	2019	2018
Securities available-for-sale:				
Fixed maturity securities	$	357,827	466,678	(316,985)
Change in net unrealized gains	$	357,827	466,678	(316,985)

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

		2020	2019
Net gains and losses recognized during the period on equity securities	$	1,506	4,353
Less: Net gains and losses recognized during the period on equity securities sold during the period		—	466
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$	1,506	4,819

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

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

(Dollars in thousands)

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

		2018	2017	Change
Securities available-for-sale	$	132,250	449,235	(316,985)
Impact of adoption of ASU 2016-01		—	4,548	(4,548)
Unrealized losses related to closed block		(8,124)	(26,086)	17,962
Unrealized (losses)/gains on other invested assets		—	2,236	(2,236)
Future policy benefits and claims		(8,194)	(46,728)	38,534
Deferred policy acquisition costs		(9,572)	(90,841)	81,269
Other policyholder funds		(242)	17,748	(17,990)
Deferred federal income tax provision		(29,803)	(68,760)	38,957
Net unrealized gains	$	76,315	241,352	(165,037)

(8) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company pursuant to ASC Topic 815, *Derivatives and Hedging*, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, interest rate swaptions and equity swaps to economically hedge liabilities embedded in certain variable annuity products such as the GMAB, GMWB, GMIB and GLWB and in fixed indexed annuity and indexed universal life products.

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

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

In April 2018, the Company entered into S&P 500, Russell 2000, and Nasdaq 100 total return swap agreements. The swap was terminated in July 2018 and resulted in a loss of $32,000. In July of 2018, the Company entered into S&P 500, Russell 2000, and NASDAQ 100 total return swap agreements that were terminated in October 2018 and resulted in a gain of $19,600. Since the transactions above do not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

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

In November 2014, the Company entered into a cross currency swap agreement which qualified for hedge accounting as a cash flow hedge. The Company purchased a ten-year bond in the amount of €7 million with an annual foreign currency coupon of 1.93%. The Company concurrently entered into a matching cross currency swap effectively converting the cash flows of the Euro denominated bond into U.S. denominated cash flows. The investment receives a fixed rate of 3.78% on the converted U.S. investment of $9,038. Interest on the bond is paid annually. During the years ended December 31, 2020 and 2019, the Company had foreign currency swap gains of $348 and $299, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the years ended December 31, 2020 or 2019. As of December 31, 2020, no amounts are expected to be reclassified to income within the next twelve months.

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

Embedded Derivatives

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

(Dollars in thousands)

The following tables present a summary of the estimated fair value of derivatives held by the Company along with the amounts recognized in the consolidated balance sheets:

Derivatives not designated as hedging instruments under ASC 815	Balance sheet location	December 31 2020 Fair value	2020 Notional Amount	2019 Fair value	2019 Notional Amount
Asset derivatives:					
Currency futures	Other long-term investments	$ —	—	98	53,739
Equity put options	Other long-term investments	40,813	1,901,467	9	5,312
Equity index call options	Other long-term investments	51,506	1,883,342	52,554	1,888,182
Cross currency swaps	Other long-term investments	803	9,038	1,192	9,038
Swaptions	Other long-term investments	26,506	3,600,000	60,212	2,600,000
GMIB reinsurance contracts	Reinsurance	1,357,034	n/a	1,290,896	n/a
GMAB/GMWB embedded derivatives[1]	Other assets	—	n/a	17,298	n/a
Total		$ 1,476,662	7,393,847	1,422,259	4,556,271
Liability derivatives:					
GLWB embedded derivatives (variable annuity)	Future policy benefits and claims	$ 17,382	n/a	19,706	n/a
GMAB/GMWB embedded derivatives	Future policy benefits and claims	25,510	n/a	—	n/a
Fixed indexed annuity embedded derivatives[2]	Future policy benefits and claims	154,678	n/a	166,353	n/a
Currency futures	Other liabilities	3,866	262,631	2,143	215,305
Equity put options	Other liabilities	33,416	578,983	56,756	1,587,313
Total		$ 234,852	841,614	244,958	1,802,618

1 GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.

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

(Dollars in thousands)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the years ended December 31:

Derivatives not designated as hedging instruments under ASC 815	Location of gain (loss) recognized in income on derivatives	Amount of (loss) gain recognized in income on derivatives 2020	2019	2018
Equity futures	Net realized gains (losses): derivative instruments	$ —	(33,478)	(24,244)
Currency futures	Net realized gains (losses): derivative instruments	10,354	(1,577)	16,163
Equity put options	Net realized gains (losses): derivative instruments	87,671	(189,561)	55,955
Equity index call options	Net realized gains (losses): derivative instruments	999	42,429	(20,742)
Equity swaps	Net realized gains (losses): derivative instruments	(191)	173	(18,452)
Swaptions	Net realized gains (losses): derivative instruments	(48,391)	27,774	(14,661)
External reinsurance embedded derivative	Net realized gains (losses): derivative instruments	260	(203)	(19)
GMIB reinsurance contracts	Benefits and claims	66,138	(25,926)	75,873
GMAB/GMWB embedded derivatives	Benefits and claims	(42,808)	29,543	(17,942)
GLWB embedded derivatives	Benefits and claims	(2,324)	(346)	(2,628)
Fixed indexed annuity embedded derivatives[1]	Benefits and claims	11,675	(41,400)	(124,953)
Total		$ 83,383	(192,572)	(75,650)

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

Credit Risk

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

Because exchange traded futures are affected through regulated exchanges and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records and requiring collateral for all derivatives in accordance with the International Swaps and Derivatives Association and Credit Support Annex (“ISDA”/ “CSA”) agreements in place with all of its counterparties. The Company manages its credit risk related to the freestanding reinsurance derivative by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2020 and 2019, a non-affiliated reinsurer held assets in trust with an estimated fair value of $751,651 and $953,387, respectively, and a letter of credit of $702,976 and $178,888, respectively.

(Dollars in thousands)

(9) Deferred Policy Acquisition Costs

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2020, 2019 and 2018 were as follows:

	2020	2019	2018
Balance - beginning of year	$ 1,680,272	1,966,803	1,808,325
Acquisition costs deferred	134,685	156,827	231,828
Amortization	(154,277)	(269,540) [1]	(154,045)
DAC recorded as benefits and claims	—	(59,249) [2]	—
Unrealized investment (gains) losses	(112,397)	(114,252)	81,269
Effect of foreign currency translation and other	517	(317)	(574)
Balance - end of year	$ 1,548,800	1,680,272	1,966,803

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

2. As part of the external BOLI and SPDA reinsurance agreement executed on July 1, 2019, the Company recorded the DAC transferred to the external reinsurer, which was part of the cost of reinsurance asset, to future policy benefits and claims. DAC amortization on the consolidated statements of income reflects the amount of DAC amortized, net of the transfer impact. The balance of the DAC asset, shown in the table above, includes adjustments for both the amortization and the transfer.

(10) Future Policy Benefits and Claims

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

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

The liability for future policy benefits and claims for ONSP's group life and health insurance policies is comprised of claims and expense reserves and incurred but not reported ("IBNR"). The claims and expense reserves have been calculated using the present values of expected future cash flows of known claims using discount rates that vary by currency ranging from 1.70% to 5.25%. IBNR reserves have been estimated using historical claim reporting information.

The liability for future policy benefits for universal life policies and investment contracts represents approximately 67.3% and 69.3% of the total liability for future policy benefits as of December 31, 2020 and 2019, respectively. The liability has been established based on accumulated contract values without reduction for surrender penalty provisions. The average interest rate credited on investment product policies was 3.3% for the years ended December 31, 2020, 2019 and 2018. Approximately 27.4% and 29.5% of the universal life policies and investment contracts were at their guaranteed minimum interest rate as of December 31, 2020 and 2019, respectively.

The Company has established a reserve for three universal life plans with lifetime secondary guarantees, which the Company discontinued. At December 31, 2020 and 2019, this reserve balance was $63,294 and $58,841, respectively.

The liability for future policy benefits for ONSV's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The five-year average return of the funds underlying variable universal life and voluntary pension savings (APV) were 2.70% and 3.12% for the years ended December 31, 2020 and 2019, respectively.

The liability for future policy benefits for ONSP's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 3.5% for the years ended December 31, 2020 and 2019.

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

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

Variable Annuity Riders

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

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

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

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

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

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

At policy inception, the GLWB base is set at the amount of the purchase payments, and it is increased by the amount of future purchase payments. It increases (roll-up) by up to 8% simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year, subject to attained age restrictions where applicable, if the owner has not made any withdrawals in the first ten years. The top-off is equal to 200% of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

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

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

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

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

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

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit. A GMAB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

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

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above, except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. A GMWB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of a GMWB embedded derivative is calculated based on actuarial assumptions related to projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled "GMAB".

(Dollars in thousands)

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

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

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

(Dollars in thousands)

	2019			
	Death benefits	Living benefits		
	GMDB	GMIB	GLWB	GMAB
Return of net deposit				
Total account value	$ 6,404,612	—	—	3,207,226
Separate account value	$ 6,080,923	—	—	3,205,824
Net amount at risk [1]	$ 32,880	—	—	10
Weighted average attained age of contract holders	69	—	—	67
Return of net deposits accrued at a stated rate				
Total account value	$ 892,336	—	—	8,018
Separate account value	$ 878,652	—	—	6,872
Net amount at risk [1]	$ 160,820	—	—	—
Weighted average attained age of contract holders	74	—	—	72
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value				
Total account value	$ 2,511,305	6,790,521	8,910,042	—
Separate account value	$ 2,501,216	6,693,607	8,909,500	—
Net amount at risk [1]	$ 540,086	370,742	103,342	—
Weighted average attained age of contract holders	70	69	68	—
Return of highest anniversary value				
Total account value	$ 9,537,277	—	—	—
Separate account value	$ 9,347,848	—	—	—
Net amount at risk [1]	$ 6,296	—	—	—
Weighted average attained age of contract holders	68	—	—	—
Total				
Total account value	$ 19,345,530	6,790,521	8,910,042	3,215,244
Separate account value	$ 18,808,639	6,693,607	8,909,500	3,212,696
Net amount at risk [1]	$ 740,082	370,742	103,342	10
Weighted average attained age of contract holders	69	69	68	67

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

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

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

(Dollars in thousands)

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

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

The assets supporting the variable portion of all variable annuities are carried at fair value and reported as assets held in separate accounts, with an equivalent amount reported as liabilities related to separate accounts. All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models and/or have other investment restrictions. The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2020 and 2019.

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

		2020	2019
Mutual funds:			
Bond	$	5,141,249	5,250,098
Equity		12,807,326	12,853,796
Money market		580,443	704,745
Total	$	18,529,018	18,808,639

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

		GMDB	GMIB	GLWB	GMAB
Balance at December 31, 2018	$	131,985	(510,470)	81,059	12,245
Incurred claims		18,776	12,172	1,022	—
Paid claims		(18,776)	(12,172)	(1,022)	—
Other [1]		10,387	87,145	33,596	(29,543)
Balance at December 31, 2019	$	142,372	(423,325)	114,655	(17,298)
Incurred claims		20,560	18,313	1,108	—
Paid claims		(20,560)	(18,313)	(1,108)	—
Other [1]		18,937	49,636	40,171	42,808
Balance at December 31, 2020	$	161,309	(373,689)	154,826	25,510

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

The reserve balances in the table above include reserves for both direct and reinsurance ceded balances. As of December 31, 2020, direct G reserves were $1,375,615, ceded G reserves were $1,407,659 and net G reserves were $(32,044). As of December 31, 2019, direct G reserves were $1,157,125, ceded G reserves were $1,340,721 and net G reserves were $(183,596). The direct reserves were calculated in accordance with FASB ASC Topic 944, *Financial Services,* and the reinsurance ceded reserves were calculated in accordance with FASB ASC Topic 815, *Derivatives*. See Note 6 for a reconciliation of the change in the reinsurance ceded reserve.

Fixed Indexed Annuity Riders

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

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

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

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

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

The base account reserve balances, net of reinsurance, for fixed indexed annuity contracts were $154,678 of embedded derivative and $915,942 of host and other liability as of December 31, 2020. The balances were $166,353 of embedded derivative and $931,394 of host and other liability as of December 31, 2019. The G reserve balances, net of reinsurance, for fixed indexed annuity contracts with guarantees were $25,585 and

$12,990 as of December 31, 2020 and 2019, respectively. The components that make up the reserve include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings, and market factors.

The total account value of the fixed indexed annuities was approximately $1,068,000 and $1,077,000 as of December 31, 2020 and 2019, respectively. The account value specific to the GLWB riders was approximately $543,000 and $567,000 as of December 31, 2020 and 2019, respectively.

Direct and net G reserves were $25,585 and $12,990 as of December 31, 2020 and 2019, respectively. No G reserves were ceded to external parties during 2020 and 2019.

(11) Reinsurance

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

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 16% of gross earned life and accident and health premiums during 2020, 2019 and 2018.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB and GLWB. For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $181,280 and $198,600 as of December 31, 2020 and 2019, respectively.

Reinsurance agreements that do not transfer significant insurance risk are recorded using deposit accounting. The Company enters into such agreements with unaffiliated reinsurers. Effective April 1, 2016, the Company entered into an agreement to cede certain whole life blocks of business written between January 1, 2016 and December 31, 2016. Effective January 1, 2017, the Company entered into an additional agreement to cede certain whole life blocks of business written between January 1, 2017 and December 31, 2017. Effective October 1, 2017, these agreements were amended and restated to combine the previous treaties from 2014 through 2016, and add 2017 and 2018 prospectively. This combined treaty is accounted for using deposit accounting. At the inception of each of these deposit accounting agreements, a risk charge liability was recorded in other liabilities on the consolidated balance sheets, with a corresponding risk charge expense recorded in other operating expenses on the consolidated statements of operations. The risk charge liabilities and expenses related to these agreements were $2,568, $2,395 and $2,022 at and as of December 31, 2020, 2019 and 2018, respectively.

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

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce BOLI and SPDA blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio. As a result of this transaction, available-for-sale securities and cash of $2,797,281 were transferred to the reinsurer, resulting in a realized gain of $197,876 for the year ended December 31, 2019. This transaction resulted in a $1,929,233 increase included in reinsurance recoverable on the consolidated balance sheets as of December 31, 2019. The BOLI block of business met the requirements for reinsurance accounting; however, because the SPDA block qualifies as investment contracts, the SPDA portion of the agreement did not meet the criteria for reinsurance accounting and was accounted for under deposit accounting. As a result, a reinsurance deposit asset of $935,792 was recorded in the consolidated balance sheets at the inception of the treaty. The asset is carried at a net amortized value of $825,369 and $905,770 on the consolidated balance sheets as of December 31, 2020 and 2019, respectively.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for ONLIC, ONLIC ceded variable annuity-related risks, living and death benefits to SYRE for the GMIB, GMDB, and GLWB riders. Effective April 1, 2019, ONLIC recaptured its direct business previously ceded to SYRE. ONLIC now cedes these variable annuity-related risks and certain additional guarantee risks, which were previously retained, to SUNR, which retrocedes GMIB and associated risks and riders to SYRE. Additionally, to consolidate the management of such living benefit risks, ONLIC assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC ceded 100% of the fixed indexed annuities exchange program business and associated GLWB riders to SYRE. ONLIC assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

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

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

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

(Dollars in thousands)

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

		2020	2019	2018
Direct premiums	$	1,090,125	1,083,857	1,050,888
Reinsurance assumed - external		1,022	1,075	1,219
Reinsurance assumed - intercompany		251,113	257,514	238,704
Reinsurance ceded - external		(197,421)	(197,528)	(183,327)
Reinsurance ceded - intercompany		(251,113)	(257,514)	(238,704)
Net premiums earned	$	893,726	887,404	868,780

As part of the affiliate reinsurance agreements, an affiliate of the Company may be required to hold assets in trust or secure a letter of credit for the benefit of another affiliate. As of December 31, 2020, assets held in trust and letters of credit between affiliates was $1,037,744 and $850,000, respectively. As of December 31, 2019, assets held in trust and letters of credit between affiliates was $778,879 and $705,000, respectively. See Note 13 for further information on the letters of credit.

(12) Long-Term Debt Obligations

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

		2020	2019
Surplus notes			
6.875% fixed rate due 2042	$	247,616	247,504
5.000% fixed rate due 2031		4,059	4,019
5.800% fixed rate due 2027		5,911	5,897
8.500% fixed rate due 2026		49,829	49,798
Senior notes			
6.625% fixed rate due 2031		247,569	247,411
5.550% fixed rate due 2030		420,926	—
Term Loan			
3.96% variable rate due 2022		—	399,249
Total long-term debt obligations	$	975,910	953,878

Surplus Notes

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

In December 2011, ONLIC issued a $4,500, 5.000% fixed rate surplus note to Security Mutual Life Insurance Company of New York ("SML"), as payment for the purchase of additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and

June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.800% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued $50,000, 8.500% fixed rate surplus note, due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

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

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

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

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

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

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

Interest Expense
Total interest expense, including amortization of debt discounts and issuance costs, on all obligations was $62,250, $58,571 and $58,576 during the years ended December 31, 2020, 2019 and 2018, respectively. Total interest expense is included in investment expenses as a component of net investment income.

(Dollars in thousands)

(13) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. On March 29, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

ONFS utilized $440,000 and $565,000 of this facility as of December 31, 2020 and 2019, respectively, to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

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

On March 30, 2020, ONFS entered into a $200,000, 364-day letter of credit facility with a group of banks in order to finance and support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. In June 2020, ONFS increased this facility by $100,000 to $300,000. ONFS utilized $300,000 of this facility as of December 31, 2020 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

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

Total interest and fees paid on these credit facilities were $18,275, $14,429 and $11,565 in 2020, 2019 and 2018, respectively.

(14) Income Taxes

The provision for income taxes is as follows:

		2020	2019	2018
Current expense (benefit)	$	(2,723)	895	(972)
Deferred (benefit) expense		189	(32,139)	(7,824)
Provision for income taxes	$	(2,534)	(31,244)	(8,796)

(Dollars in thousands)

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

		2020	2019	2018
Pre-tax income times U.S. enacted tax rate	$	(522)	(18,632)	11,222
Tax-preferred investment income		(10,379)	(12,359)	(22,579)
Foreign subsidiaries statutory tax differential		(2,087)	(2,531)	(590)
Deemed income from foreign operations		6,435	—	(3,314)
U.S. Tax reform rate change - Non-equity		—	—	4,137
Prior Period Adjustments		5,850	—	—
Tax contingencies		(1,933)	(298)	126
Other, net		102	2,576	2,202
Provision for income taxes	$	(2,534)	(31,244)	(8,796)
Effective tax rate		101.9%	35.2%	(16.5)%

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

The largest component of tax-preferred investment income in the rate reconciliation above is the Dividends Received Deduction ("SA DRD") on separate account assets held in connection with variable annuity and life contracts. For 2020, 2019 and 2018 tax returns, the Company recognized an income tax benefit of $5,176, $8,145 and $9,754, respectively.

As of December 31, 2020, the Company had $126 of uncertain tax positions related to the SA DRD company share percentages. As of December 31, 2019, the Company had $2,059 of uncertain tax positions related to the SA DRD company share percentages. The $1,933 change in uncertain tax positions is included in the above rate reconciliation.

The Company has made the decision to permanently re-invest the foreign subsidiaries' earnings, thus local foreign country tax rules and tax rates govern the reporting of taxes rather than the U.S. tax rules and tax rate. In 2014, the Chilean government passed legislation increasing the enacted tax rate each year and is currently 27% in 2018 and thereafter. The impact of this legislation is reflected in the rate reconciliation table above.

(Dollars in thousands)

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

		2020	2019
Deferred tax assets:			
Pension and benefit obligations	$	24,218	21,023
Future policy benefits		1,426,998	1,533,501
Derivatives		34,908	31,860
Net operating loss carryforwards		189,985	142,565
Tax credits		47,483	39,750
Fixed Asset Capitalization and Depreciation		49,016	33,585
Section 481 (a) adjustment		7,211	5,338
Other		15,203	2,544
Total gross deferred tax assets		1,795,022	1,810,166
Valuation allowance on deferred tax assets		—	—
Net deferred tax assets		1,795,022	1,810,166
Deferred tax liabilities:			
Investments		196,883	118,924
Deferred policy acquisition costs		216,322	248,331
Section 481(a) adjustment		—	—
Reinsurance recoverable		1,574,194	1,583,632
Other		14,056	8,395
Total gross deferred tax liabilities		2,001,455	1,959,282
Net deferred tax liability	$	206,433	149,116

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

As of December 31, 2020, the Company has non-life net operating loss carryforwards of $406,091 expiring in years 2030 through 2037. As of December 31, 2019, the Company had non-life net operating loss carryforwards of $475,668 expiring in years 2028 through 2037. As of December 31, 2020, the Company has life net operating loss carryforward of $23,056 carried forward indefinitely. As of December 31, 2020, SYRE has a net operating loss of $475,540, of which $35,532 expires in 2036 and the remaining portion can be carried forward indefinitely and used only to offset future taxable income of SYRE. As of December 31, 2019, SYRE had a net operating loss of $188,967 expiring in 2033, to be carried forward and used only to offset future taxable income of SYRE. All loss carryforwards are expected to be fully utilized before expiring.

As of December 31, 2020 and 2019, the Company had no federal valuation allowances recorded. As of December 31, 2020 and 2019, the Company had no net capital loss carryforwards. As of December 31, 2020, the Company has a non-life charitable contribution carryforward of $1,456 expiring in 2025. As of December 31, 2020, the Company has tax credit carryforwards of $47,483 expiring in years 2020 through 2036. As of December 31, 2019, the Company had tax credit carryforwards of $39,750 expiring in years 2023 through 2038.

(15) Pensions and Other Post-Retirement Benefits

a) Home Office Pension Plan

The Company sponsors a funded qualified pension plan covering all home office employees hired prior to January 1, 1998. This plan was amended effective December 31, 2019, to freeze the accrual of future benefits. The impact of the curtailment is included below. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

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

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

The measurement dates were December 31, 2020 and 2019.

b) Home Office Post-Retirement Benefit Plans

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

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

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

The measurement dates were December 31, 2020 and 2019.

(Dollars in thousands)

c) General Agents' Pension Plan

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

The measurement dates were December 31, 2020 and 2019.

d) Agents' Post-Retirement Benefits Plans

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

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

The measurement dates were December 31, 2020 and 2019.

e) Obligations and Funded Status

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

		Pension benefits		Other benefits	
		2020	2019	2020	2019
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	95,607	94,331	7,558	6,306
Service cost		659	2,121	37	25
Interest cost		3,278	4,711	263	280
Actuarial loss (gain)		14,054	24,333	3,804	1,404
Benefits paid*		(605)	(5,561)	(777)	(457)
Settlement/curtailment		(7,452)	(24,328)	—	—
Projected benefit obligation at end of year	$	105,541	95,607	10,885	7,558
Accumulated benefit obligation	$	101,887	93,092		
Change in plan assets:					
Fair value of plan assets at beginning of year	$	56,609	50,703	—	—
Plan sponsor contribution		10,000	—	—	—
Actual return on plan assets		10,065	10,365	—	—
Benefits and expenses paid		(5,746)	(4,459)	—	—
Fair value of plan assets at end of year	$	70,928	56,609	—	—
Funded status**	$	(34,613)	(38,998)	(10,885)	(7,558)

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

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

(Dollars in thousands)

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

		Qualified Pension Plan	Unfunded pension plan	Total
2020				
Projected benefit obligation	$	76,226	29,315	105,541
Fair value of plan assets		70,928	—	70,928
Funded status	$	(5,298)	(29,315)	(34,613)
2019				
Projected benefit obligation	$	70,897	24,710	95,607
Fair value of plan assets		56,609	—	56,609
Funded status	$	(14,288)	(24,710)	(38,998)

		Pension benefits		Other benefits	
		2020	2019	2020	2019
Amounts recognized in the balance sheet consist of:					
Other liabilities	$	(34,613)	(38,998)	(10,885)	(7,558)

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

		Pension benefits			Other benefits		
		2020	2019	2018	2020	2019	2018
Net actuarial loss (gain)	$	8,155	17,535	(7,237)	3,803	1,404	565

		Pension benefits		Other benefits	
		2020	2019	2020	2019
Amounts recognized in accumulated other comprehensive income:					
Net actuarial loss	$	32,335	28,691	6,075	2,588
Total	$	32,335	28,691	6,075	2,588

(Dollars in thousands)

		Pension benefits	
	2020	**2019**	**2018**
Components of net periodic benefit cost:			
Service cost	$ 659	2,121	3,107
Interest cost	3,278	4,711	4,859
Expected return on plan assets	(4,167)	(3,568)	(4,726)
Amortization of net loss/(gain)	2,727	3,194	4,158
Settlement/curtailment	1,784	60	2,596
Net periodic benefit cost	$ 4,281	6,518	9,994

		Other benefits	
	2020	**2019**	**2018**
Components of net periodic benefit cost:			
Service cost	$ 37	25	43
Interest cost	263	280	261
Amortization of prior service cost	—	(127)	(128)
Amortization of net loss/(gain)	315	95	29
Net periodic benefit cost	$ 615	273	205

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

	Pension benefits	
	2020	**2019**
Projected benefit obligation	$ 105,541	95,607
Accumulated benefit obligation	101,886	93,092
Fair value of plan assets	70,928	56,609

(Dollars in thousands)

f) Assumptions

	Pension benefits		Other benefits	
	2020	**2019**	**2020**	**2019**
Weighted average assumptions used to determine net periodic benefit cost at January 1:				
Discount rate	3.61%	4.80%	3.49%	4.74%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	3.56%	4.19%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	8.70%	6.90%
Age 65 and older	—	—	0.60%	0.70%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	8.60%	6.80%
Age 65 and older	—	—	0.50%	0.60%
Year that the rate reaches the ultimate trend rate	—	—	2024	2023
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	2.70%	3.61%	2.53%	3.49%
Rate of compensation increase	3.56%	4.10%	4.25%	4.25%

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

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

(Dollars in thousands)

g) Plan Assets

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

		Level 1	Level 2	Level 3	Total
2020					
Bond funds	$	20,219	—	—	20,219
Equity funds		50,709	—	—	50,709
Total assets	$	70,928	—	—	70,928
2019					
Bond funds	$	19,152	—	—	19,152
Equity funds		37,457	—	—	37,457
Total assets	$	56,609	—	—	56,609

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

The Company's other post-retirement benefit plans were unfunded at December 31, 2020 and 2019.

The assets of the Company's defined benefit pension plan ("the Plan") are invested in group variable annuity contracts with ONLIC offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2020 and 2019, $50,228 and $35,245, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of equity securities, debt securities and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan's short-term liquidity needs and its long-term liabilities. The target allocations are currently 70% equity securities and 30% debt securities.

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

The overall expected long-term rate of return on assets is determined by a weighted average return of fixed income and equity indexes. Fixed income securities (including cash) make up 35% of the weighted average return and equity securities make up 65% of the weighted average return.

(Dollars in thousands)

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

	2020	2019
Equity securities	71%	66%
Debt securities	29	34
Total	100%	100%

h) Cash Flows

Contributions

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

Estimated Future Benefit Payments

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

		Pension benefits	Other benefits
2021	$	8,752	814
2022		11,573	860
2023		9,291	888
2024		9,884	847
2025		7,892	775
2026 - 2020		35,412	3,224

i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2020, 2019 and 2018 was $3,665, $6,011 and $7,281, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,618, $2,615 and $2,956 in 2020, 2019 and 2018, respectively.

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

The Company has other deferred compensation and supplemental pension plans not included in the tables above. The expenses for these plans were $18,608, $14,345 and $(6,268) in 2020, 2019 and 2018, respectively. In 2018, a portion of the liability was released resulting in a negative expense during the year.

(16) Closed Block

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

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

(Dollars in thousands)

Summarized financial information of the Closed Block as of December 31, 2020 and 2019 and for each of the years in the three-year period ended December 31, 2020 follows:

		2020	2019
Closed Block liabilities:			
Future policy benefits and claims	$	553,833	566,456
Policyholders' dividend accumulations		30,794	32,216
Other policyholder funds		41,840	28,912
Deferred federal income taxes		10,627	6,934
Other liabilities		1,340	1,320
Total Closed Block liabilities	$	638,434	635,838
Closed Block assets:			
Fixed maturity securities available-for-sale, at fair value (amortized cost of $416,528 and $415,840 as of December 31, 2020 and 2019, respectively)	$	467,132	448,860
Mortgage loans on real estate, net		23,097	29,751
Policy loans		77,256	78,844
Cash and short-term investments		7,302	11,314
Accrued investment income		4,054	4,065
Deferred policy acquisition costs		26,605	29,777
Reinsurance recoverable		1,082	1,231
Other assets		470	431
Total Closed Block assets	$	606,998	604,273
Excess of reported Closed Block liabilities over Closed Block assets	$	31,436	31,565
Amounts included in accumulated other comprehensive income:			
Unrealized investment gains, net of tax		52,026	34,437
Allocated to policyholder dividend obligation, net of tax		(1,422)	(1,417)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$	82,040	64,585

(Dollars in thousands)

	2020	2019	2018
Change in policyholder dividend obligation:			
Balance at beginning of year	$ 32,216	33,633	35,565
Net unrealized investment activity	(1,422)	(1,417)	(1,932)
Balance at end of year	$ 30,794	32,216	33,633
Closed Block revenues and expenses:			
Traditional life insurance premiums	$ 14,900	16,922	18,284
Net investment income	26,324	26,979	28,788
Net realized gains (losses) on investments	260	425	463
Benefits and claims	(27,952)	(27,989)	(31,104)
Provision for policyholders' dividends on participating policies	(4,745)	(6,312)	(7,201)
Amortization of deferred policy acquisition costs	(3,182)	(3,089)	(3,015)
Other operating costs and expenses	(1,692)	(1,635)	(1,660)
Income before federal income taxes	3,913	5,301	4,555
Income tax expense	593	(50)	1,382
Closed Block net income	$ 3,320	5,351	3,173

(17) Regulatory RBC and Dividend Restrictions

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

The Company's Ohio domiciled life insurance subsidiaries, ONLIC, ONLAC, CMGO and SUNR, do not have any permitted statutory accounting practices as of December 31, 2020 or 2019. NSLAC, a New York domiciled life insurance company, does not have any permitted statutory accounting practices as of December 31, 2020 or 2019.

The Company's subsidiary, SUNR, applies a prescribed practice, which values assumed GMDB and GLWB risks on variable annuity contracts from ONLIC using separate reserving bases from the Statutory Accounting Principles detailed within the NAIC *Accounting Practices and Procedures manual* ("NAIC SAP") pursuant to Ohio Revised Code Chapter 3964 and approved by the Ohio Department of Insurance. The prescribed practice related to ONLIC guaranteed risks affects the Company's carrying value of SUNR, included in common stocks – affiliates on the statutory statements of admitted assets, liabilities, capital and surplus. The affect is an increase of $186,173 and a decrease of $164,187 as of December 31, 2020 and 2019, respectively. If the prescribed practices were not applied, ONLIC's risk-based capital would continue to be above regulatory action levels.

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

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

In 2015, the Company redomiciled SYRE to the Cayman Islands from the State of Delaware. The Company received approval from the Cayman Islands Monetary Authority ("CIMA") regarding the use of permitted practices to use GAAP as the basis of accounting and to recognize, as an admitted asset, a letter of credit. The approval continues indefinitely.

Statutory Surplus and Income
State insurance regulators and the NAIC have adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. As of December 31, 2020, ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR exceeded the minimum RBC requirements.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2020, the Company's primary life insurance subsidiary ONLIC's total adjusted capital and company action level RBC were $1,203,852 and $275,777, respectively, providing an RBC ratio of 437%. Additionally, as of December 31, 2020, ONLIC's authorized control level RBC was $137,888.

The combined statutory basis net income of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $150,349, $(204,121) and $(91,843) for the years ended December 31, 2020, 2019 and 2018, respectively.

The combined statutory basis capital and surplus of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $1,078,507 and $1,019,863 as of December 31, 2020 and 2019, respectively.

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

- the costs related to successful efforts to acquire business, principally commissions and certain policy issue expenses, are amortized over the period benefited rather than charged to operations in the year incurred;
- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;
- investments in fixed maturity available-for-sale securities are carried at fair value rather than amortized cost;
- certain assets designated as non-admitted under statutory accounting are excluded from the balance sheet; under GAAP, these assets would be included in the consolidated balance sheets, net of any valuation allowance;
- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at estimated fair value as opposed to a component of separate account assets;
- the fixed maturity securities that are related to NSLAC's funds withheld reinsurance arrangement are classified as trading securities recorded at estimated fair value as opposed to amortized cost;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive (loss) income and comprehensive (loss) income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain VIEs, has the power to direct the activities most significant to the VIE while for statutory, consolidation is not applicable; and
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus.

Additionally, state regulators and rating agencies do not always use the same methodologies for calculating RBC ratios. There is a risk that a rating agency will not give us credit for certain regulatory RBC rules or permitted practices, which could result in a reduced rating even though the Company's RBC ratio and those of its insurance subsidiaries remain high based upon state regulatory rules and practices.

Dividend Restrictions
The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLIC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $135,000 may be paid by ONLIC to ONFS in 2021 without prior approval. Dividends of $40,000, $55,000 and $60,000 were declared and paid by ONLIC to ONFS in 2020, 2019 and 2018, respectively.

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $23,000 may be paid by ONLAC to ONLIC in 2021 without prior approval. ONLAC declared and paid ordinary dividends to ONLIC of $12,000, $30,857 and $27,000 in 2020, 2019 and 2018, respectively. Extraordinary dividends of $75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid during 2020 or 2018.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter in which CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2020, 2019 or 2018.

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

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $3,000 may be paid by NSLAC to ONLIC in 2021 without prior approval. No dividends were declared or paid by NSLAC in 2020, 2019 or 2018.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2020, 2019 or 2018. No dividends were declared or paid by KENW to ONLIC in 2020, 2019 or 2018.

SYRE is subject to limitations, imposed by CIMA, on the payment of dividends to its stockholder, ONFS. Dividends shall only be paid out of the SYRE's retained earnings and any paid-in capital in excess of par, provided that, after giving effect to each such dividend, the remaining capital is in excess of any capital requirements as prescribed by the CIMA. SYRE cannot pay any dividends without prior approval from CIMA. No dividends were declared or paid by SYRE in 2020, 2019 or 2018.

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans, bonds, common stocks and venture capital partnerships of $57,496 and $60,873 as of December 31, 2020 and 2019, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the consolidated financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Leases

The Company determines if an arrangement is, or contains, a lease at the inception date. Operating and finance lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the discount rate for the lease at the commencement date. As the rate implicit in the lease is not readily determinable for operating leases, an incremental borrowing rate based on information available at the commencement date to determine the present value of future lease payments is utilized. Variable components of the lease payments such as fair value adjustments, utilities and maintenance costs are expensed as incurred and not included in determining the present value. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. The Company accounts for lease and non-lease components separately and does not apply the lease guidance under ASC 842 to short-term lease arrangements.

Operating leases are included in operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet. Finance leases are included in other assets and other liabilities on the consolidated balance sheet.

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

(Dollars in thousands)

Additional information related to leases is as follows:

The components of lease expense for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
Financing lease cost			
Amortization of right-of-use assets	$	389	33
Interest on lease liabilities		26	9
Operating lease cost		1,895	1,825
Short term lease cost		39	30
Total lease expense	$	2,349	1,897

Maturity of lease liabilities under non-cancelable operating and finance leases as of December 31, 2020 are as follows:

		Operating leases	Financing leases
2021	$	1,695	533
2022		1,439	526
2023		1,367	490
2024		1,018	261
2025		982	102
Thereafter		1,141	—
Total future minimum lease payments		7,642	1,912
Less imputed interest		(650)	(48)
Total	$	6,992	1,864

The following table provides a summary of lease terms and discount rates for the year ended December 31, 2020:

Weighted-average remaining lease term (years) - financing leases	3.78
Weighted-average remaining lease term (years) - operating leases	5.63
Weighted-average discount rate - financing leases	1.45%
Weighted-average discount rate - financing leases	3.12%

(Dollars in thousands)

Supplemental information related to leases for the years ended December 31, 2020 and 2019 is as follows:

		2020	2019
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from financing leases	$	26	9
Operating cash flows from operating leases		1,895	1,825
Financing cash flows from financing leases		384	34
Right-of-use assets obtained in exchange for new finance lease liabilities		2,139	—
Right-of-use assets obtained in exchange for new operating lease liabilities		576	479

Information as Lessor

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

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

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

(Dollars in thousands)

The Company recognized rental revenues related to operating lease payments of $5,773 and $6,199 during the years ended December 31, 2020 and 2019, respectively. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at December 31, 2020 for operating leases:

2021	$	3,761
2022		2,606
2023		1,834
2024		1,403
2025		949
Thereafter		2,021
Total undiscounted future minimum cash flows	$	12,574

(20) Commitments and Contingencies

Several subsidiaries of the Company are a party to six federal court cases and two Financial Industry Regulatory Authority ("FINRA") arbitrations stemming from the strategic changes announced in September 2018, specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in all of the cases is a disputed interpretation of certain language in Ohio National Life's contracts with the broker dealers who sold Ohio National Life's annuities. One case purports to be on behalf of a class, but no motions for class certification have yet been filed, and no class has been certified. Nine previously pending court cases and seven previously pending FINRA arbitrations have been resolved. The next case currently set for trial is in October, 2021. The Company expects to continue to vigorously defend itself against these allegations. However, litigation is inherently uncertain, and the outcome thereof cannot be predicted. Accordingly, it is possible that the ultimate outcome in one or more of the proceedings may be material to the Company's results of operations for a particular period depending upon, among other factors, the size of the loss and the level of the Company's results of operations for the period.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES **Schedule 1**

Consolidating Information - Balance Sheet

December 31, 2020

(Dollars in thousands)

Assets	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Investments:												
Securities available-for-sale at fair value:												
Fixed maturities	$ –	306,326	336,846	200,228	632,063	62,451	1,830,914	5,666,661	–	9,035,490	10,324,604	10,324,604
Fixed maturities - on loan	–	–	–	–	–	–	84,515	274,292	–	358,808	358,808	358,808
Investment in subs	–	–	–	–	–	–	–	1,097,102	(1,097,102)	–	–	–
Fixed maturities held-to-maturity, at amortized cost	–	–	–	–	–	–	–	75,000	(75,000)	–	–	–
Fixed maturities, trading securities	–	–	–	–	–	128	–	–	–	128	128	128
Equity securities, at fair value	76	–	–	–	–	–	2,947	9,902	–	12,925	53,733	53,733
Equity securities - on loan, at fair value	–	–	–	–	–	–	–	–	–	–	–	–
Mortgage loans on real estate, net	–	–	–	–	29,817	–	397,105	969,590	–	1,396,512	1,474,388	1,474,388
Real estate, net	–	–	–	–	–	–	–	24,757	–	24,757	56,208	56,208
Policy loans	–	–	–	–	–	–	122,742	836,078	–	958,821	964,343	964,343
Other long-term investments	–	–	–	–	–	–	12,268	165,470	–	177,739	281,768	281,768
Short-term investments securities lending collateral	–	–	–	–	–	–	86,920	281,976	–	368,897	368,897	368,897
Short-term investments	–	11,068	2,786	7,693	–	–	–	109,247	–	130,794	207,770	207,770
Total investments	76	317,394	339,632	207,921	661,880	62,579	2,537,411	9,510,075	(1,172,102)	12,464,871	14,090,647	14,090,647
Cash	17,954	4,690	5,074	6,152	23,102	4,289	142,191	394,041	–	597,492	687,560	687,657
Accrued investment income	–	2,773	2,667	1,438	4,947	433	17,113	49,498	(229)	78,640	80,118	80,118
Deferred policy acquisition costs	–	–	12,850	17,002	–	17,368	249,268	1,248,326	(5,531)	1,539,282	1,548,800	1,548,800
Reinsurance recoverable	–	18,582	13,833	14,919	624,304	12,416	2,919,015	4,112,891	(2,611,840)	5,104,119	3,994,380	3,994,380
Reinsurance deposit asset	–	–	–	–	–	–	21,107	804,262	–	825,369	825,369	825,369
Derivative funds withheld due from affiliate	–	–	–	–	21,163	–	–	4,008	(23,829)	1,342	–	–
Reinsurance funds withheld due from affiliate, net	–	–	–	–	–	–	–	–	–	–	–	–
Operating lease right-of-use assets	–	–	–	–	–	–	–	15,785	–	15,785	6,976	6,976
Other assets	9,573	–	1	–	12,205	2,934	12,053	231,018	(32,146)	235,633	358,274	357,680
Assets held in separate accounts	–	–	–	–	–	399,200	293,201	18,793,792	–	19,486,193	19,486,193	19,486,193
Federal income tax recoverable	–	675	–	1,434	4,575	–	–	7,813	(2,924)	11,573	13,066	13,190
Deferred federal income taxes	397	–	–	–	39,162	–	6,726	–	(46,285)	–	–	–
Total assets	$ 28,000	344,114	374,057	248,866	1,391,338	499,219	6,198,085	35,171,509	(3,894,886)	40,360,299	41,091,383	41,091,010
Liabilities and Equity												
Future policy benefits and claims	$ –	158,190	231,672	168,633	1,089,808	33,206	5,175,802	11,095,577	(2,619,365)	15,333,523	16,447,013	16,447,013
Policyholders' dividend accumulations	–	–	–	–	–	–	–	31,680	–	31,680	31,680	31,680
Other policyholder funds	–	5,551	–	–	–	–	34,078	101,821	–	141,450	145,886	145,886
Short-term debt	–	–	–	–	–	–	–	–	–	–	1,792	1,792
Long-term debt obligations	–	75,000	–	–	–	–	–	307,415	(75,000)	307,415	975,910	975,910
Accrued Federal income taxes:												
Current	209	–	156	–	–	814	1,746	–	(2,924)	–	–	–
Deferred	–	36,239	72,463	25,021	–	2,665	–	315,832	(46,510)	405,710	206,433	206,433
Payable to afiiliate for derivative funds withheld program	–	–	–	–	13,249	–	–	19,821	(23,829)	9,242	–	–
Reinsurance funds withheld due to affiliate, net	–	–	–	–	–	–	–	545,201	–	545,201	–	–
Operating lease liabilities	–	–	–	–	–	–	–	15,785	–	15,785	6,992	6,992
Other liabilities	15,140	689	706	702	4,901	902	59,714	366,896	(32,376)	417,271	581,778	581,778
Payables for securities lending collateral	–	–	–	–	–	–	86,920	281,976	–	368,897	368,897	368,897
Liabilities related to separate accounts	–	–	–	–	–	399,200	293,201	18,793,792	–	19,486,193	19,486,193	19,486,193
Total liabilities	15,349	275,669	304,997	194,356	1,107,958	436,787	5,651,461	31,875,796	(2,800,004)	37,062,367	38,252,574	38,252,574
Equity:												
Common stock and additional paid-in-capital	10,830	34,250	5,000	25,250	305,904	33,345	97,577	298,076	(512,155)	298,076	10,592	–
Accumulated other comprehensive income	–	19,607	24,923	13,989	37,868	4,290	101,093	357,190	(200,211)	358,751	416,983	417,126
Retained earnings	1,821	14,588	39,137	15,271	(60,392)	24,797	347,954	2,640,447	(382,516)	2,641,105	2,411,234	2,421,310
Total equity excluding non-controlling interest	12,651	68,445	69,060	54,510	283,380	62,432	546,624	3,295,713	(1,094,882)	3,297,932	2,838,809	2,838,436
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Total equity	12,651	68,445	69,060	54,510	283,380	62,432	546,624	3,295,713	(1,094,882)	3,297,932	2,838,809	2,838,436
Total liabilities and equity	$ 28,000	344,114	374,057	248,866	1,391,338	499,219	6,198,085	35,171,509	(3,894,886)	40,360,299	41,091,383	41,091,010

See accompanying Independent Auditor's Report

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES **Schedule 2**

Consolidating Information - Statement of Income

Year to date December 31, 2020

(Dollars in thousands)

	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Revenues:												
Traditional life insurance premiums												
Direct	$ –	(5,370)	–	–	–	6	220,424	787,871	–	1,002,932	1,039,982	1,039,982
Reinsurance premiums	–	(1,120)	(1,805)	36,557	–	–	(267,693)	60,038	–	(174,024)	(175,330)	(175,330)
Traditional life insurance premiums	$ –	(6,490)	(1,805)	36,557	–	6	(47,269)	847,909	–	828,908	864,652	864,652
Accident and health insurance premiums	–	–	–	–	–	–	23,701	5,373	–	29,074	29,074	29,074
Annuity premiums and charges	–	–	–	–	92,548	6,212	–	249,265	–	348,025	413,451	413,451
Universal life policy charges	–	9,013	–	–	–	–	141,983	1,142	–	152,138	155,135	155,135
Group life and health insurance premiums	–	–	–	–	–	–	–	–	–	–	111,455	111,455
Change in value of trading fixed maturity securities	–	–	–	–	–	(2)	–	–	–	(2)	(2)	(2)
Change in value of equity securities	–	–	–	–	–	–	299	534	–	833	1,506	1,506
Change in value of reinsurance derivatives	–	–	–	–	–	–	–	–	–	–	–	–
Net investment income	37	6,460	12,528	6,012	17,343	2,060	103,091	211,694	73,511	432,735	441,665	441,667
Net realized (losses) gains on investments												
Investment gains (losses):												
Total other-than-temporary impairment losses on securities	–	–	–	–	–	(18)	(1,869)	(9,460)	–	(11,347)	(11,347)	(11,347)
Portion of impairment losses recognized in other comprehensive income	–	–	–	–	–	8	(43)	2,124	–	2,088	2,088	2,088
Net other-than-temporary impairment losses on securities recognized in earnings	–	–	–	–	–	(10)	(1,912)	(7,336)	–	(9,259)	(9,259)	(9,259)
Realized gains (losses), excluding other-than-temporary losses on securities	–	(694)	415	25	324	100	13,168	427	(5)	13,759	28,990	28,990
Investment (losses) gains	–	(694)	415	25	324	90	11,256	(6,909)	(5)	4,500	19,731	19,731
Derivative instruments	–	–	–	–	(80,686)	–	1,460	20,510	–	(58,717)	(50,702)	(50,702)
Gain (loss) on debt retirement	–	–	–	–	–	–	–	–	–	–	–	–
Investment management fees	43,198	–	–	–	–	–	–	–	–	43,198	43,198	43,198
Other income	48,912	–	–	–	–	1,044	5,348	93,301	(7,893)	140,711	152,619	152,619
	92,147	8,289	11,138	42,594	29,529	9,410	239,869	1,422,819	65,613	1,921,403	2,181,782	2,181,784
Benefits and expenses:												
Benefits and claims	–	7,902	5,500	26,370	109,912	1,661	155,746	838,026	465	1,145,580	1,452,664	1,452,664
Provision for policyholders' dividends on participating policies	–	–	–	–	–	–	–	109,808	–	109,808	109,808	109,808
Amortization of deferred policy acquisition costs	–	–	1,709	1,711	–	1,577	58,093	(138,269)	(4,379)	(79,557)	149,547	149,547
Impairment of goodwill and intangible assets	–	–	–	–	–	–	–	–	–	–	–	–
Commisions, net	66,760	1,246	5,461	8,259	–	1,730	(16,431)	79,081	(7,856)	138,251	165,687	165,687
Other operating costs and expenses	17,219	231	333	359	618	855	65,629	180,999	–	266,240	305,971	306,564
	83,979	9,379	13,003	36,699	110,530	5,823	263,037	1,069,645	(11,770)	1,580,322	2,183,677	2,184,270
Income (loss) before income tax	8,168	(1,090)	(1,865)	5,895	(81,001)	3,587	(23,168)	353,174	77,383	341,081	(1,895)	(2,486)
Income taxes:												
Current expense (benefit)	1,637	(994)	(175)	(1,571)	(37,909)	1,299	2,907	32,852	–	(1,953)	(2,599)	(2,723)
Deferred expense (benefit)	(359)	694	(233)	3,681	24,548	(806)	(9,731)	43,330	197	61,322	189	189
	1,278	(300)	(408)	2,110	(13,361)	493	(6,824)	76,182	197	59,369	(2,410)	(2,534)
Net income (loss)	6,890	(790)	(1,457)	3,785	(67,640)	3,094	(16,344)	276,992	77,186	281,712	515	48
Less: net income attributable to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Net income (loss) attributable to ONMH	$ 6,890	(790)	(1,457)	3,785	(67,640)	3,094	(16,344)	276,992	77,186	281,712	515	48

See accompanying Independent Auditor's Report

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

Statutory Financial Statements and Supplementary Information

December 31, 2020, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors
The Ohio National Life Insurance Company:

We have audited the accompanying financial statements of The Ohio National Life Insurance Company (a wholly owned subsidiary of Ohio National Financial Services, Inc.) (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2020 and 2019, and the related statutory statements of operations, changes in capital and surplus, and cash flow for each of the years in the three-year period ended December 31, 2020, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the statutory accounting practices described in Note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for each of the years in the three-year period ended December 31, 2020.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flow for each of the years in the three-year period ended December 31, 2020, in accordance with statutory accounting practices prescribed or permitted by the Department described in Note 2.

Emphasis of Matter

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

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in *Schedule 1 Supplemental Insurance Information, Schedule 2 Investment Risk Interrogatories, Schedule 3 Summary of Investments* and *Schedule 4 Reinsurance Risk Interrogatories* is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
March 26, 2021

The Ohio National Life Insurance Company
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

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

December 31, 2020 and 2019

(Dollars in thousands, except share amounts)

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

See accompanying notes to statutory financial statements.

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

Statutory Statements of Operations

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

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

See accompanying notes to statutory financial statements.

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

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

	Common stock	Surplus notes	Gross paid in and contributed surplus	Aggregate write-ins for special purpose funds	Unassigned surplus	Total capital and surplus
Balance at December 31, 2017	$ 10,000	309,622	283,297	(11,532)	510,163	1,101,550
Net loss	—	—	—	—	(55,420)	(55,420)
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	4,403	4,403
Change in net unrealized foreign exchange capital gain	—	—	—	—	(137)	(137)
Change in net deferred income tax	—	—	—	—	29,729	29,729
Change in nonadmitted assets and related items	—	—	—	—	(16,816)	(16,816)
Change in asset valuation reserve	—	—	—	—	3,420	3,420
Correction of an error, net of tax	—	—	—	—	(1,063)	(1,063)
Benefit plan adjustment	—	—	—	—	6,208	6,208
Voluntary reserve	—	—	—	7,123	—	7,123
Dividends to stockholder	—	—	—	—	(60,000)	(60,000)
Balance at December 31, 2018	10,000	309,698	283,297	(4,409)	420,487	1,019,073
Net loss	—	—	—	—	(83,815)	(83,815)
Amortization of surplus note	—	77	—	—	—	77
Change in net unrealized capital gains	—	—	—	—	41,436	41,436
Change in net unrealized foreign exchange capital gain	—	—	—	—	(1)	(1)
Change in net deferred income tax	—	—	—	—	(16,822)	(16,822)
Change in nonadmitted assets and related items	—	—	—	—	16,728	16,728
Change in asset valuation reserve	—	—	—	—	(38,352)	(38,352)
Correction of an error, net of tax	—	—	—	—	(1,446)	(1,446)
Deferred coinsurance gain	—	—	—	—	40,784	40,784
Benefit plan adjustment	—	—	—	—	(366)	(366)
Voluntary reserve	—	—	—	4,409	93,158	97,567
Segregated special surplus for the benefit of affiliate	—	—	—	35,826	(35,826)	—
Dividends to stockholder	—	—	—	—	(55,000)	(55,000)
Balance at December 31, 2019	10,000	309,775	283,297	35,826	380,965	1,019,863
Net income	—	—	—	—	134,879	134,879
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	(44,627)	(44,627)
Change in net deferred income tax	—	—	—	—	10,885	10,885
Change in nonadmitted assets and related items	—	—	—	—	(24,770)	(24,770)
Change in asset valuation reserve	—	—	—	—	(11,323)	(11,323)
Change in reserve valuation basis	—	—	—	—	63,050	63,050
Correction of an error, net of tax	—	—	—	—	(195)	(195)
Deferred coinsurance gain	—	—	—	—	(22,921)	(22,921)
Benefit plan adjustment	—	—	—	—	(6,410)	(6,410)
Dividends to stockholder	—	—	—	—	(40,000)	(40,000)
Balance at December 31, 2020	$ 10,000	309,851	283,297	35,826	439,533	1,078,507

See accompanying notes to statutory financial statements.

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

Statutory Statements of Cash Flow

Years ended December 31, 2020, 2019 and 2018

(Dollars in thousands)

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

See accompanying notes to statutory financial statements.

(1) Organization and Business

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

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

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

Business
ONLIC is a life and health (disability) insurer licensed in 49 states, the District of Columbia and Puerto Rico. The Company offered a full range of life, disability, and annuity products through independent agents and other distribution channels and is subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018, that it would exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision followed a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective September 15, 2018, the Company no longer accepts applications for variable annuities or new retirement plans but will continue to service and support existing clients in both product lines. During the second quarter of 2020, the Company made the strategic decision to relaunch its fixed indexed annuity product.

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

Additionally, in late 2018 and through March 15, 2019, the Company offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. The Company paid approximately $115,000 and $58,000 related to the buy-back during 2019 and 2018, respectively, which is included in benefits and claims on the corresponding statements of operations. A second phase of the buy-back was offered in late 2020 and into 2021. The Company paid approximately $12,000 related to the buy-back in 2020, which is included in benefits and claims on the corresponding statements of operations.

(Dollars in thousands)

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

(2) Basis of Presentation

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

ONLIC does not have any permitted or prescribed statutory accounting practices as of December 31, 2020 and 2019. ONLIC's wholly-owned Vermont subsidiaries have permitted accounting practices as disclosed in Note 3(c). The statutory financial statements presented represent the accounts of the Company and do not include the accounts of any of its subsidiaries.

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

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

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

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

- The costs related to acquiring business, principally commissions and certain policy issue expenses related to successful acquisition efforts, are amortized over the period benefited rather than charged to income in the year incurred;
- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;
- investments in fixed maturity securities are carried at either amortized cost or fair value based on their classifications; investments in fixed maturity securities classified as available-for-sale are carried at estimated fair value with net unrealized holding gains and losses reported in other comprehensive income; fixed maturity securities designated as trading are carried at fair value with net unrealized holding gains and losses reported in income; under statutory accounting, investments in bonds are reported at the lower of amortized cost or fair value based on their NAIC rating and any adjustments to fair value are reported directly in surplus (see Note 3(c) for more information regarding bond valuation);
- only contracts that have significant mortality or morbidity risk are classified as insurance contracts; otherwise, they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments; for statutory reporting, contracts that have any mortality or morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts;
- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at fair value as opposed to a component of separate account assets;
- under GAAP, “nonadmitted” assets do not exist, while for statutory reporting nonadmitted assets are excluded from surplus (see Note 3(b) for more information regarding nonadmitted assets);
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive income and comprehensive income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain variable interest entities, is the primary beneficiary while for statutory, consolidation is not applicable;
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus;

- certain assets and liabilities are reported gross of ceded reinsurance balances;
- deposits to universal life contracts, investment contracts and limited payment contracts are not included in revenue;
- negative cash balances are reported as liabilities;
- certain annuity related contracts give rise to embedded derivatives for GAAP while STAT does not recognize these embedded derivatives; and
- on a statutory basis only, the correction of immaterial prior period errors are recorded directly to surplus.

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

(3) Summary of Significant Accounting Policies

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

(a) Use of Estimates

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

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

(b) Nonadmitted Assets

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

(c) Investments

Investment Income
Interest and dividends on investments is recorded within investment income. Realized capital gains and losses are reported net of federal income tax and transfers to the interest maintenance reserve ("IMR"). Realized gains (losses) on the sale of investments are determined on the basis of specific security

identification on the trade date. Unrealized gains and losses on investments are charged or credited to unassigned surplus in accordance with NAIC rules.

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

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

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

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

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

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

Investments in the Company's wholly owned insurance subsidiaries are carried at audited statutory equity with changes in net assets, other than dividends declared, recognized as net unrealized capital gains or losses through surplus. Investments in the Company's special purpose financial captive reinsurers are carried as follows: MONT and KENW are carried at zero due to the fact that the State of Vermont has granted a permitted practice to allow the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus were to fall below the level of all capital contributions then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. The investment in SUNR is carried at the value of SUNR's statutory surplus, adjusted for the prescribed practice described in Note 2. Investments in wholly owned noninsurance subsidiaries are carried at the value of their underlying audited GAAP basis equity, adjusted for nonadmitted assets, based on the significance of their operations beyond holding assets for the use of the Company. The Company does not record the investment in ONII, a noninsurance subsidiary, as it does not have audited GAAP financial statements for 2020, 2019 and 2018.

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

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

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

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

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

Real Estate
Real estate, occupied by the Company and held for the production of income, is generally carried at depreciated cost, net of encumbrances. Accumulated depreciation was $6,134 and $5,133 as of December 31, 2020 and 2019, respectively.

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

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

Cash, Cash Equivalents and Short-term Investments
Short-term investments are carried at amortized cost and cash equivalents are carried at fair value. Cash equivalents are short-term and highly liquid investments with original maturities of three months or less,

and short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at time of purchase.

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

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

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

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

(d) Segregated Special Surplus Fund

The Company has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with a reinsurance agreement undertaken during 2019. The assets are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 200% of its authorized control level risk based capital. The segregated special surplus fund is held in a custodial account. At December 31, 2020 and 2019, the required amount to be segregated was $35,826 recorded in the aggregate write-ins for special surplus funds on the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus and the Statutory Statements of Changes in Capital and Surplus. Total value of the custodial account was $39,325 and $36,437, at December 31, 2020 and 2019, respectively, which was invested in the following:

(Dollars in thousands)

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

(e) Separate Accounts

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

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

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

(f) Revenues and Expenses

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

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

(g) Reserves for Future Policy Benefits

<u>Life Policies and Contracts</u>
For traditional life policies issued prior to January 1, 2020, reserves are based on statutory mortality and interest requirements without consideration for withdrawals. The mortality table and interest assumptions used for the majority of new policies issued was the 2017 Commissioners Standard Ordinary ("CSO") table with an interest rate of 3.5%. With respect to in force policies, the mortality tables and interest assumptions used are primarily the 1941 CSO table with interest rates of 2.25% to 2.5%, the 1958 CSO table with interest rates of 1.75% to 4.5%, the 1980 CSO table with interest rates of 3.0% to 5.5%, the 2001 CSO table with interest rates of 3.0% to 4.0%, and the 2017 CSO table with an interest rate of 3.5%. For policies issued January 1, 2020 and after, reserves are calculated as prescribed in section 20 of the Valuation Manual ("VM-20") using principles based reserves ("PBR"). The assumptions used in the calculations are a combination of prescribed assumptions and company experience.

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

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

The Company had $6,897,979 and $6,695,902 of individual life insurance in force as of December 31, 2020 and 2019, respectively, and $1,250,881 and $1,100,703 of related reserves as of December 31, 2020 and 2019, respectively, for which the gross premiums were less than the net premiums according to the standard valuation set by the Department.

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

Accident and Health (Disability) Policies
The aggregate reserves for individual accident and health (disability) policies consist of active life reserves, disabled life reserves and unearned premium reserves. The active life reserves are calculated on a two-year preliminary term basis at interest rates of 3.0% to 6.0%, using either the 1964 Commissioner's Disability Table (policies issued prior to 1990) or the 1985 Commissioner's Individual Disability Table A (policies issued after 1989). The disabled life reserves are calculated using either the 1985 Commissioner's Individual Disability Table C at interest rates of 3.5% to 5.5% (claims incurred after 1989) or the 1964 Commissioner's Disability Table at an interest rate of 3.5% (claims incurred prior to 1990). Beginning January 1, 2020, the disability reserve calculations for new policies also incorporate the 2013 Individual Disability Insurance table and its associated modifiers as required by Actuarial Guideline 50.

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

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

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

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

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider. The fixed indexed annuity contracts issued beginning in 2020 do not include the GLWB rider.

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

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

The reserves and deposit liabilities for individual deferred annuity products have been established based on the participants' net contributions, policy term, interest rates and various contract provisions. The average interest rate credited on these annuity policies was 2.77% for the years ended December 31, 2020, 2019 and 2018. The reserves for individual annuity policies issued after 1991 have been adjusted for possible future surrender charges in accordance with CARVM.

Reserves for ordinary (individual) immediate annuities are determined primarily using the 1937 Standard Annuity Table (interest rate of 11.25%), the 1971 Individual Annuity Mortality Table (interest rate of 11.25%), the 1983 Annuity Table (interest rates of 6.25% to 11.00%), the Annuity 2000 Table (interest rates of 4.00% to 7.00%), or the IAR2012 Mortality Table (interest rates of 1.00% to 5.5%). Group immediate annuity reserves are based primarily on the 1971 Group Annuity Mortality Table (interest rates of 11% to 11.25%), the 1983 Group Annuity Mortality Table (interest rates of 6.25% to 9.25%) or the 1994 Group Annuity Mortality Table (interest rates of 1.50% to 7.00%).

(h) Participating Business/Policyholders' Dividends

Participating business, which refers to policies that participate in profits through policyholders' dividends, represents 22.4% and 20.5% of the Company's ordinary life insurance in force at December 31, 2020 and 2019, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholders' funds in the statutory statements of admitted assets, liabilities and capital and surplus. The policyholder dividends incurred are recorded in dividends to policyholders in the statutory statements of income.

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

(i) Asset Valuation Reserve/Interest Maintenance Reserve

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

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

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

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

(j) Reinsurance

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

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

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

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

The Company is a member of the FHLB of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts. The Company had outstanding deposit contracts of $395,000 and $350,000 as of December 31, 2020 and 2019, respectively, which are included in annuity and other deposit funds on the statutory statements of admitted assets, liabilities, and capital and surplus. The Company uses the deposits for the purpose of additional spread income.

(Dollars in thousands)

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

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

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

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

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

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

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

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

(Dollars in thousands)

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

2020		**General account**	**Funding agreements reserves established**
Funding agreements	$	395,000	395,000
2019			
Funding agreements	$	350,000	350,000

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

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

(l) Income Taxes

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

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

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

(m) Litigation Contingencies

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

(n) Employee Benefit Plans

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

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality. Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's statutory financial statements.

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

(o) Equity and Undistributed Income of Subsidiaries

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

(p) New Accounting Standards

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

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

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

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

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

(q) Subsequent Events

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

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

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

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

The transaction will be structured as a sponsored demutualization, which means ONMH will convert to a stock company and will be indirectly owned by Constellation upon closing of the transaction. The conversion requires a vote by eligible members as well as regulatory review and approval. Eligible members will be compensated for the extinguishment of their membership interests with additional policy benefits, or cash, as applicable. In addition to member compensation, Constellation has committed a $500 million capital infusion into ONMH over a four-year period following the closing of the transaction.

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

(4) Risks

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

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

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

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

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 14% and 13% of total individual annuity reserves as of December 31, 2020 and 2019, respectively. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

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

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

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

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

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

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

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

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

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

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, effective July 1, 2019, the Company has reinsured the majority of the block of business with a third party under a coinsurance agreement.

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

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

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

(5) Fair Value Measurements

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

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

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

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets and liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include cash, cash equivalents and short-term investments, separate account assets and exchange traded derivatives.
- **Level 2** – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable in active markets or that are derived principally from, or corroborated by, observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, and private placement securities, other invested assets, derivatives, common stocks, securities lending reinvested collateral and cash equivalent securities.
- **Level 3** – Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management’s best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain corporate debt, asset-backed or mortgage-backed securities, common stocks, other invested assets and derivative securities.

(Dollars in thousands)

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

	Level 1	Level 2	Level 3	Total
2020				
Assets:				
Investments:				
Bonds	$ —	178	—	178
Common stocks	—	43,695	1,719	45,414
Cash, cash equivalents and short-term investments	647,649	877	—	648,526
Derivatives	—	115,488	—	115,488
Other invested assets	—	—	5,557	5,557
Securities lending reinvested collateral assets	—	281,976	—	281,976
Other assets:				
Separate account assets	18,793,793	—	—	18,793,793
Total assets	$ 19,441,442	442,214	7,276	19,890,932
Liabilities:				
Other liabilities:				
Derivatives	$ 3,866	33,416	—	37,282
Total liabilities	$ 3,866	33,416	—	37,282

	Level 1	Level 2	Level 3	Total
2019				
Assets:				
Investments:				
Bonds	$ —	278	—	278
Common stocks	—	41,721	—	41,721
Cash, cash equivalents and short-term investments	359,332	38,067	—	397,399
Derivatives	98	111,623	—	111,721
Securities lending reinvested collateral assets	—	172,498	—	172,498
Other assets:				
Separate account assets	19,255,771	—	—	19,255,771
Total assets	$ 19,615,201	364,187	—	19,979,388
Liabilities:				
Other liabilities:				
Derivatives	$ 2,143	56,756	—	58,899
Total liabilities	$ 2,143	56,756	—	58,899

(Dollars in thousands)

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

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

(Dollars in thousands)

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

Determination of Fair Values

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount reported in the statutory financial statements of the Company's investment in SUNR, an affiliated subsidiary, was $342,720 and $171,302 at December 31, 2020 and 2019, respectively. This amount is included in other invested assets, and the Company has classified the fair value as Level 3 since the valuation inputs are not based on market observable information.

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

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

(Dollars in thousands)

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

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

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

Asset Transfers Between Levels

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

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

(Dollars in thousands)

Common Stock of Subsidiaries

Common stock of unconsolidated non-life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONEQ and ONESCO. At December 31, 2020 and 2019, no non-life insurance subsidiary's common stock exceeded 10% of the Company's admitted assets.

Description of SCA Investment		12/31/2019 Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub 1 or Sub 2)	NAIC Response Received (Yes/No)	NAIC Valuation (Amount)	NAIC Disallowed Valuation Method (Yes/No)
ONEQ	$	1,346	6/30/2020	Sub 2	Yes	1,346	No
ONESCO		7,703	6/30/2020	Sub 2	Yes	7,703	No

Common stock of unconsolidated life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONLAC, NSLAC, and SUNR. Investments in the Company's special purpose financial captive reinsurers are carried differently. MONT and KENW are carried at zero due to the fact that the State of Vermont has allowed the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus were to fall below the level of all capital contributions, then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. At December 31, 2020 and 2019, none of the Company's unconsolidated life insurance subsidiaries' common stock exceeded 10% of the Company's admitted assets.

(6) Investments

Investment Risks and Uncertainties

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

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

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

(Dollars in thousands)

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

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

Bonds and Stocks

Bonds and Stocks by Sector

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

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

* Represents cost for Common stocks

(Dollars in thousands)

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

* Represents cost for Common stocks

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

Investments with an amortized cost of $8,435 and $8,574 were on deposit with various regulatory agencies as required by law as of December 31, 2020 and 2019, respectively.

Maturities of Bonds

The carrying value and the NAIC estimated fair value of bonds at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration.

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

(Dollars in thousands)

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

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

(Dollars in thousands)

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

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

Evaluation of Other-Than-Temporarily Impaired Investments
Management regularly reviews its bond and stock portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value of investments.

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

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

- comparison of current estimated fair value of the security to cost;
- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer's key financial ratios based upon the issuer's financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;

- the Company's intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity investments, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

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

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

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

As of December 31, 2020, investments in loan-backed and structured securities, for which an OTTI has not been recognized in earnings and which were in an unrealized loss position, had a fair value of $176,258. Loan-backed and structured securities in an unrealized loss position for less than 12 months had a fair value of $144,231 and unrealized losses of $4,158. Loan-backed and structured securities in an unrealized loss position for greater than 12 months had a fair value of $32,027 and unrealized losses of $1,007. These loan-backed and structured securities were primarily categorized as industrial and miscellaneous.

Current Year Evaluation
The Company has concluded that securities in an unrealized loss position as of December 31, 2020 and 2019 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold these investments until recovery of estimated fair value or amortized cost and for equity investments, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2019 to December 31, 2020 due to wider credit spreads on certain bond holdings in the energy and airline industries that were negatively affected by the recession caused by the COVID-19 crisis. No write-downs were deemed necessary for these securities as prices are expected to increase as the economy continues its recovery. Accordingly no write-downs were deemed necessary for the securities reflected in the tables above.

(Dollars in thousands)

Mortgage Loans

Mortgage loans consist of commercial mortgage loans originated in the United States. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of the commercial mortgage loan portfolio as of December 31, 2020 and 2019 were $970,773 and $930,632, respectively.

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

	2020	2019
Minimum	3.0%	3.8%
Maximum	4.1%	5.1%

Concentration of Credit Risk

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. The Company's portfolio is collateralized by properties located in the United States. Total loans in any state did not exceed 15.5% of the total portfolio as of December 31, 2020 or 2019.

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

	2020	2019
Texas	$ 150,068	113,405
Ohio	123,837	137,753
California	120,926	117,533

Portfolio Analysis

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

(Dollars in thousands)

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

		DSC						
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2020								
0% - 50%	$	187,912	89,963	95,291	97,236	49,608	8,331	528,341
50% - 60%		26,252	11,054	47,070	42,467	26,283	—	153,126
60% - 70%		3,095	—	55,571	68,645	16,676	—	143,987
70% - 80%		—	—	—	56,158	11,959	5,461	73,578
80% and greater		—	—	5,343	33,939	25,665	6,794	71,741
Total	$	217,259	101,017	203,275	298,445	130,191	20,586	970,773
2019								
0% - 50%	$	188,656	47,845	103,410	98,764	43,610	4,064	486,349
50% - 60%		30,622	11,576	69,841	60,525	33,348	843	206,755
60% - 70%		—	—	20,387	106,108	10,340	3,002	139,837
70% - 80%		—	—	3,899	21,224	23,648	4,078	52,849
80% and greater		—	—	—	4,922	15,458	24,462	44,842
Total	$	219,278	59,421	197,537	291,543	126,404	36,449	930,632

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. The Company's corporate policy directs that the LTV on new mortgages not exceed 75% for standard mortgages. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages, was 75% in 2020 and 2019.

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

(Dollars in thousands)

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

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2020	$ —	—	—	—	970,773	970,773	—
2019	$ —	—	—	—	930,632	930,632	—

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

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

The Company had no mortgage loans on nonaccrual status as of December 31, 2020 or 2019.

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

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

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

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

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

(Dollars in thousands)

Securities Lending

As of December 31, 2020 and 2019, the Company received $281,976 and $172,498, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in securities lending reinvested collateral assets in the statutory statements of admitted assets, liabilities, and capital and surplus with a corresponding liability of payable for securities lending to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2020 and 2019. The estimated fair value of loaned securities was $276,706 and $168,640 as of December 31, 2020 and 2019, respectively.

Insurer Self-Certified Securities

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

		Number of 5GI Securities		Aggregate BACV		Aggregate Fair Value	
		2020	**2019**	**2020**	**2019**	**2020**	**2019**
Bonds	$	2	2	1,429	1,848	1,433	1,858

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

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

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

(Dollars in thousands)

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

[1] Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13.
[2] Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13. $109,964 became a component of the initial deferred gain for this reinsurance treaty.

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

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

(Dollars in thousands)

Realized capital losses on investments, as shown in the tables above, include write-downs for OTTI of $7,336, $2,810 and $1,552 for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, securities with a carrying value of $31,513 which had a cumulative write-down of $10,957 due to OTTI, remained in the Company's investment portfolio.

Included in the write-downs for OTTI are write-downs for OTTI on loan-backed and structured securities of $633, $192 and $1,552 for 2020, 2019 and 2018, respectively. The table below lists each security that recognized OTTI impairment in 2020 due to the fact that the present value of the cash flows expected to be collected was less than the amortized cost basis of the securities:

CUSIP		Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI in Current Period	Amortized Cost After OTTI	Fair Value	Date of Financial Statement When Reported
12489WGE8	$	793	585	208	585	776	3/31/2020
759950CU0		3,890	3,709	181	3,709	3,877	3/31/2020
92922FJJ8		361	208	154	208	347	3/31/2020
12699GC82		756	666	90	666	730	6/30/2020
Total	$	5,800	5,168	633	5,168	5,730	

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

(7) Derivative Financial Instruments

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

(Dollars in thousands)

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

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

* Included in derivatives
** Included in other liabilities

Credit Risk

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

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

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

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

(Dollars in thousands)

(8) Deferred and Uncollected Life Insurance Premiums

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

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

(9) Separate Accounts

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

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

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

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

At December 31, 2020 and 2019, there were no separate account securities lending arrangements.

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

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

(Dollars in thousands)

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

	Risk charges
2020	$ 223,002
2019	230,543
2018	248,184
2017	244,227
2016	230,772

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

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

	2020	2019	2018
Premiums, considerations or deposits at year end	$ 147,147	155,907	712,604

	2020	2019
Reserves at year end for accounts with assets at:		
Market value	$ 18,505,534	18,976,270
Amortized cost	178,264	156,425
Total reserves	$ 18,683,798	19,132,695
By withdrawal characteristics:		
Subject to discretionary withdrawal:		
With market value adjustment	$ —	—
At book value without market value adjustment and with current surrender charge of 5% or more	—	—
At market value	18,645,088	19,098,968
At book value without market value adjustment and with current surrender charge of less than 5%	—	—
Subtotal	18,645,088	19,098,968
Not subject to discretionary withdrawal	38,710	33,727
Total reserves	$ 18,683,798	19,132,695

(Dollars in thousands)

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

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

(10) Reserves for Future Policy Benefits

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

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

Variable Annuity Riders

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

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

annuitant will automatically receive the higher monthly income. This means that the contract value could be significantly less than the guaranteed income base, but it might not provide any benefit to the policyholder or any cost to the Company. In addition, some policyholders may not be willing to give up access to their contract value that occurs with annuitization under the rider. Effective May 1, 2010, the Company discontinued offering the GMIB rider.

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

The voluntary reserve is the difference between the stochastic CTE98 reserve for the deductible less the implicit reserve for the deductible in the reported reserve prior to adding the CTE98 reserve for the deductible. As of December 31, 2018, the implicit reserve for the deductible was $0 using the standard scenario reserve prior to increasing the deductible reserve to $99,150 using CTE98. The voluntary reserve was initially set up at December 31, 2011 with a balance of $93,158, which was recorded as a direct reduction to unassigned surplus. Effective April 1, 2019, the Company has reinsured all amounts in excess of the non-affiliated reinsurance to an affiliate, SUNR; therefore this voluntary reserve has been released.

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

At policy inception, the GLWB base is set at the amount of the purchase payments, and it is increased by the amount of future purchase payments. It increases (roll-up) by up to 8% simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

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

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year, subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to 200% of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

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

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

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

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

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

(Dollars in thousands)

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

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

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

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

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

(Dollars in thousands)

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

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

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

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the date of the statement of admitted assets, liabilities, and capital surplus.

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

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

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

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

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

Fixed Indexed Annuity Riders

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

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

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

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

The total account value, net of reinsurance, of the fixed indexed annuities was over $575,000 as of December 31, 2020 and 2019. The account value, net of reinsurance, specific to the GLWB riders was over $70,000 as of December 31, 2020 and 2019.

(Dollars in thousands)

(11) Annuity Reserves and Deposit Liabilities by Withdrawal Characteristics

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

Individual Annuities

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

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

(Dollars in thousands)

Group Annuities

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

Deposit-Type Contracts

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

(Dollars in thousands)

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

Life, accident and health Annual Statement:		
Annuities (excluding supplementary contracts with life contingencies), net	$	1,904,925
Supplementary contracts with life contingencies, net		5,292
Deposit-type contracts		689,940
Subtotal		2,600,157
Separate Accounts Annual Statement:		
Annuities, net		18,683,798
Total annuity reserves and deposit liabilities, net	$	21,283,955

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

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

(Dollars in thousands)

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

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

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

Individual Annuities

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

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

(Dollars in thousands)

Group Annuities

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

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

Deposit-Type Contracts

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 161,969	—	161,969	23.2%
At book value less surrender charge	—	—	—	0.0%
At fair value	—	—	—	0.0%
Total with adjustment or at market value	161,969	—	161,969	23.2%
At book value without adjustment	35,939	—	35,939	5.2%
Not subject to discretionary withdrawal	499,002	—	499,002	71.6%
Total, gross	696,910	—	696,910	100.0%
Reinsurance ceded	—	—	—	
Total, net	$ 696,910	—	696,910	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	$ —	—	—	

(Dollars in thousands)

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

Life, accident and health Annual Statement:	
Annuities (excluding supplementary contracts with life contingencies), net	$ 1,873,188
Supplementary contracts with life contingencies, net	5,672
Deposit-type contracts	696,910
Subtotal	2,575,770
Separate Accounts Annual Statement:	
Annuities, net	19,132,695
Total annuity reserves and deposit liabilities, net	$ 21,708,465

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

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

(Dollars in thousands)

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

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

(12) Unpaid Claim Reserves

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

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

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

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

(13) Reinsurance

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

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 46.5%, 42.8% and 30.9% of gross earned life and accident and health premiums during 2020, 2019 and 2018, respectively.

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

For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $181,278 and $198,598 as of December 31, 2020 and 2019, respectively.

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

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

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for the Company, the Company cedes variable annuity-related risks, living and death benefits to SUNR for the GMAB, GMIB, GMDB, and GLWB riders, and from SUNR to Sycamore Re, Ltd ("SYRE"), an affiliated company, for certain GMIB and GMDB riders. Additionally, to consolidate the management of such living benefit risks, the Company assumes GMAB, GMIB, GMDB, and GLWB riders issued by NSLAC, which are correspondingly retroceded to SYRE. The base variable annuity contracts are retained by the Company, however the excess death benefit rider risk on the base contract is ceded to SUNR. Effective January 2018, ONLIC cedes 100% of the exchange program fixed indexed annuities and associated GLWB riders to SYRE. The Company assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

As noted above, the Company cedes to SYRE variable annuity-related risks, living and death benefits consisting of GMAB, GMIB, GMDB and GLWB riders assumed from NSLAC and fixed indexed annuity exchange policies and associated GLWB riders. The base variable annuity contracts are retained by the Company. SYRE applies a permitted practice prescribed by CIMA that allows SYRE to carry the assumed reserves of $501,949 under the reinsurance arrangement utilizing a reserve methodology that is approved by CIMA. The approved reserve methodology is based upon U.S. generally accepted accounting principles. For all GMAB riders and some GLWB riders with net settlement provisions, the reserves are calculated using the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. Topic 815 is a fair value or mark-to-market calculation required if the liability is deemed to be an embedded derivative. For all GMIB and GMDB riders, and the remaining GLWB riders without net settlement provisions, the reserves are calculated in accordance with FASB ASC Topic 944, *Financial Services - Insurance*. Topic 944 provides guidance for calculating reserves for contracts that provide additional benefits in excess of the account values and is similar to other generally accepted accounting principles reserve accounting methodologies. Topic 944 is a stochastic method that determines the percentage of the future rider charges required to fund the projected benefits. This percentage is recalculated at each valuation period. Under both of these generally accepted accounting principles calculations, the reserve calculation is measuring the reserve liability associated with the rider cash flows.

(Dollars in thousands)

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

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

As of December 31, 2020, the Company recorded a reserve credit of $2,073,575 related to the rider benefits and fixed indexed annuities ceded to SUNR and SYRE. As of December 31, 2019, the Company recorded a reserve credit of $1,039,125 related to the rider benefits and fixed indexed annuities ceded to SUNR and SYRE. ONFS secured letters of credit totaling $110,000 for SYRE, with ONLIC as the beneficiary in order to recognize the reserve credit. The Company also established funds withheld accounts for the benefit of SYRE that have a total carrying value of $481,935 and are recorded in reinsurance funds withheld due to affiliate, net and other liabilities on the statutory statements of admitted assets, liabilities, and capital and surplus; and assets held in trust of $35,770 as of December 31, 2020.

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

The Company assumes GMIB, GMAB, and GMWB riders issued by NSLAC. As of 2015, the Company no longer assumes new business from NSLAC. As the Company was neither authorized nor accredited as a reinsurer in the State of New York, a reinsurance trust was created and funded by the Company. As of December 31, 2020 and 2019, assets held in trust for the benefit of NSLAC are $135,641 and $77,408, respectively.

(Dollars in thousands)

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

	2020	2019	2018
Premiums assumed	$ 109,617	105,476	96,857
Benefits incurred	93,829	100,154	90,661
Commission and expense allowance	4,440	4,441	4,426

	2020	2019
Reserves for future policy benefits	$ 973,770	943,738
Policy and contract claims payable	17,500	15,883

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

GMIB and GMDB Riders Written After April 1, 2008

In December 2008, the Company entered into a reinsurance agreement with SYRE to reinsure Annual Reset Death Benefit Riders ("ARDBR") and GMIB riders associated with variable annuity products written between April, 2008 and August, 2012. The treaty was amended to include new products issued beginning April 1, 2009. Under the agreement for contracts issued between April 1, 2008 and March 31, 2009, the Company retained the first 15% and reinsured to SYRE on an excess of loss basis the remaining 85% of the risk under its GMIB rider and the related ARDBR rider. For the above contracts, the Company reinsured to SYRE 100% of the risk for all riders listed above up to $5 million per annuitant. Furthermore, SYRE was to pay a single adjusted GMIB claim amount when a GMIB policy annuitized.

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

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

GMIB and GMDB Riders Written Prior to April 1, 2008

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

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

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

GLWB Riders

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

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

GMIB, GMDB, and GLWB Riders

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

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

(Dollars in thousands)

GLWB Riders

Effective May 1, 2013, the Company began selling a new 2013 Interest Sensitive GLWB rider (IS GLWB). An amendment was made to the SYRE GLWB reinsurance agreement to add these riders to the coverage. The Company cedes 30% of the benefit for this rider to SYRE for policies issued before January 1, 2018.

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

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

GMDB Riders

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

GMAB/GPP Riders

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

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

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

		2020	2019
Statements of Operations:			
Premiums and other considerations	$	148,236	873,589
Death and other benefits		54,151	32,416

(Dollars in thousands)

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

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

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

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

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

(Dollars in thousands)

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

		2020	2019	2018
Statements of Operations:				
Premiums and other considerations	$	5,630	5,488	526,276
Death and other benefits		2,778	2,223	703

		2020	2019
Statements of Admitted Assets, Liabilities, and Capital and Surplus:			
Reserves for future policy benefits	$	565,774	573,985
Other liabilities:			
FWH under reinsurance:			
Assets Payable to Affiliate		481,935	492,467
Capital and surplus:			
Unassigned surplus:			
Unrealized (gains) losses derivative instrument		(11,299)	(12,101)

(14) Bank Line of Credit

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

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

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

On December 31, 2019, ONFS entered into a $50,000, 364-day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. . On December 28, 2020, this facility was renewed for ninety days and matures on March 29, 2021. This facility was not utilized by or for the benefit of the Company as of December 31, 2020 or 2019.

(Dollars in thousands)

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

(15) Income Taxes

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

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

(Dollars in thousands)

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

		Ordinary	Capital	Total
2020				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	11,546
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	145,010
Lesser of (1) or (2)		111,546	—	111,546
Deferred tax liabilities		42,256	—	42,256
Admitted deferred tax assets	$	153,802	—	153,802
2019				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	121,096
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	134,777
Lesser of (1) or (2)		117,810	3,286	121,096
Deferred tax liabilities		54,513	—	54,513
Admitted deferred tax assets	$	172,323	3,286	175,609
Change				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	(109,550)
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	10,233
Lesser of (1) or (2)		(6,264)	(3,286)	(9,550)
Deferred tax liabilities		(12,257)	—	(12,257)
Admitted deferred tax assets	$	(18,521)	(3,286)	(21,807)

(Dollars in thousands)

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

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

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

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

(Dollars in thousands)

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

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

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

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

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

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

(Dollars in thousands)

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

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

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

(Dollars in thousands)

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

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

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

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

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

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

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

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

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

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

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

The Company is not under current examination with the Internal Revenue Service. The statute of limitations remains open for tax years 2017, 2018 and 2019 for the consolidated tax group.

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

(16) Pensions and Other Post-Retirement Benefit Plans

(a) Home Office Pension Plan

The Company sponsors a funded qualified defined benefit pension plan covering all home office employees hired prior to January 1, 1998. This plan was amended effective December 31, 2019 to freeze the accrual of future benefits. The impact of the curtailment is included below. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The measurement dates were December 31, 2020 and 2019.

(b) Home Office Post-Retirement Benefit Plan

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

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

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

The measurement dates were December 31, 2020 and 2019.

(c) General Agents' Pension Plan

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

The measurement dates were December 31, 2020 and 2019.

(d) Agents' Post-Retirement Benefits Plan

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

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

The measurement dates were December 31, 2020 and 2019.

(Dollars in thousands)

(e) Obligations and Funded Status

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

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

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

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

(Dollars in thousands)

		Pension benefits		Other benefits	
Funded Status:		**2020**	**2019**	**2020**	**2019**
Overfunded					
Assets (nonadmitted)					
Prepaid benefit costs	$	—	—	—	—
Overfunded plan assets		—	—	—	—
Total assets (nonadmitted)	$	—	—	—	—
Underfunded					
Liabilities recognized					
Net prepaid (accrued) amount recognized	$	3,774	(3,021)	(5,060)	(5,249)
Liabilities for benefits		(30,997)	(28,103)	(5,825)	(2,309)
Total liabilities recognized	$	(27,223)	(31,124)	(10,885)	(7,558)

		Pension benefits		Other benefits	
		2020	**2019**	**2020**	**2019**
Amounts recognized in the statutory statements of admitted assets, liabilities, and capital and surplus consist of:					
Prepaid benefit costs	$	17,535	9,458	—	—
Accrued benefit costs		(13,761)	(12,479)	(5,060)	(5,249)
Surplus		(30,997)	(28,103)	(5,825)	(2,309)
Total liabilities recognized	$	(27,223)	(31,124)	(10,885)	(7,558)

(Dollars in thousands)

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

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

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

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

(Dollars in thousands)

(f) Assumptions

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

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

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

(Dollars in thousands)

(g) Plan Assets

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

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

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

The assets of the Company's Home Office Pension Plan ("the Plan") are invested in group variable annuity contracts issued by the Company offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2020 and 2019, $50,228 and $36,170, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of stocks, bonds and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan's short-term liquidity needs and its long-term liabilities. The target allocations are currently 70% stocks and 30% bonds.

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

The overall expected long-term rate of return on assets is determined by a weighted average return of bond and stock indexes. Bond securities (including cash) make up 35% of the weighted average return and stocks make up 65% of the weighted average return.

(Dollars in thousands)

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

	2020	2019
Stocks	71%	66%
Bonds	29	34
Total	100%	100%

(h) Cash Flows

Contributions

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

Estimated Future Benefit Payments

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

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

(Dollars in thousands)

	Pension benefits		Other benefits	
	2020	2019	2020	2019
Amounts in unassigned funds (surplus) recognized in the next fiscal year as components of periodic benefit cost:				
Items not yet recognized as a component of net periodic cost - prior year	$ 28,102	29,056	2,309	991
Net prior service cost or credit recognized	—	(41)	49	31
Net gain and loss arising during the period	7,204	2,097	3,804	1,404
Net gain and loss recognized	(2,588)	(3,010)	(336)	(117)
Items not yet recognized as a component of net periodic cost - current year	$ 32,718	28,102	5,826	2,309

	Pension benefits		Other benefits	
	2020	2019	2020	2019
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Net prior service cost or credit	$ —	—	(49)	(49)
Net recognized gains and losses	2,977	2,494	725	286

	Pension benefits		Other benefits	
	2020	2019	2020	2019
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net prior service cost or credit	$ —	—	(293)	(342)
Net recognized gains and losses	30,997	28,102	6,118	2,652

(i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2020, 2019 and 2018 was $3,665, $6,011 and $6,900, respectively.

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

(Dollars in thousands)

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

(j) ONFS Employees

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

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

Capital and Surplus

The Company has 10,000,000 shares ($1 par value) authorized, issued and outstanding of Class A common stock as of December 31, 2020 and 2019. The Company has no preferred stock issued or outstanding.

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

Surplus notes outstanding are as follows as of December 31:

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

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

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

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

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

Except as provided in Section 3901.72 of the Ohio Revised Code, the notes are not part of the legal liabilities of the Company and are not a liability or claim against the Company or any of its assets. Interest payments, scheduled semi-annually, must be approved for payment by the Department. The Company paid $22,011 in interest related to these notes in 2020, 2019 and 2018. Principal payments must also be approved by the Department. Interest expense for surplus notes is not recognized in the statutory statements of operations until it has been approved by the Department.

Regulatory RBC

The NAIC has established RBC requirements to assist regulators in monitoring the financial strength and stability of life insurers and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The RBC requirements instruct every life insurer to calculate its total adjusted capital and RBC position. The formula includes components for asset risk, liability risk, interest rate exposure, and other factors. Under the NAIC requirements, each insurer must maintain its total adjusted capital and surplus above a calculated minimum threshold or take corrective measures to achieve that threshold. Based upon the December 31, 2020 and 2019 statutory financial statements, the Company exceeded all required RBC levels.

Dividend Restrictions

The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of the Company, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $135,000 may be paid by ONLIC to ONFS in 2021 without prior approval. Dividends of $40,000, $55,000 and $60,000 were declared and paid by ONLIC to ONFS in 2020, 2019 and 2018, respectively.

(Dollars in thousands)

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

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

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $23,000 may be paid by ONLAC to ONLIC in 2021 without prior approval. ONLAC declared and paid ordinary dividends to ONLIC of $12,000, $30,857 and $27,000 in 2020, 2019 and 2018, respectively. Extraordinary dividends of $75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid by ONLAC to ONLIC during 2020 or 2018.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to its stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter in which CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2020, 2019 or 2018.

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

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $3,000 may be paid by NSLAC to ONLIC in 2021 without prior approval. No dividends were declared or paid by NSLAC in 2020, 2019 or 2018.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2020, 2019 or 2018. No dividends were declared or paid by KENW to ONLIC in 2020, 2019 or 2018.

(Dollars in thousands)

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans and bonds of $23,327 and $43,565 as of December 31, 2020 and 2019, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the statutory financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Leases

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

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

(20) Contingencies

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

The Company, along with its affiliates, is a party to six court cases and two Financial Industry Regulatory Authority (“FINRA”) arbitrations stemming from the strategic changes announced in September 2018, specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in all of the cases is a disputed interpretation of certain language in Ohio National Life's contracts with the broker dealers who sold Ohio National Life's annuities. One case purports to be on behalf of a class, but no motions for class certification have yet been filed, and no class has been certified. Eight previously pending court cases and seven previously pending FINRA arbitrations have been resolved. The next case currently set for trial is in October, 2021. The Company expects to continue to vigorously defend itself against these allegations. However, litigation is inherently uncertain, and the outcome thereof cannot be predicted. Accordingly, it is possible that the ultimate outcome in one or more of the proceedings may be material to the Company's results of operations for a particular period depending upon, among other factors, the size of the loss and the level of the Company's results of operations for the period.

(21) Related-Party Transactions

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

The Company has a written agreement to provide services for personnel, data processing and supplies to ONLAC, which either party may terminate upon a thirty-day notice. ONLIC primarily uses multiple bases (head counts, salaries, number of policies, field compensation, time, reserve account balances, transaction counts, etc.) and believes they are reasonable for determining the expense charges. This agreement was approved by the Department. Generally, the apportionment is based upon specifically identifying the expense to the incurring entity. Where this is not feasible, apportionment is based upon pertinent factors and ratios. The terms call for a cash settlement at least quarterly. There is no assurance that these costs would be similar if the Company had to obtain such services on its own. This agreement resulted in services charges totaling $59,692, $38,124 and $59,927 in 2020, 2019 and 2018, respectively. These amounts include pension costs for the personnel furnished to the Company. At December 31, 2020 and 2019, ONLAC owed ONLIC $2,078 and $5,974, respectively.

The Company paid $4,785, $4,966 and $5,406 for rent and operating expenses on the home office to ONFS for the years ended December 31, 2020, 2019 and 2018, respectively.

ONFS provides services for executive management and data processing equipment placed in service after December 31, 2000, to ONLIC. For the years ended December 31, 2020, 2019 and 2018, ONLIC recorded expenses of $20,899, $22,003 and $21,968, respectively, for these services.

The Company is a party to an agreement with ONMH and most of its direct and indirect subsidiaries whereby ONLIC maintains a common checking account. It is ONLIC's duty to maintain sufficient funds to meet the reasonable needs of each party on demand. ONLIC must account for the balances of each party daily. Such funds are deemed to be held in escrow by ONLIC for the other parties. Settlement is made daily for each party's needs from or to the common account. It is ONLIC's duty to invest excess funds in an interest-bearing account and/or short-term highly liquid investments. ONLIC will credit interest monthly at the average interest earned for positive cash balances during the period or charge interest on any negative balances. Interest credited for the years ended December 31, 2020, 2019 and 2018 was $301, $770 and $20, respectively. The parties agree to indemnify one another for any losses of any nature relating to a party's breach of its duties under the terms of the agreement. The Company held the following balances for the participating entities in payable to parent, subsidiaries and affiliates as of December 31:

(Dollars in thousands)

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

(22) Accounting Changes and Corrections of Errors

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

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

Federal and foreign income taxes incurred (excluding taxes on capital gains)	$	(1,188)
Decrease in surplus	$	(1,188)

(Dollars in thousands)

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

Change in net unrealized capital gains	$ 993
Increase in surplus	$ 993

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

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

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

(23) Reconciliation to 2019 Annual Statement

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

(Dollars in thousands)

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

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

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

Supplemental Insurance Information

December 31, 2020

(Dollars in thousands)

The following is a summary of certain financial data.

Investment income earned:		
Government bonds	$	3,240
Other bonds (unaffiliated)		218,275
Bonds of affiliates		—
Preferred stocks (unaffiliated)		355
Preferred stocks of affiliates		—
Common stocks (unaffiliated)		962
Common stocks of affiliates		18,950
Mortgage loans		45,344
Real estate		2,016
Contract loans		35,553
Cash, cash equivalents and short-term investments		945
Other invested assets		9,021
Derivative instruments		192
Amortization of interest maintenance reserve		3,343
Aggregate write-ins for investment income		1,826
Total investment income earned	$	340,022
Real estate owned – book value less encumbrances	$	24,757
Mortgage loans – book value:		
Farm mortgages	$	—
Residential mortgages		—
Commercial mortgages		970,773
Total mortgage loans – book value	$	970,773
Mortgage loans by standing – book value:		
Good standing	$	970,773
Good standing with restructured terms		—
Interest overdue more than three months, not in foreclosure		—
Foreclosure in process		—
Other long-term assets – statement value	$	490,376
Contract Loans	$	835,945
Bonds and stocks of parents, subsidiaries, and affiliates – book value:		
Bonds	$	—
Preferred stocks		—
Common stocks		311,342
Due within one year or less	$	478,015
Over 1 year through 5 years		1,797,550
Over 5 years through 10 years		1,558,419
Over 10 years through 20 years		788,211
Over 20 years		776,004
Total bonds and short-term investments by maturity - statement value	$	5,398,199

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Supplemental Insurance Information

December 31, 2020

(Dollars in thousands)

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

(Continued)

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Supplemental Insurance Information

December 31, 2020

(Dollars in thousands)

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

See accompanying independent auditors' report.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

1. Reporting entity's total admitted assets excluding separate accounts as reported on page two of the Annual Statement: $9,606,513.

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

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

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

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

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

4. Assets held in foreign investments:

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

Yes [ ] No [X]

4.02	Total admitted assets held in foreign investments	$ 812,055	8.453%
4.03	Foreign-currency-denominated investments	8,599	0.090
4.04	Insurance liabilities denominated in that same foreign currency	—	—

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

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

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

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

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

7. Aggregate unhedged foreign currency exposure:

1	2
$ —	—%

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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

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

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

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

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

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

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

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

Yes [X] No [ ]

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

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

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

Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

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

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

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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

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

Yes [X] No [ ]

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

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

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

Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

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

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

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

		Loans		
16.12	Construction loans	$	—	—%
16.13	Mortgage loans over 90 days past due		—	—
16.14	Mortgage loans in the process of foreclosure		—	—
16.15	Mortgage loans foreclosed		—	—
16.16	Restructured mortgage loans		4,591	0.048

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

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

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

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

Yes [X] No [ ]

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

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

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

Yes [X] No [ ]

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

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

	At year-end		At end of each quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 276,706	2.880%	110,805	99,347	168,108
20.02 Repurchase agreements	—	—	—	—	—
20.03 Reverse repurchase agreements	—	—	—	—	—
20.04 Dollar repurchase agreements	—	—	—	—	—
20.05 Dollar reverse repurchase agreements	—	—	—	—	—

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

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

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

	At year-end		At end of each quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
22.01 Hedging	$ 89	0.001%	$ 97	94	92
22.02 Income generation	—	—	—	—	—
22.03 Replications	—	—	—	—	—
22.04 Other	—	—			

 (Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

	At year-end		At end of each quarter		
			1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
23.01 Hedging	$ —	—	$ —	—	—
23.02 Income generation	—	—	—	—	—
23.03 Replications	—	—	—	—	—
23.04 Other	6,986	0.073%	6,399	7,250	7,852

See accompanying independent auditors' report.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Summary of Investments

December 31, 2020

(Dollars in thousands)

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

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

See accompanying independent auditors' report.

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

Reinsurance Risk Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

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

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

   Yes [ ] No [X]

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

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

   Yes [ ] No [ ] N/A [ ]

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

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

   Yes [ ] No [X]

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

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

   Yes [ ] No [ ] N/A [ ]

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

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

   Yes [ ] No [X]

(Continued)

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

Reinsurance Risk Interrogatories

Year ended December 31, 2020

(Dollars in thousands)

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

Type of agreement:	**Response:**	**Identify reinsurance agreement(s):**	**Has the insured event(s) triggering contract coverage been recognized?**
Assumption reinsurance – new for the reporting period	Yes [ ] No [X]	None	N/A
Non-proportional reinsurance, which does not result in significant surplus relief	Yes [ ] No [X]	None	Yes [ ] No [ ] N/A [X]

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

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

Yes [ ] No [ ] N/A [X]

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

Yes [ ] No [ ] N/A [X]

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

See accompanying independent auditors' report.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Schedules

December 31, 2019, 2018 and 2017

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Ohio National Mutual Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Ohio National Mutual Holdings, Inc. and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 and 2 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Columbus, Ohio
March 26, 2020

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Investments:			
Securities available-for-sale, at fair value:			
Fixed maturity securities	$	9,745,959	11,606,009
Fixed maturity securities on loan		238,652	303,757
Trading securities, at fair value:			
Fixed maturity securities		160	850
Equity securities, at fair value		40,468	68,361
Equity securities on loan, at fair value		—	274
Mortgage loans on real estate, net		1,446,093	1,335,742
Real estate, net		52,270	48,904
Policy loans		875,097	766,701
Other long-term investments		272,204	264,261
Short-term investments securities lending collateral		246,578	313,492
Short-term investments		213,529	170,146
Total investments		13,131,010	14,878,497
Cash and cash equivalents		288,218	247,261
Accrued investment income		77,849	100,630
Deferred policy acquisition costs		1,679,421	1,966,022
Reinsurance recoverable		3,946,180	2,111,698
Reinsurance deposit asset		905,770	—
Opearating lease right-of-use assets		8,115	—
Other assets		386,324	358,770
Federal and foreign income tax recoverable		17,811	26,600
Assets held in separate accounts		19,926,103	19,489,189
Total assets	$	40,366,801	39,178,667
Liabilities and Equity			
Future policy benefits and claims	$	15,724,764	15,140,939
Policyholders' dividend accumulations		32,964	34,266
Other policyholder funds		170,779	164,147
Short-term borrowings		1,675	91,586
Long-term debt obligations (net of unamortized discount and debt issuance costs of $6,623 in 2019 and $6,996 in 2018)		953,878	853,504
Deferred federal and foreign income taxes		139,253	106,315
Operating lease liabilities		8,107	—
Other liabilities		543,617	519,942
Payables for securities lending collateral		246,578	313,492
Liabilities related to separate accounts		19,926,103	19,489,189
Total liabilities		37,747,718	36,713,380
Equity:			
Accumulated other comprehensive income		234,922	13,523
Retained earnings		2,384,161	2,451,764
Total equity		2,619,083	2,465,287
Total liabilities and equity	$	40,366,801	39,178,667

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2019, 2018 and 2017

(Dollars in thousands)

	2019	2018	2017
Revenues:			
Traditional life insurance premiums	$ 862,166	847,496	772,534
Annuity premiums and charges	445,085	571,784	523,958
Universal life policy charges	147,999	146,529	153,689
Group life and health insurance premiums	113,099	100,632	89,399
Accident and health insurance premiums	25,238	21,284	17,994
Investment management fees	45,181	51,452	30,438
Change in value of trading securities	—	—	2,449
Change in value of trading fixed maturity securities	(4)	(45)	—
Change in value of equity securities	4,819	(7,208)	—
Net investment income	524,794	553,278	506,944
Net realized gains (losses):			
Investment gains (losses):			
Total other-than-temporary impairment losses on securities	2,426	2,312	(4,778)
Portion of impairment losses recognized in other comprehensive income (loss)	(7,386)	(4,539)	(11,349)
Net other-than-temporary impairment losses on securities recognized in earnings	(4,960)	(2,227)	(16,127)
Realized gains, excluding other-than-temporary impairment losses on securities	215,334	5,293	12,924
Total investment gains (losses)	210,374	3,066	(3,203)
Derivative instruments	(154,443)	(6,000)	(291,294)
Loss on debt retirement	(10,263)	—	—
Other income	126,424	106,448	104,053
	2,340,469	2,388,716	1,906,961
Benefits and expenses:			
Benefits and claims	1,578,810	1,491,281	1,332,550
Provision for policyholders’ dividends on participating policies	114,298	108,640	97,540
Amortization of deferred policy acquisition costs	265,038	154,419	114,128
Commissions, net	175,902	235,802	216,711
Other operating costs and expenses	307,959	331,953	324,925
	2,442,007	2,322,095	2,085,854
(Loss) income before income taxes	(101,538)	66,621	(178,893)
Income taxes:			
Current expense (benefit)	895	(972)	(15,119)
Deferred benefit	(34,830)	(5,056)	(189,720)
	(33,935)	(6,028)	(204,839)
Net (loss) income	$ (67,603)	72,649	25,946

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2019, 2018 and 2017

(Dollars in thousands)

	Before tax	Tax (expense) benefit	After tax
2019			
Net loss	$		(67,603)
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	(10,027)	—	(10,027)
Unrecognized net periodic benefit cost	(1,202)	225	(977)
Unrealized gains (losses) on derivative instruments	299	(63)	236
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	649,764	(138,885)	510,879
Deferred acquisition costs	(114,252)	23,993	(90,259)
Future policy benefits and claims	(61,427)	14,497	(46,930)
Other policyholder funds	25,670	(5,391)	20,279
Less:			
Net gains on securities available-for-sale realized during the period	207,982	(43,682)	164,300
Amortization of pension and other post-retirement benefits	(3,162)	664	(2,498)
Total other comprehensive income	284,005	(62,606)	221,399
Total comprehensive income			$ 153,796
2018			
Net income	$		72,649
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustment	(17,497)	—	(17,497)
Unrecognized net periodic benefit cost	9,402	(1,975)	7,427
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	(285,061)	60,025	(225,036)
Deferred acquisition costs	81,269	(17,067)	64,202
Future policy benefits and claims	38,534	(9,645)	28,889
Other policyholder funds	(17,990)	3,778	(14,212)
Less:			
Net gains on securities available-for-sale realized during the period	15,464	(3,290)	12,174
Amortization of pension and other post-retirement benefits	(4,059)	852	(3,207)
Total other comprehensive loss	(202,748)	37,554	(165,194)
Total comprehensive loss			$ (92,545)
2017			
Net income	$		25,946
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	11,459	—	11,459
Unrecognized net periodic benefit cost	(437)	(6,946)	(7,383)
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	86,818	19,191	106,009
Deferred acquisition costs	(26,819)	(3,331)	(30,150)
Future policy benefits and claims	(13,508)	2,542	(10,966)
Other policyholder funds	8,863	(617)	8,246
Less:			
Net gains on securities available-for-sale realized during the period	21,420	(4,733)	16,687
Amortization of pension and other post-retirement benefits	(4,009)	842	(3,167)
Total other comprehensive income including tax reform adjustment	48,965	14,730	63,695
Stranded tax effects of the tax reform rate change, net[1]	—	(33,329)	(33,329)
Total other comprehensive income	48,965	(18,599)	30,366
Total comprehensive income			$ 56,312

1. As a result of the Tax Cuts and Jobs Act (tax reform) and in conjunction with the adoption of Accounting Standards Update (ASU) 2018-02, Income Statement – Reporting Comprehensive Income, Reclassifications of Certain Tax Effects from Accumulated Other Comprehensive Income, the Company applied new tax rates to the components of Other Comprehensive Income driven by the change in Accumulated Other Comprehensive Income and identified the stranded tax effects of the tax reform rate change in a single line in this table. See Note 4.

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2019, 2018 and 2017

(Dollars in thousands)

		Accumulated other comprehensive income	Retained earnings	Total equity
Balance, December 31, 2016	$	120,381	2,381,139	2,501,520
Tax reform adjustment		33,329	(33,329)	—
Comprehensive income:				
Net income		—	25,946	25,946
Other comprehensive income		30,366	—	30,366
Total comprehensive income				56,312
Balance, December 31, 2017		184,076	2,373,756	2,557,832
Impact of adoption of ASU 2016-01*		(5,359)	5,359	—
Comprehensive loss:				
Net income		—	72,649	72,649
Other comprehensive loss		(165,194)	—	(165,194)
Total comprehensive loss				(92,545)
Balance, December 31, 2018		13,523	2,451,764	2,465,287
Comprehensive income:				
Net loss		—	(67,603)	(67,603)
Other comprehensive income		221,399	—	221,399
Total comprehensive income				153,796
Balance, December 31, 2019	$	234,922	2,384,161	2,619,083

*See Note 3 for futher detail.

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2019, 2018 and 2017

(Dollars in thousands)

		2019	2018	2017
Cash flows from operating activities:				
Net (loss) income	$	(67,603)	72,649	25,946
Adjustments to reconcile net loss to net cash provided by operating activities:				
Interest credited to policyholder account values		249,426	236,964	226,986
Universal life and investment-type product policy fees		(406,228)	(415,644)	(404,182)
Capitalization of deferred policy acquisition costs		(156,827)	(231,828)	(235,076)
Amortization of deferred policy acquisition costs		265,038	154,419	114,128
Amortization and depreciation		24,996	26,463	11,377
Net realized (gains) losses on investments and derivative instruments		(45,668)	2,934	294,497
Change in value of trading securities		—	—	(2,449)
Change in value of trading fixed maturity securities		4	45	—
Change in value of equity securities		(4,819)	7,208	—
Deferred income tax benefit		(34,830)	(5,056)	(189,720)
(Decrease) increase in accrued investment income		22,781	(6,300)	(3,408)
Increase in operating lease right-of-use assets		(8,115)	—	—
(Increase) decrease in other assets and reinsurance recoverable		(106,501)	(67,377)	44,235
Increase in policyholder liabilities		602,004	787,915	524,368
Increase in policyholders' dividend accumulations and other funds		11,258	25,613	13,836
Decrease (increase) in federal and foreign income tax recoverable		8,789	1,367	(6,727)
Increase in operating lease liabilities		8,107	—	—
Increase in other liabilities		1,677	7,719	90,817
Other, net		418	(3,264)	(4,703)
Net cash provided by operating activities		363,907	593,827	499,925
Cash flows from investing activities:				
Proceeds from maturity of fixed maturity available-for-sale securities		212,081	368,308	249,676
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity available-for-sale securities		1,235,043	1,082,932	920,959
Proceeds from sale of equity securities		62,603	40,578	37,516
Proceeds from maturity of fixed maturity held-to-maturity securities		—	—	52,445
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity held-to-maturity securities		—	—	73,862
Proceeds from repayment of mortgage loans on real estate		166,304	203,250	218,756
Proceeds from sale of real estate		5,706	4,141	7,639
Cost of fixed maturity available-for-sale securities acquired		(1,720,935)	(2,770,215)	(1,685,123)
Cost of equity securities acquired		(31,207)	(33,377)	(26,556)
Cost of fixed maturity held-to-maturity securities acquired		—	—	(172,597)
Cost of mortgage loans on real estate acquired		(281,005)	(271,261)	(267,233)
Cost of real estate acquired		(7,247)	(3,116)	(2,201)
Cost of property, plant and equipment acquired		(13,674)	(11,896)	—
Derivative (payments) receipts, net		(64,807)	(60,355)	(239,061)
Change in payables for securities lending collateral, net		(66,914)	303,811	(264,799)
Net increase in short-term investments		(45,600)	(60,723)	(18,014)
Change in policy loans, net		(108,800)	(102,873)	(84,593)
Change in payable for securities and mortgage loans on real estate		2,668	(17,842)	—
Company owned life insurance settlement proceeds		—	98	—
Change in other invested assets, net		73,313	(27,350)	(68,226)
Net cash used in investing activities		(582,471)	(1,355,890)	(1,267,550)

(Continued)

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2019, 2018 and 2017

(Dollars in thousands)

		2019	2018	2017
Cash flows from financing activities:				
Universal life and investment product account deposits	$	606,197	1,826,006	1,870,514
Universal life and investment product account withdrawals		(440,231)	(953,230)	(1,370,612)
Change in reinsurance deposit asset		32,483	—	—
Change in short-term borrowings		(89,958)	147	76,439
Other financing activities		(3,836)	10,687	15,856
Issuance of notes payable		399,248	—	—
Repayment of notes payable		(310,263)	—	—
Net cash provided by financing activities		193,640	883,610	592,197
Foreign currency translation adjustment		(1,033)	(1,554)	617
Net (decrease) increase in cash and cash equivalents		(25,957)	119,993	(174,811)
Cash and cash equivalents, beginning of period		560,753	440,760	615,571
Cash and cash equivalents, end of period	$	534,796	560,753	440,760
Supplemental disclosures:				
Federal income tax (received) paid	$	(10,000)	2,239	9,863
Interest paid		69,761	62,318	58,423
Reinsurance funds withheld embedded derivative liability change		191	20	—
Non-cash consideration for reinsurance recoverable		1,858,332	—	—
Non-cash consideration for available-for-sale bonds transferred for reinsurance		(2,796,585)	—	—
Non-cash consideration for reinsurance deposit asset		938,253	—	—

See accompanying notes to consolidated financial statements.

(1) Organization and Business Description

Organization

Ohio National Mutual Holdings, Inc. is a mutual holding company organized under Ohio insurance laws and owns 100% of Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS owns 100% of The Ohio National Life Insurance Company ("ONLIC"), a life insurance subsidiary and Sycamore Re, Ltd. ("SYRE"), a special purpose financial captive life insurance company.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual holding companies. ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary, National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary, Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company, Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company, Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company, Sunrise Captive Re, LLC ("SUNR"), an Ohio authorized reinsurer, Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934, and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

SYRE owns 100% of a Delaware holding company, ON Foreign Holdings, LLC ("ONFH"), which owns 100% of Ohio National International Holdings Cooperatief U.A. ("ONIH"), a Dutch holding company. ONIH owns 100% of ON Netherlands Holdings B.V. ("ONNH"), a Dutch holding company. Effective December 27, 2019, ONIH was merged into ONNH, with ONNH being the surviving entity. As the transaction was between entities under common control, the operations of ONIH were transferred to ONNH at carrying value and, as such, there was no financial statement impact as a result of this transaction. ONNH owns Ohio National Seguros de Vida S.A. ("ONSP"), a Peruvian insurance company and ON Global Holdings, SMLLC ("ONGH"), a Delaware holding company. ONNH owns 100% of O.N. International do Brasil Participacoes, Ltda. ("OHIO"), which was formed to hold the equity method investment made when the Company entered into a 50% joint venture agreement with a Brazilian insurance company. Effective September 30, 2019, ONSA issued additional common equity shares to ONNH in exchange for a capital contribution of $5,283. ONGH now owns 92% of ONSA and ONNH owns 8%. Prior to this transaction, ONGH owned 100% of Ohio National Sudamerica S.A. ("ONSA"), a Chilean holding company. ONSA owns 100% of Ohio National Seguros de Vida S.A. ("ONSV"), a Chilean insurance company.

Ohio National Mutual Holdings, Inc. and its subsidiaries are collectively referred to as "ONMH" or the "Company".

Business

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

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

Additionally, in late 2018 and into 2019, ONLIC offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. The Company paid more than $115,000 and $58,000 related to the buy-back, during 2019 and 2018, respectively, which is included in benefits and claims on the corresponding statements of operations.

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

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

SYRE reinsured certain fixed indexed annuity and variable annuity-related risks for ONLIC. The variable annuity reinsurance agreement covered living benefits and death benefits sold only with or as a part of such living benefit riders. During 2019, ONLIC recaptured the majority of variable annuity-related risks, and reinsured them with SUNR. SUNR retrocedes the risks related to GMIB variable annuity contracts to SYRE. The effects of these transactions have no impact on the Company's financial statements, as they eliminate in consolidation.

SUNR was capitalized in 2018 and was approved on January 9, 2019 by the Ohio Department of Insurance to begin assuming contracts written by ONLIC, effective April 1, 2019.

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

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

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

(2) Basis of Presentation

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

(3) Summary of Significant Accounting Policies

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

(a) Change in Accounting Principle

The Company has in previous years accounted for direct financing leases under the legacy lease accounting guidance within ASC 840. Upon adoption of ASC 842 in 2019, buyer-lessors are required to evaluate direct financing leases for whether the underlying asset has been purchased based on the transfer of control. The Company's direct financing leases do not qualify as a sale of the underlying asset; as such, the Company will account for them as receivables under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310 effective January 1, 2019.

(b) Use of Estimates

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

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

(c) Fair Value

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

(d) Investments

Net Investment Income and Net Realized Gains (Losses)

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

Fixed Maturity and Equity Securities
Fixed maturity and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains and losses, net of adjustments to deferred policy acquisition costs, future policy benefits and claims, other policyholder funds and deferred federal income tax, are recorded as a separate component of accumulated other comprehensive income in equity. Effective January 1, 2018, the Company reclassified all equity securities available-for-sale to equity securities, at fair value as a result of the adoption of Accounting Standards Update ("ASU") 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). See Note 7 for further information.

Fixed maturity securities related to the Company's funds withheld reinsurance arrangements are classified as trading and are stated at estimated fair value. Changes in estimated fair value of these securities are included in change in value of trading securities in the consolidated statements of operations.

Fixed maturity and equity securities classified as trading are reported at their estimated fair value. Changes in estimated fair value of these securities are included in change in value of trading securities in the consolidated statements of operations. Effective January 1, 2018, the Company reclassified all equity securities classified as trading to equity securities, at fair value as a result of the adoption of ASU 2016-01. See Note 7 for further information.

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

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

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

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

Mortgage Loans on Real Estate
Mortgage loans on real estate are carried at the unpaid principal balance less an allowance for loan losses. The allowance is comprised of a specific and general component. The specific component relates to loans that have been identified as impaired and is generally measured as the difference between the impaired principal balance less the fair value of the collateral, if collateral dependent, less cost to sell. The Company provides allowances for impairments of these mortgage loans based on a review by portfolio managers. For the general component, management's periodic evaluation of the adequacy of the allowance is based on past

loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

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

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

Real Estate
Real estate, net, which is comprised of buildings and improvements held for company investment and other real estate owned, is carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company occupied real estate is 30 to 39 years and the estimated useful life for building improvements is 5 to 20 years. The estimated useful life for real estate held for investment is 17 to 39 years and the estimated useful life for building improvements is 5 to 16 years. Real estate, net also includes land which is carried at cost.

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

The cost basis of the real estate and building improvements was $58,645 and $54,513 at December 31, 2019 and 2018, respectively. Accumulated depreciation was $12,062 and $11,296 at December 31, 2019 and 2018, respectively. Related depreciation expense was $1,907, $1,922 and $1,713 for the years ended December 31, 2019, 2018 and 2017, respectively, and is included in net investment income in the consolidated statements of operations. The cost basis of land was $5,687 and $5,390 at December 31, 2019 and 2018, respectively.

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

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

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

Venture capital partnerships are carried on the equity method basis.

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

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

(e) Derivatives

The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company pursuant to FASB ASC Topic 815, *Derivatives and Hedging*. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. The futures derivative instruments are carried at estimated fair value in other long-term investments or other liabilities, and the remaining derivative instruments are carried at estimated fair value in other long-term investments, with changes in estimated fair value recorded in net realized gains (losses) derivative instruments in the consolidated statements of operations.

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

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

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

(Dollars in thousands)

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

Such embedded derivatives are carried at estimated fair value with the reinsurance embedded derivatives reported in reinsurance recoverables in the consolidated balance sheets. The change in the estimated fair value is reported in benefits and claims in the consolidated statements of operations.

(f) Cash and Cash Equivalents

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

(g) Segregated Special Surplus Fund

ONLIC has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with a reinsurance agreement undertaken during the year. The assets are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 200% of its authorized control level risk based capital. The segregated special surplus fund is held in a custodial account. At December 31, 2019, the required amount to be segregated was $35,826 and the value of the custodial account was $36,437, which was invested in the following assets at December 31, 2019:

		2019
Cash and cash equivalents	$	3,090
Securities available-for-sale, at fair value:		
Fixed maturity securities		25,579
Mortgage loans on real estate, net		7,768
Total custodial account value	$	36,437

(h) Deferred Policy Acquisition Costs and Capitalized Sales Inducements

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

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

- certain advertising costs that meet the deferral criteria.

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

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

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

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

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

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

Changes in assumptions can have a significant impact on the amount of DAC reported for investment products and universal life insurance products and their related amortization patterns. In the event actual experience differs from assumptions or assumptions are revised, the Company is required to record an increase or decrease in DAC amortization expense ("DAC unlocking"), which could be significant. In general, increases in the estimated general and net separate account returns result in increased expected future profitability and may lower the rate of DAC amortization, while increases in lapse/surrender and mortality assumptions reduce the expected future profitability of the underlying business and may increase the rate of DAC amortization. Any resulting DAC unlocking adjustments are reflected currently in the amortization of DAC in the consolidated statements of operations.

The Company's policy for internal replacements that result in a replacement contract that is substantially changed from the replaced contract the replaced contract shall be accounted for as extinguished and unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from the replaced contract shall not be deferred in connection with the replacement contract.

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

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

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

(i) Reinsurance

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

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

Amounts recoverable under reinsurance agreements, which totaled $3,946,180 and $2,111,698 as of December 31, 2019 and 2018, respectively, include ceded reserves, paid and unpaid claims, and certain other amounts.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce bank owned life insurance ("BOLI") and single premium deferred annuity ("SPDA") blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio.

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

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

See Note 11 for additional reinsurance disclosures and information.

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

Equipment, which is included in other assets, is stated at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated life is generally 2 to 15 years for equipment. The cost basis of the equipment was $68,123 and $61,613 at December 31, 2019 and 2018, respectively. Accumulated depreciation of equipment was $49,244 and $44,701 at December 31, 2019 and 2018, respectively. Related depreciation expense was $5,871, $5,742 and $6,167 for the years ended December 31, 2019, 2018 and 2017, respectively.

Computer software and hardware, which is included in other assets, is stated at cost, less accumulated amortization. Purchased software costs, as well as certain internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized. Such costs are amortized generally over a 2 to 10 year period using the straight-line method based upon the estimated useful life of the assets. The cost basis of computer software was $117,386 and $107,718 at December 31, 2019 and 2018, respectively. Accumulated amortization of computer software and hardware was $64,972 and $59,589 at December 31, 2019 and 2018, respectively. Related amortization expense was $9,380, $9,908 and $7,463 for the years ended December 31, 2019, 2018 and 2017, respectively.

Properties occupied by the Company, which are included in other assets, are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company occupied real estate is 30 to 32 years and the estimated useful life for building improvements is 9 to 30 years. The cost basis of the buildings, improvements and land was $45,779 and $45,637 at December 31, 2019 and 2018, respectively. Accumulated depreciation of buildings and improvements was $20,133 and $18,437 at December 31, 2019 and 2018, respectively. Related depreciation expense was $1,647, $1,623 and $1,562 for the years ended December 31, 2019, 2018, and 2017, respectively. Properties occupied by the Company also include related land which is carried at cost.

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

The Company has $4,611 and $12,712 of capital projects in process recorded in other assets at December 31, 2019 and 2018, respectively.

(k) Goodwill and Intangible Assets

Goodwill and intangible assets are included in other assets. In a business combination, goodwill is the result of the excess of cost over the estimated fair value of the net assets acquired. Intangible assets are non-financial assets that lack physical substance resulting from a business combination.

Goodwill and intangible assets are assets acquired by the Company as a result of acquisitions in prior years of the NSLAC and ONSV entities. The Company has $1,314 of goodwill recorded in other assets at December 31, 2019 and 2018.

Goodwill is not amortized, but is evaluated for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, require an interim evaluation. The evaluation includes the use of management assumptions which may be inherently uncertain. During the 2019 annual impairment tests, the Company concluded that the estimated fair value of the goodwill was in excess of its carrying value and, therefore, not impaired.

The Company has $179 and $191 of intangible assets recorded in other assets on the balance sheets at December 31, 2019 and 2018, respectively, related to insurance licenses acquired with the purchase of NSLAC by ONLIC in 2002. The value of the intangible is primarily dependent upon the maintenance of the New York license. License fees are paid annually in order to maintain the license in good standing. Each license remains intact and in good standing as there have been no events that would impact NSLAC's ability to do business in the New York or New Jersey markets. In 2018, the Company evaluated and concluded that its intangible assets had a useful life that was determinable and began amortizing the assets over that life. The Company amortized $12 and $4, respectively, for the years ended December 31, 2019 and 2018.

(l) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. The activity of the separate accounts is not reflected in the consolidated statements of operations and cash flows except for the fees the Company receives for administrative services and risks assumed and the activity related to guaranteed contracts, which are riders to existing variable annuity contracts. These are recorded in either annuity premiums and charges or benefits and claims in the consolidated statements of operations. Separate account seed money is recorded as a trading security.

(m) Revenues and Benefits

Traditional Life Insurance Products

Traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of whole life, limited-payment life, term life, and certain annuities with life contingencies.

Premiums for traditional life insurance products are recognized as revenue when due. Benefits and expenses are associated with earned premiums; therefore, profits are recognized over the life of the contract. This association is accomplished through the provision for future policy benefits and the deferral and amortization of policy acquisition costs.

Investment Products and Universal Life Insurance Products

Investment products consist primarily of individual and group variable and fixed deferred annuities, annuities without life contingencies, guaranteed investment contracts and fixed indexed annuities. Universal life insurance products include universal life, variable universal life, indexed universal life and other interest-sensitive life insurance policies.

Revenues for investment products and universal life insurance products consist of net investment income, cost of insurance charges, asset fees, policy administration fees, and surrender charges that have been earned and assessed against policy account balances during the period. The timing of revenue recognition as it relates to fees assessed on investment contracts and universal life contracts is determined based upon the nature of such fees. Cost of insurance charges and policy administrative fees are assessed on a daily, monthly or annual basis, and recognized as revenue when assessed and earned. Certain amounts assessed that represent compensation for services to be provided in future periods such as unearned front end loads are reported as unearned revenue and recognized in income over the periods benefited. Surrender charges are recognized upon surrender of a contract in accordance with contractual terms. Policy benefits and claims that are charged to expense include benefits and claims incurred in the period in excess of related policy account balances, maintenance costs, and interest credited to policy account balances.

Accident and Health Insurance Products
Accident and health insurance premiums including group life (burial and survivorship) and health (disability) are recognized as revenue in accordance with the terms of the policies. Policy claims are charged to expense in the period that the claims are incurred.

(n) Investment Management Fees

Investment management fees are earned by various subsidiaries in conjunction with money management activities. The fees are based on a percentage of assets at the end of each quarter and are recognized in income as earned.

Revenue earned by the broker dealer operations, which is based on agreed upon commission rates, is recognized when the respective broker dealer entity's performance obligation is satisfied. For fees paid up front, the performance obligation is the sale of the contract and as such, is fulfilled on the trade date. Certain variable commission revenue is considered constrained, as it is dependent on the account value at future points in time as well as the length of time and whether the policy remains in force, all of which are highly susceptible to factors outside the Company's influence. The constraint is overcome when the account value and investor activities are known, usually monthly, at which point the revenue is recognized. The broker dealer operations had no remaining performance obligations to satisfy related to revenue from contracts with customers as of December 31, 2019.

The following table illustrates the revenue recognized from contracts with customers reported in investment management fees, net investment income and other income on the consolidated statements of operations, and the timing of revenue recognition, for the year ending December 31, 2019 and 2018:

(Dollars in thousands)

December 31, 2019		**Registered investment and variable contracts**	**General securities**	**Fee based and other**	**Total**
Revenues from contracts with customers					
Other income	$	51,713	1,729	15,018	68,460
Net investment income		—	—	28	28
Investment management fees		—	—	45,181	45,181
Total revenue from contracts with customers	$	51,713	1,729	60,227	113,669
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	51,713	1,729	60,227	113,669
Total revenue from contracts with customers	$	51,713	1,729	60,227	113,669
December 31, 2018					
Revenues from contracts with customers					
Other income	$	61,298	2,334	13,503	77,135
Net investment income		—	—	29	29
Investment management fees		—	—	51,450	51,450
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	61,298	2,334	64,982	128,614
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614

(o) Other Income

The Company earns sales load fees on the sale of ONLAC variable universal life contracts by unrelated third party brokers through various subsidiaries. The Company also earned sales load fees on ONLIC variable, fixed and fixed indexed annuity contracts. Sales load fees are recognized as revenue when earned. Additionally, the various subsidiaries of the Company sold registered investment products and variable contracts sponsored by unaffiliated parties.

(p) Future Policy Benefits and Claims

The Company establishes liabilities for amounts payable under insurance policies. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. The process of calculating reserve amounts for a life insurance organization involves the use of a number of assumptions, including those related to persistency (how long a contract stays with a company), mortality (the relative incidence of death in a given time), morbidity (the relative incidence of disability resulting from disease or physical ailment) and interest rates (the rates expected to be paid or received on financial instruments, including insurance or investment contracts). The methods used in determining the liability for unpaid losses and future policy benefits are standard actuarial methods recognized by the American Academy of Actuaries.

Liabilities for traditional life insurance policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals which were used or which were being experienced at the time the policies were issued.

Liabilities for investment products in the accumulation phase, fixed deferred annuities, fixed indexed annuities, group annuities, universal life insurance products and variable universal life insurance products are calculated based on participants' contributions plus interest credited less applicable contract charges.

Liabilities for payout annuities are calculated using the present value of future benefits discounted using varying interest rates. Liabilities for variable payout annuities also include maintenance costs in the present value calculation.

Liabilities for disability income policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals which were used or which were being experienced at the time the policies were issued. Liabilities for disability income policies on claims are calculated using the present value of future benefits and maintenance costs discounted using varying interest rates, depending on the year the claim was incurred.

The Company regularly reviews its estimates of future policy benefits and claims liabilities and compares them with its actual experience. Differences result in changes to the liability balances with related charges or credits to benefit expenses in the period in which the change occurs.

The Company issued traditional variable annuity contracts through its separate accounts, for which investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

The Company also issued nontraditional variable annuity contracts through its separate accounts in which the Company provides various forms of guarantees/riders to benefit the related contract holders. These guarantees are accounted for as insurance liabilities or as embedded derivatives depending on how and when the benefit is paid. Specifically, a guarantee is accounted for as an embedded derivative if a guarantee is paid out without requiring the occurrence of a specific insurable event or the policyholder to annuitize. Alternatively, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either the occurrence of a specific insurable event, or annuitization. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative and in such cases the guarantee is split and accounted for under both models.

The Company has five main types of rider benefits offered with individual variable annuity contracts:

- guaranteed minimum death benefit ("GMDB");
- guaranteed minimum income benefit ("GMIB");
- guaranteed minimum accumulation benefit ("GMAB");
- guaranteed minimum withdrawal benefit ("GMWB"); and
- guaranteed lifetime withdrawal benefit ("GLWB").

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

The Company refers to the total of the five types issued with variable annuity contracts and fixed indexed annuity contracts, collectively, as the “G reserves.”

Guarantees accounted for as insurance liabilities in future policy benefits and claims include GMDBs, GMIBs and certain GLWBs that require annuitization.

Guarantees accounted for as embedded derivatives include GMWBs, GMABs and certain GLWBs that do not require annuitization, as well as the index crediting feature within the fixed indexed annuity contracts. At inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. The embedded derivatives are carried at estimated fair value and reported in future policy benefits and claims.

(q) Participating Business/Policyholder Dividends

Participating business, which refers to policies that participate in profits through policyholder dividends, represents 14.0%, 13.1% and 12.3% of the Company’s ordinary life insurance in force as of December 31, 2019, 2018 and 2017, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholder funds in the accompanying consolidated balance sheets. Policyholder dividends incurred are recorded in the provision for policyholders’ dividends on participating policies in the accompanying consolidated statements of operations.

Policyholder dividends are approved annually by ONLIC’s board of directors based upon the amount of distributable statutory surplus. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity, and expense experience for the year, as well as management’s judgment as to the appropriate level of statutory surplus to be retained by ONLIC.

(r) Income Taxes

The Company files a life/non-life consolidated federal income tax return which includes its U.S. domestic subsidiaries. United States Department of the Treasury (“Treasury”) regulations generally require a five year waiting period as to when a life insurance company can be included in the consolidated federal income tax return. A subsidiary life insurance company may obtain approval sooner, if the provisions of the Treasury regulations are met. SUNR met the Treasury regulations and received approval to join the consolidated return in 2019.

SYRE was formed in Bermuda in 2008 as a life insurance company and elected to be treated as a U.S. taxpayer. In 2013, SYRE was redomesticated to the United States. In 2015, SYRE was re-domiciled from the U.S. to the Cayman Islands and elected to be a U.S. taxpayer. SYRE joined the consolidated return on January 1, 2014.

The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocations are based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled quarterly.

The Company's policy for recording interest and penalties associated with audits, claims and adjustments is to record such amounts as a component of current income tax (benefit) expense.

The foreign life insurance subsidiaries owned by the Company file tax returns in accordance with applicable foreign laws in their respective countries of domestication. U.S. taxation of foreign affiliates may differ in timing and amount from taxation under foreign laws. The impact of the returns filed subject to foreign tax law has been reflected in the provision for income tax expense and related liabilities.

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. Current income taxes are charged to operations based upon amounts estimated to be payable as a result of taxable operations for the current year.

In determining the need for a valuation allowance, the Company considers the carryback capacity to absorb capital losses, reversal of existing temporary differences, estimated future taxable income and prudent and feasible tax planning strategies. The determination of the valuation allowance for the Company's deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on historical experience and expectations of future performance. Management's judgments are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such factors as policyholder behavior, competitive pricing, and specific industry and market conditions.

Related to Global intangible low-taxed income ("GILTI") tax rules, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the 'period cost method') or (2) factoring such amounts into a company's measurement of its deferred taxes (the 'deferred method'). The Company has elected the period cost method, which will be determined annually if the Company's GILTI inclusion arises to a material amount from a U.S. tax compliance perspective.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act. See Note 4 for a description of the new tax law.

(s) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred.

On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's consolidated financial statements. See Note 20 for further information.

(t) Foreign Currency

Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. The determination of the functional currency is made based on the appropriate economic and management indicators. The local currencies of foreign operations are the functional currencies. Assets and liabilities of foreign subsidiaries are translated from the functional currency to U.S. dollars at the exchange rates in effect at each year end and income and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are charged or credited directly to other comprehensive income, net of applicable taxes.

(u) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans. The Company recognizes an expense for differences between actual experience and estimates over the average future service period of participants. The actuarial gains (losses) and prior service costs (credit) not yet included in net periodic benefit costs are charged to accumulated other comprehensive income ("AOCI"), net of income tax.

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality. Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's consolidated financial statements.

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsors a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions are based on the net earnings of the Company. Accordingly, the Company recognizes compensation cost for current contributions.

(v) Adoption and Future Adoption of New Accounting Pronouncements

The Company generally applies the "other public entity" requirements when adopting new accounting standards. Where the standard adoption timeframes differentiate between U.S. Securities and Exchange Commission ("SEC") filers and other public business entities ("PBE"), the Company follows the adoption timelines for other public business entities as the Company does not meet the requirements of an SEC filer.

Adoption of New Accounting Pronouncements

Effective January 1, 2019, the Company adopted ASU 2019-10, Financial Instruments – *Derivatives and Hedging (Topic 815): Effective Dates,* ASU 2019-04, *Codification Improvements to Topic 815, Derivatives and Hedging*, ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The guidance refines, expands and simplifies hedge accounting for financial and nonfinancial risk. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures.

Effective January 1, 2019, the Company adopted ASU 2019-10, *Leases (Topic 842): Effective Dates*, ASU 2019-01, *Leases (Topic 842): Codification Improvements* (March 2019), ASU 2018-20, *Leases (Topic 842): Narrow Scope Improvements for* Lessors (December 2018), ASU 2018-11, *Leases (Topic 842): Targeted* Improvements (July 2018), and ASU 2016-02, *Leases (Topic 842)* using the prospective application of the guidance and prior periods continue to be presented in accordance with Topic 840. This new guidance requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for the lease term for those leases classified as operating leases under previous guidance. Under this guidance, lessor accounting is largely unchanged except to align lessor accounting with the lease accounting model and ASC Topic 606, *Revenue from Contracts with Customers*, and thus the accounting for sale and leaseback transactions has been simplified. Additionally, the Company elected the package of practical expedients and recognized on the Consolidated Statement of Financial Position $9,189 of operating lease liabilities and $9,151 of operating lease right-of-use assets at adoption. The adoption of this guidance did not have a material impact on the Statement of Income, Stockholders' Equity, and Statement of Cash Flows. See Note 19 for additional disclosures.

Effective January 1, 2019, the Company adopted ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. This guidance requires premium on callable debt securities to be amortized to the earliest call date. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or financial statement disclosures.

In February 2018, the Company early adopted ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance gives financial statement preparers an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The guidance also requires disclosure of (1) a description of the accounting policy for releasing income tax effects from AOCI, (2) whether the Company elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act, and (3) information about the other income tax effects that are reclassified. The Company chose to early adopt this standard effective for the year ended December 31, 2017. As a result of adoption, ($33,329) was reclassified from AOCI to retained earnings.

In January 2018, the Company adopted ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. This guidance defines in substance nonfinancial assets, and clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The adoption of this guidance did not impact the Company's consolidated financial statements.

In January 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows, (Topic 230): Restricted Cash*. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements, except for expanded disclosures.

In January 2018, the Company adopted ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This guidance requires entities to immediately recognize the income tax consequences of intercompany asset transfers. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2018, the Company adopted guidance on cash flow statement presentation, ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The guidance addresses how certain specific cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements.

In January 2018, the Company adopted ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This guidance requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This guidance requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). This guidance eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company adopted the standard using a modified retrospective approach. The adoption of the standard resulted in a reclassification of approximately $6,783, pre-tax, $5,359, net of tax as of December 31, 2018, from accumulated other comprehensive income to retained earnings.

Effective January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers and applies primarily to commissions, advisory fees and sales loads earned by the Company's broker dealer operations, as Topic 606 specifically excludes insurance contracts from its scope. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. In adopting the standard, the Company recognized approximately $17,000 in sub-advisory fees as a portion of other operating costs and expenses for the year ended December 31, 2018 (gross basis), where in previous years they were reported as part of investment management fees (net basis).

Future Adoption of New Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, effective for fiscal years beginning after December 15, 2020 for public business entities. This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance of Variable Interest Entities*, effective for fiscal years beginning after December 15, 2019 for public business entities. The guidance amends previous issued guidance for determining whether an indirect interest held through a related party is a VIE. It is anticipated this guidance will result in more decision makers not consolidating VIEs. Early adoption is permitted. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* effective for fiscal years ending after December 15, 2019 for public business entities. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This guidance requires a customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Early adoption is permitted. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, effective for fiscal years ending after December 15, 2020 for public business entities. This guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. Early adoption is permitted. Management does not expect that this guidance will have a material impact on the consolidated financial statements except for changes to disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, effective for fiscal years beginning after December 15, 2019 for public business entities. This guidance modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, by removing, modifying and adding certain disclosures associated with fair value measurements. Early adoption is permitted. Management does not expect this guidance will have a material impact on the consolidated financial statements except for changes to disclosures.

In August 2018, the FASB issued ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, and in November 2019, the FASB issued ASU 2019-09, *Financial Services – Insurance (Topic 944): Effective Date.* The new guidance is effective for fiscal years beginning after December 15, 2023 for PBE non-SEC filers. Early adoption is permitted. This new guidance impacts existing recognition, measurement, presentation, and disclosure requirements for long-duration insurance contracts issued by an insurance entity. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements, but expects it to be material.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* effective for annual periods beginning after January 1, 2020 which eliminates some portions of the goodwill impairment test to simplify the test. The guidance also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

The FASB has issued guidance on measurement of credit losses on financial instruments: ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses,* ASU 2019-10*, Financial Instruments – Credit Losses (Topic 326): Effective Dates*, ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* (November 2018) and ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (June 2016). The new guidance is effective for fiscal years beginning after December 15, 2022 for PBE non-SEC filers. Early adoption is permitted. ASU 2016-13 replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses will be based on historical loss information, current conditions, and reasonable and supportable forecasts after implementation of this guidance. The guidance also requires enhanced disclosures. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

(w) Subsequent Events

The Company has evaluated subsequent events through March 26, 2020, the date that the consolidated financial statements were available to be issued.

In January 2020, the Company issued a $425,000, 5.550% fixed rate senior note due January 24, 2030. The proceeds of this note were used to retire the term loan issued during 2019. See Note 12 – Long Term Debt Obligations for additional details.

During the first quarter of 2020, ONSV sold all of its Level 3 securities. At the time of sale, the securities had a book value of $31,244 and a market value of $43,687, which resulted in a realized gain of $12,443.

(4) Risks

The Company participates in an industry where there are risk factors that could have material adverse effects on the business and operating results. The following is a description of the various risk factors:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company's products, or additional unanticipated expenses in the pricing of its products.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under FASB ASC Topic 740, *Income Taxes*, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the President signs a bill into law.

The Act reduces the corporate income tax rate to 21 percent (previously 35 percent), effective January 1, 2018, for all corporations. The effects of the new legislation were recognized by adjusting the Company's deferred tax assets ("DTAs") and/or deferred tax liabilities ("DTLs") as of December 31, 2017. The effects of changes in tax laws or rates on DTAs or DTLs are allocated to continuing operations and are reflected in the tax rate reconciliation in Note 14.

The Company made an election to reclassify the income tax effects of the Act from AOCI to retained earnings in its 2017 consolidated financial statements. The reclassification only includes impacts of the tax rate change from 35% to 21%. The Company's policy was to reclassify the full impact in the first year. There was no valuation allowance associated with these AOCI balances.

See Note 14 for disclosures relating to taxes in the consolidated financial statements.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies, their products, and how those products may be sold. Changes in these laws and regulations may affect the Company's operating results.

Changes in the tax treatment for corporate owned life insurance ("COLI") and BOLI could impact the Company's ability to sell those products in the future or existing policies may be surrendered or allowed to lapse.

Increased assessments from guaranty associations may occur if there is an increase of impaired, insolvent or failed insurers in the jurisdictions in which the Company operates.

Changes in the regulatory environment and changes in laws in the countries of our international insurance operations could have a material adverse effect on our results of operations. Our international insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are located or operate.

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 13% of total individual annuity reserves as of December 31, 2019 and 2018. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

Mortality Risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation may occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company attempts to reduce this risk through geographical diversification and the purchase of reinsurance.

Reinsurance Risk is the risk that the reinsurance companies, where the Company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into reinsurance contracts to cede a portion of its general account life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies it chooses to cede risk to, requiring collateral to support ceded reserves and / or following up on any outstanding balances with reinsurance companies.

Ratings Risk is the risk that rating agencies change their outlook or rating of the Company or a subsidiary of the Company. If such ratings were lowered significantly relative to our competitors, our ability to market products to new customers could be harmed as well as the potential loss of existing customers. The Company monitors its Risk-Based Capital ("RBC") and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Cyber Risk is the potential for information and systems to be vulnerable to adverse events, such as breaches, thefts, compromised integrity, damage, fraud, or business disruption, caused by internal, external or third parties. The loss of confidentiality, integrity or availability for information and systems could disrupt operations, result in the loss of business, materially affect profitability and negatively impact the Company's reputation. The Company utilizes a defense in depth approach to physically, administratively and technically mitigate cyber risk. Multiple layers of security controls provide redundancy in the event a security control fails or a vulnerability is exploited. Despite these efforts, there is still a risk a cyber incident could happen.

Credit Risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivative counterparties, default on their contractual obligations or experience adverse changes that would affect the Company. The Company attempts to minimize the adverse impact of this risk by monitoring the portfolio diversification, the Company's exposure to impairment, collectability of the loans and the credit quality of reinsurers and derivative counterparties as well as, in many cases, requiring collateral, lines of credit or assets in trust to manage credit exposure.

Interest Rate Risk is the risk that interest rates will change and impact the valuation of the fixed maturity securities. A change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. To the extent that liabilities come due more quickly than assets mature, an insurer would have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Equity Market Risk is the risk of loss due to declines in the equity markets in which the Company participates. A decline in the stock market will affect the value of equity securities and the contract value of the Company's individual variable annuity contracts which offer guaranteed benefit riders as well as fixed indexed annuity and indexed universal life contracts. Losses in the equity market could result in declines in separate account assets and assets under management thus affecting investment management fees revenue and may require the Company to accelerate the amortization of DAC.

The Company attempts to minimize the adverse impact of equity market risk by monitoring the diversification of the Company's investment portfolio and through reinsurance arrangements with third-parties. The Company uses equity index put options, equity index call options, equity swaps and interest rate swaptions to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities.

Liquidity Risk is the risk that the Company may not have the ability to sell certain investments to meet obligations of the Company.

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, the Company manages the BOLI growth to not exceed a specified percentage of general account assets to minimize the risk of liquidity strain.

Foreign Currency Risk is the risk that the Company's consolidated financial statements could be adversely impacted by fluctuations in exchange rates as the Company's financial statements are presented in U.S. dollars and the financial statements of our subsidiaries outside of the U.S. are translated into U.S. dollars. Additionally, the Company could be impacted by significant changes in global economic conditions.

Investment Risk – see Note 7 for additional risks specific to the investment portfolio.

(Dollars in thousands)

Coronavirus (COVID-19)
The Company is exposed to potential risk associated with the recent outbreak of Coronavirus ("COVID-19"). As this is a currently fluid situation, the impact of a widespread COVID-19 outbreak is difficult to assess and predict, and the Company is closely monitoring the situation through the Hamilton County Public Health office, as well as the Centers for Disease Control ("CDC"). 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.

Subsequent to December 31, 2019, equity and financial markets have experienced significant volatility and interest rates have continued to decline due to the COVID-19 pandemic. The Company is currently in the process of determining the impact of the pandemic to its operations and financial condition.

(5) Changes in Accumulated Other Comprehensive Income

The following table shows the changes in accumulated other comprehensive income, net of taxes, by component for the years ended December 31:

		Pensions and other post-retirement benefits	Foreign currency translation adjustment	Adjustment to: Future policy benefits and claims	Adjustment to: Other policyholder funds	Adjustment to: Deferred acquisition costs	Unrealized gains (losses) [1]	Total
December 31, 2017	$	(36,892)	(21,912)	(34,682)	14,021	(71,763)	335,304	184,076
Other comprehensive (loss) income before reclassifications		7,427	(17,497)	28,889	(14,212)	64,202	(230,395) [2]	(161,586)
Amounts reclassified from accumulated other comprehensive income		3,207	—	—	—	—	(12,174)	(8,967)
Change		10,634	(17,497)	28,889	(14,212)	64,202	(242,569)	(170,553)
December 31, 2018	$	(26,258)	(39,409)	(5,793)	(191)	(7,561)	92,735	13,523
Other comprehensive income (loss) before reclassifications		(977)	(10,027)	(46,930)	20,279	(90,259)	511,115	383,201
Amounts reclassified from accumulated other comprehensive income		2,498	—	—	—	—	(164,300)	(161,802)
Change		1,521	(10,027)	(46,930)	20,279	(90,259)	346,815	221,399
December 31, 2019	$	(24,737)	(49,436)	(52,723)	20,088	(97,820)	439,550	234,922

1. Unrealized gains (losses) include unrealized impact of derivative instruments

2. The impact of adoption of ASU 2016-01 results in a difference of $5,359, net of tax, between other comprehensive (loss) income before reclassifications in this table and the securities available-for-sale on the statement of consolidated statement of comprehensive income (loss).

(Dollars in thousands)

The following table shows the reclassifications out of accumulated other comprehensive (loss) income, net of taxes, for the years ended December 31:

Details about accumulated other comprehensive income (loss) components		2019	2018	Consolidated statements of income location
Amortization of pensions and other post-retirement benefits:				
Prior service costs	$	127	128	Other operating costs and expenses
Actuarial losses		(3,289)	(4,187)	Other operating costs and expenses
		(3,162)	(4,059)	Loss before income taxes
		664	852	Income tax current benefit
		(2,498)	(3,207)	Net loss
Unrealized gains/(losses) on securities available-for-sale:				
		207,982	15,464	Realized gains, excluding other-than-temporary impairment losses on securities
		(43,682)	(3,290)	Income tax current expense
		164,300	12,174	Net gain
Total reclassification for the year	$	161,802	8,967	Total net gain

(6) Fair Value Measurements

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in circumstances.

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the consolidated balance sheets into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include U.S. government securities, actively traded equity securities, cash and cash equivalents, short-term investments, separate account assets, and exchange traded derivatives.
- **Level 2 –** Fair value is based on significant inputs, other than quoted prices included in Level 1 that are observable in active markets or that are derived principally from or corroborated by observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, private placement, equity securities, derivatives, securities lending collateral, cash equivalent securities, and short-term investments.
- **Level 3 –** Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management's best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain U.S. treasury securities and other government obligations (including certain investments in debt instruments issued by the U.S. military which are supported by lease payments), corporate debt, asset-backed or mortgage-backed securities, embedded derivatives associated with fixed indexed annuity contracts, and reinsurance contracts and embedded derivatives associated with living benefit contracts.

(Dollars in thousands)

The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
Investments:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government	$ 26,801	60,222	4,403	91,426
Obligations of states and political subdivisions	—	960,817	—	960,817
Debt securities issued by foreign governments	—	5,373	—	5,373
Corporate	—	6,483,347	22,023	6,505,370
Asset-backed	—	1,287,120	75,839	1,362,959
Mortgage-backed	—	1,053,978	4,688	1,058,666
Trading securities:				
Fixed maturity securities:				
Corporate	—	154	—	154
Asset-backed	—	6	—	6
Equity securities	34,709	5,759	—	40,468
Other long-term investments:				
Derivative assets:				
Currency futures	98	—	—	98
Equity put options	—	9	—	9
Equity index call options	—	52,554	—	52,554
Swap	—	1,192	—	1,192
Swaptions	—	60,212	—	60,212
Short-term investments securities lending collateral	—	246,578	—	246,578
Short-term investments	121,787	91,742	—	213,529
Cash and cash equivalents	287,223	—	—	287,223
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	1,244,029	1,244,029
Other assets:				
GMAB/GMWB embedded derivatives[1]	—	—	22,151	22,151
Assets held in separate accounts	19,926,103	—	—	19,926,103
Total assets	$ 20,396,721	10,309,063	1,373,133	32,078,917
Liabilities				
Future policy benefits and claims:				
GLWB embedded derivatives	$ —	—	20,034	20,034
Fixed indexed annuity embedded derivatives[2]	—	—	166,353	166,353
Derivative liabilities:				
Currency futures	2,143	—	—	2,143
Equity put options	—	56,756	—	56,756
Total liabilities	$ 2,143	56,756	186,387	245,286

[1] All GMAB riders. The reserve balance for the GMAB riders was negative and thus reclassifed as an asset.

[2] Represents embedded derivative portion of fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

(Dollars in thousands)

The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2018:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government	$ 41,423	69,821	—	111,244
Obligations of states and political subdivisions	—	1,088,329	—	1,088,329
Debt securities issued by foreign governments	—	33,194	—	33,194
Corporate	—	7,755,210	16,295	7,771,505
Asset-backed	—	1,568,918	54,634	1,623,552
Mortgage-backed	—	1,268,879	13,063	1,281,942
Trading securities:				
Fixed maturity securities:				
Corporate	—	808	—	808
Asset-backed	—	42	—	42
Equity securities	45,314	23,321	—	68,635
Other long-term investments:				
Derivative assets:				
Equity futures	5,679	—	—	5,679
Currency futures	1,227	—	—	1,227
Equity put options	—	57,604	—	57,604
Equity index call options	—	9,221	—	9,221
Swap	—	736	—	736
Swaptions	—	32,437	—	32,437
Short-term investments securities lending collateral	—	313,492	—	313,492
Short-term investments	125,277	44,869	—	170,146
Cash and cash equivalents	226,525	19,990	—	246,515
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	1,280,905	1,280,905
Other assets:				
GMAB/GMWB embedded derivatives[1]	—	—	603	603
Assets held in separate accounts	19,489,189	—	—	19,489,189
Total assets	$ 19,934,634	12,286,871	1,365,500	33,587,005
Liabilities				
Future policy benefits and claims:				
GMAB/GMWB embedded derivatives	—	—	2,566	2,566
GLWB embedded derivatives[2]	$ —	—	20,032	20,032
Fixed indexed annuity embedded derivatives[3]	—	—	124,953	124,953
Derivative liabilities:				
Currency futures	2,866	—	—	2,866
Total liabilities	$ 2,866	—	147,551	150,417

1 All GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassifed as an asset.

2 Relates to variable annuity GLWB riders only.

3 Represents embedded derivative portion of fixed indexed annuity base contracts only.

Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

The Company has policies and guidelines that establish valuation methodologies and consistent application of such methodologies. These policies and guidelines provide controls around the valuation process. These controls include appropriate review and analysis of investment prices against market activity or price variances, review of secondary pricing sources, review of price source changes, and review of methodology changes.

The following is a discussion of the methodologies used to determine estimated fair values for the financial instruments listed in the above tables:

Fixed maturity and equity securities – The estimated fair value of fixed maturity and equity securities is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities.

When there are no recent reported trades, the Company uses third party pricing services that use matrix or model processes to develop a security price using future cash flow expectations and collateral performance discounted at an estimated market rate. For the pricing of asset-backed and mortgage-backed securities, the models include estimates for future principal prepayments based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Since these securities have been priced using market observable inputs that are obtained by the independent pricing services, the Company has classified these fixed maturity securities as Level 2 assets.

Fixed maturity securities not priced by independent services are generally priced using an internal pricing matrix. The internal pricing matrix is developed by obtaining spreads for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular fixed maturity security to be priced using the internal matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that bond. The estimated market yield is then used to estimate the fair value of the particular fixed maturity security. Since the inputs used for the internal pricing matrix are based on observable market data, the Company has classified these fair values within Level 2.

In some instances the independent pricing service will price securities using independent broker quotations from market makers and other broker/dealers recognized to be market participants, which utilize inputs that may be difficult to corroborate with observable market data. These fixed maturity securities are classified as Level 3 assets.

For certain asset-backed and mortgage-backed fixed maturity securities with complex cash flows that are not priced by independent pricing services, management determines the fair value using other modeling techniques, primarily commercial software applications utilized for valuing securitized investments with variable cash flows. These fixed maturity securities are classified as Level 3 assets.

At December 31, 2019, 83.0% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 15.7% from the Company's internal pricing matrices and 1.3% from other sources. At December 31, 2018, 84.1% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 15.3% from the Company's internal pricing matrices and 0.6% from other sources.

Derivative instruments - The Company enters into derivative transactions comprised of equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. The equity and currency futures are exchange traded derivatives and the estimated fair value is based on an active market quotation. The Company has classified the estimated fair values of the exchange traded derivatives as Level 1 assets and liabilities. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. These derivative assets are classified as Level 2 assets.

Short-term investments - Short-term investments include fixed maturity securities that mature in less than one year and are valued in the same manner as the fixed maturity securities. These fixed maturity securities are classified as Level 2 assets. A portion of short-term investments are bank deposits that are classified as Level 1 assets since these investments are very liquid and not subject to valuation fluctuations.

Cash and cash equivalents - Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash equivalents are comprised of publicly traded money market accounts, commercial paper and reverse repurchase agreements. The publicly traded money market accounts are considered to be Level 1 assets and commercial paper is considered to be a Level 2 asset.

Assets held in separate accounts - Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the consolidated balance sheets. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified the estimated separate account assets as Level 1 assets.

GMIB reinsurance contracts and GMAB/GMWB/GLWB embedded derivatives – Certain of the Company's individual variable annuity contracts that include guaranteed benefit riders accounted for as embedded derivatives are measured at estimated fair value separately from the host variable annuity contract. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuity products.

The fair value of these assets and liabilities is estimated using the present value of future benefits minus the present value of future premiums over the expected lives of the contracts using various capital market and actuarial assumptions. The Company uses a risk neutral valuation methodology in which cash flows are projected under multiple capital market scenarios using observable risk free rates.

The valuation of the embedded derivatives also includes a credit adjustment using the Company's nonperformance risk to the present value of the future cash flows.

Other significant inputs to the valuation models for the derivatives associated with the guaranteed benefit riders include capital market assumptions, such as interest rate, equity indices, foreign currency rates, counterparty credit, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of the reinsurance contracts and embedded derivatives are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 assets and liabilities.

Fixed indexed annuity embedded derivatives - The Company's fixed indexed annuity contracts include embedded derivatives which are measured at estimated fair value separate from the host fixed indexed annuity contract. These embedded derivatives are estimated using the option budget method. The option budget rate is used as the best estimate of the future values of the index credits. The embedded derivative incorporates the excess cash flows, or those cash flows that represent the value of the indexes in excess of guarantee values. These cash flows are then discounted using the risk free rates plus a nonperformance risk spread, adjusted for margins.

Nonperformance risk is based on the counterparty's debt and cash flows obtained from publicly available information. Risk margins capture the non-capital market risk of the instrument which represents the additional risks assumed due to the uncertainties of the actuarial assumptions.

Other significant inputs to the valuation model for these derivatives include capital market assumptions, such as interest rate, equity indices, and volatility surface values, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of these reserves are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 liabilities.

(Dollars in thousands)

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following tables summarize the reconciliation of the beginning and ending balances and related changes in fair value measurements for which significant unobservable inputs were used in determining the estimated fair value for the years ended December 31:

	Investments				Reinsurance Recoverable	Other Assets	
Assets	**U.S. treasury securities and obligations of U.S. government**	**Corporate**	**Asset - backed**	**Mortgage - backed**	**GMIB reinsurance**	**GMAB/ GMWB embedded derivatives**	**Total assets**
December 31, 2017	$ —	4,962	14,924	7,532	1,187,888	31,727	1,247,033
Net investment gains/(losses):							
In earnings (realized and unrealized)[1]	—	(1,721)	(255)	(23)	93,017	(31,124)	59,894
Unrealized in OCI[2]	—	(731)	(279)	(100)	—	—	(1,110)
Purchases	—	4,264	11,000	7,406	—	—	22,670
Settlements	—	(524)	(2,673)	(1,752)	—	—	(4,949)
Transfers into Level 3	—	15,007	41,126	—	—	—	56,133
Transfers out of Level 3	—	(4,962)	(9,209)	—	—	—	(14,171)
December 31, 2018	—	16,295	54,634	13,063	1,280,905	603	1,365,500
Net investment gains/(losses):							
In earnings (realized and unrealized)[1]	—	897	8,203	(29)	(36,876)	21,548	(6,257)
Unrealized in OCI[2]	137	227	(70)	308	—	—	602
Purchases	—	852	17,999	—	—	—	18,851
Settlements	(160)	(9,981)	(1,134)	(1,007)	—	—	(12,282)
Transfers into Level 3	4,426	13,733	8,288	5,416	—	—	31,863
Transfers out of Level 3	—	—	(12,081)	(13,063)	—	—	(25,144)
December 31, 2019	$ 4,403	22,023	75,839	4,688	1,244,029	22,151	1,373,133
Change in unrealized gains/(losses):							
Still held at December 31:							
2018	$ —	2	(247)	(23)	93,017	(31,124)	61,625
2019	$ —	(4)	142	(28)	(36,876)	21,548	(15,218)

(Dollars in thousands)

		Future policy benefits and claims			
Liabilities		**GMAB/ GMWB embedded derivatives[3]**	**GLWB embedded derivatives**	**Fixed indexed annuity embedded derivatives**	**Total liabilities**
December 31, 2017	$	—	(16,550)	—	(16,550)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		(2,566)	(3,482)	(124,953)	(131,001)
December 31, 2018		(2,566)	(20,032)	(124,953)	(147,551)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		2,566	(2)	(41,400)	(38,836)
December 31, 2019	$	—	(20,034)	(166,353)	(186,387)
Change in unrealized gains/(losses):					
Still held at December 31:					
2018	$	(2,566)	(3,482)	(124,953)	(131,001)
2019	$	2,566	(2)	(41,400)	(38,836)

1 Net realized investment gains and losses included in earnings reflect gains/(losses) on sales of financial instruments, changes in fair value of other assets and liabilities, other-than-temporary impairments, amortization and accretion of premiums or discounts and derivative settlements activity.

2 Unrealized investment gains and losses recorded in other comprehensive (loss) income include changes in market value of certain instruments.

3 In 2018, the GMAB reserve balance was negative and reclassified as an asset.
In 2017, all GMAB riders due to reclass. These reserves remained positive and were classified as a liability.

The following tables present certain quantitative information about the significant unobservable inputs used in the fair value measurement for asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31. Certain securities classified as Level 3 excluded from the table below are obtained from non-binding broker quotes where observable inputs are not reasonably obtainable by the Company.

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2019						
Assets						
Reinsurance recoverable:						
GMIB reinsurance contracts	1,244,029	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.4% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.3% - 7.6%	*	Decrease
			duration 11+	3.6% - 6.6%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Increase
			Sys with rates (%Rollup)	95% - 100%	*	Increase
			Sys with utilization	0% - 13%	*	Increase
			IB Utilization	0.3% - 60%	*	Increase
			Non-performance risk (Credit Spread)	0.58% - 0.85%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase
GMAB/GMWB embedded derivatives[1]	22,151	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			dur 1-10	0.7% - 18.6%	*	Decrease
			dur 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 1.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	2.68% - 3.32%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2019						
Liabilities						
GLWB embedded derivatives	20,034	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.2% - 16.8%	*	Decrease
			duration 11+	7.0% - 8.6%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	95% - 100%	*	Increase
			Sys with utilization	0% - 29%	*	Increase
			Non-performance risk (Credit Spread)	2.68% - 3.32%	*	Decrease
			Equity market volatility	15.4% - 20.7%	*	Increase
Fixed indexed annuity embedded derivatives	166,353	Option budget method	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.5% - 25.0%	*	Decrease
			duration 11+	4.0% - 25.0%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90%	*	N/A
			Sys with utilization	0% - 30%	*	Decrease
			Non-performance risk (Credit Spread)	2.37% - 2.95%	*	Decrease
			Equity market volatility surface rates	5.0% - 20.2%	*	Increase

[1] All GMAB riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.

[2] Sys = Systematic

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation technique(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2018						
Assets:						
Reinsurance recoverable:						
GMIB reinsurance contracts	1,280,905	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.4% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.3% - 7.6%	*	Decrease
			duration 11+	3.6% - 6.6%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Increase
			Sys with rates (%Rollup)	90% - 100%	*	Increase
			Sys with utilization	0% - 16%	*	Increase
			IB utilization	0.5% - 75%	*	Increase
			Non-performance risk (Credit Spread)	0.67% - 1.09%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase
GMAB/GMWB embedded derivatives[1]	603	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			dur 1-10	0.7% - 18.6%	*	Decrease
			dur 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2018						
Liabilities						
GMAB/GMWB embedded derivatives	2,566	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.7% - 18.6%	*	Decrease
			duration 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase
GLWB embedded derivatives	20,032	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.2% - 16.8%	*	Decrease
			duration 11+	7.0% - 8.6%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90% - 100%	*	Increase
			Sys with utilization	0% - 30%	*	Increase
			Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase
Fixed indexed annuity embedded derivatives	124,953	Option budget method	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.5% - 12.0%	*	Decrease
			duration 11+	4.0% - 12.0%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90%	*	N/A
			Sys with utilization	0% - 30%	*	Decrease
			Non-performance risk (Credit Spread)	0.86% - 2.60%	*	Decrease
			Equity market volatility surface rates	5.0% - 20.2%	*	Increase

[1] All GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.
[2] Sys = Systematic

* The stochastic actuarial models are generated using one thousand scenarios. Weighted average values are not meaningful for these valuations.

(Dollars in thousands)

Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the Company's conclusion that pricing information received from a third party pricing service is not reflective of market activity.

		Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 2
2019			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
US Treasury securities	$	4,426	—
Corporate		13,733	—
Asset-backed		8,288	12,081
Mortgage-backed		5,416	13,063
2018			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
Corporate	$	15,007	4,962
Asset-backed		41,126	9,209

During the years ended December 31, 2019 and 2018, the Company transferred investments totaling $31,863 and $56,133, respectively, into Level 3 from Level 2 as a result of lack of visibility to observe significant inputs to price. During the years ended December 31, 2019 and 2018, the Company transferred investments totaling $25,144 and $14,171, respectively, out of Level 3 into Level 2 as a result of the availability of observable pricing inputs for these securities. There were no transfers from Level 2 or Level 3 into Level 1 in 2019 or 2018.

Fair Value Measurement on a Nonrecurring Basis

For mortgage loans, the valuation techniques were primarily based on the estimated fair value of the underlying collateral. These values were determined using third-party appraisals.

There were no assets measured at fair value on a nonrecurring basis for the years ended December 31, 2019 and 2018.

Financial Instruments Not Carried at Fair Value

FASB ASC Topic 825, *Financial Instruments,* requires additional disclosure of the fair value information about existing on and off balance sheet financial instruments. ASC Topic 825 excludes certain assets and liabilities, including insurance contracts, other than policies such as annuities that are classified as investment contracts, from its disclosure requirements. The Company's assets and liabilities subject to ASC Topic 825 disclosure that have not been presented at fair value in the ASC Topic 820 tables above are presented in the table below:

(Dollars in thousands)

	Carrying value	Estimated fair value	Fair value hierarchy Level 1	Level 2	Level 3
2019					
Assets:					
Mortgage loans on real estate	$ 1,446,093	1,487,044	—	92,738	1,394,306
Policy loans	875,097	987,296	—	—	987,296
Liabilities:					
Investment contracts	3,572,309	3,362,956	—	3,362,956	—
Policyholders' dividend accumulations and other policyholder funds	203,743	203,743	203,743	—	—
Short-term debt	1,675	1,675	—	1,675	—
Long-term debt obligations	953,878	1,014,148	—	614,148	400,000
2018					
Assets:					
Mortgage loans on real estate	$ 1,335,742	1,332,540	—	101,953	1,230,587
Policy loans	766,701	827,495	—	—	827,495
Liabilities:					
Investment contracts	4,138,046	4,415,553	—	4,415,553	—
Policyholders' dividend accumulations and other policyholder funds	198,413	198,413	198,413	—	—
Short-term debt	91,586	91,586	—	91,586	—
Long-term debt obligations	853,504	990,510	—	990,510	—

FASB ASC Topic 825, *Financial Instruments*, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). The following table presents the Company's financial assets and liabilities contained in other assets, other invested assets, and other liabilities on the consolidated balance sheet:

(Dollars in thousands)

		Carrying amount		
Financial assets identified in other assets		**2019**	**2018**	
Accounts receivable due from external parties	$	8,358	8,882	Carrying value approximates fair value
Other [1]		377,965	349,888	
Total other assets	$	386,323	358,770	

		Carrying amount		
Financial assets identified in other long-term investments		**2019**	**2018**	
Derivative instruments	$	114,065	106,904	Carrying value approximates fair value
Receivable for securities		1,824	1,939	Carrying value approximates fair value
Joint venture		22,239	22,103	Carrying value approximates fair value
Other invested assets		1,570	1,570	Carrying value approximates fair value
Other [1]		132,506	131,745	
Total other long-term investments	$	272,204	264,261	

		Carrying amount		
Financial liabilities identified in other liabilities		**2019**	**2018**	
Interest payable	$	7,724	7,305	Carrying value approximates fair value
Derivative liabilities		58,899	2,866	Carrying value approximates fair value
Collateral liabilities		78,280	106,880	Carrying value approximates fair value
Investments in transit and payable for securities		7,648	4,982	Carrying value approximates fair value
Other [1]		391,066	397,909	
Total other liabilities	$	543,617	519,942	

(1) Items included in "Other" are not in the scope of ASU 2016-01, but are presented for reconciliation purposes to agree to the balance sheet caption. Included in this category are goodwill and property and fixed assets, which are measured in accordance with the methodology described in Note 3, and FHLB common stock, which is carried at amortized cost. For all remaining items in this classification, carrying value approximates fair value.

In estimating the fair value of financial instruments, the Company used the following methods and assumptions:

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has mortgage loans that are valued based on market observable quotes and are classified as Level 2. The Company has mortgage loans that are valued using internally obtained credit ratings and are classified as Level 3.

Policy loans – The fair value of policy loans is estimated using discounted cash flow calculations. The expected life of the loan is based on internal assumptions; therefore, the Company classifies these as Level 3 assets.

Investment contracts – The fair value of the Company's liabilities under investment contracts is estimated using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Cash flows are discounted at a rate that reflects the nonperformance risk of the Company. The amounts shown in the above table are net of reinsurance. The inputs are market observable; therefore, the Company classifies these as Level 2 liabilities.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the consolidated balance sheets for these instruments approximates their estimated fair value. The amounts can be converted to cash by the policyholder; therefore, the Company classifies these amounts as Level 1.

Short-term borrowings – The carrying amount of short-term borrowings related to revolving credit facilities is a reasonable estimate of its fair value because the interest rates are variable based on current market rates.

Long-term debt obligations – The fair value of senior and surplus notes is estimated by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments. The valuation inputs are based on market observable information; therefore, the Company classifies these as Level 2 liabilities. The fair value of the term loan is determined by the bank to be the carrying value of the loan as it is not traded on the open market. The Company classifies this as a Level 3 liability.

(7) Investments

Investment Risks and Uncertainties

Investments are exposed to various risks and uncertainties that affect the determination of estimated fair values, the ability to sell certain investments during strained market conditions, the recognition of impairments, and the recognition of income on certain investments. These risks and uncertainties include:

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- the risk that foreign currency exchange rates could negatively impact the valuation of certain investments that are not denominated in U.S. dollars;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other than temporary impairments; and
- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

Any of these situations are reasonably possible and could result in a charge to income in a future period.

(Dollars in thousands)

The determination of impairments is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with each asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

The recognition of income on certain investments, including asset-backed and mortgage-backed securities, is dependent upon certain factors such as prepayments and defaults, and changes in factors could result in changes in amounts to be earned.

Fixed Maturity and Equity Securities

Fixed Maturity and Equity Securities by Sector
The amortized cost and estimated fair value of available-for-sale and trading securities for fixed maturity securities by sector as of December 31 is as follows:

		2019				
		Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**	**Non-credit OTTI**
Securities available-for-sale:						
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government	$	85,161	6,265	—	91,426	—
Obligations of states and political subdivisions		921,056	42,634	(2,873)	960,817	—
Debt securities issued by foreign governments		4,971	402	—	5,373	—
Corporate		6,014,219	500,317	(9,166)	6,505,370	—
Asset-backed		1,329,751	35,545	(2,337)	1,362,959	(2,377)
Mortgage-backed		1,030,526	29,763	(1,623)	1,058,666	(14,408)
Total fixed maturity securities	$	9,385,684	614,926	(15,999)	9,984,611	(16,785)
Trading securities:						
Fixed maturity securities:						
Corporate	$	149	5	—	154	—
Asset-backed		6	—	—	6	—
Total fixed maturity securities	$	155	5	—	160	—

(Dollars in thousands)

	2018				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Non-credit OTTI
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government	$ 107,340	4,567	(663)	111,244	—
Obligations of states and political subdivisions	1,067,998	28,262	(7,931)	1,088,329	—
Debt securities issued by foreign governments	34,772	18	(1,596)	33,194	—
Corporate	7,671,938	267,650	(168,083)	7,771,505	—
Asset-backed	1,608,408	25,732	(10,588)	1,623,552	(2,828)
Mortgage-backed	1,287,060	16,381	(21,499)	1,281,942	(21,542)
Total fixed maturity securities	$ 11,777,516	342,610	(210,360)	11,909,766	(24,370)
Trading securities:					
Fixed maturity securities:					
Corporate	$ 798	10	—	808	—
Asset-backed	42	—	—	42	—
Total fixed maturity securities	$ 840	10	—	850	—

Non-credit other than temporary impairment ("OTTI") represents the amount of cumulative non-credit OTTI losses recognized in other comprehensive income on securities as of the date of OTTI that also had credit impairments.

The Company's fixed maturities portfolio is comprised primarily of investment grade securities. Based upon designations by the NAIC, investment grade securities comprised 97.3% and 97.7% of the Company's total available-for-sale and trading securities portfolio as of December 31, 2019 and 2018, respectively.

Investments with a fair value of $14,427 and $14,518 as of December 31, 2019 and 2018, respectively, were on deposit with various regulatory agencies as required by law and are included in securities available-for-sale.

Maturities of Fixed Maturity Securities
The amortized cost and estimated fair value of fixed maturity securities available-for-sale, and trading as of December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration as of December 31, 2019.

(Dollars in thousands)

	Fixed maturity securities			
	Available-for-sale		Trading	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$ 278,545	282,201	24	24
Due after one year through five years	1,910,040	1,988,185	125	130
Due after five years through ten years	2,945,524	3,126,827	—	—
Due after ten years	4,251,574	4,587,398	6	6
Total	$ 9,385,683	9,984,611	155	160

Continuous Gross Unrealized Losses for Fixed Maturity and Equity Securities
The following tables present the estimated fair value and gross unrealized losses of the Company's fixed maturity (aggregated by sector) and equity securities in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
2019						
Obligations of states and political subdivisions	$ 156,152	(2,340)	5,747	(533)	161,899	(2,873)
Corporate	191,232	(1,896)	131,390	(7,270)	322,622	(9,166)
Asset-backed	232,682	(2,138)	21,388	(199)	254,070	(2,337)
Mortgage-backed	124,749	(872)	45,125	(751)	169,874	(1,623)
Total fixed maturity securities	$ 704,815	(7,246)	203,650	(8,753)	908,465	(15,999)
2018						
U.S. Treasury securities and obligations of U.S. government	$ 32,688	(335)	18,514	(328)	51,202	(663)
Obligations of states and political subdivisions	150,014	(2,436)	165,376	(5,495)	315,390	(7,931)
Debt securities issued by foreign governments	18,098	(812)	14,078	(784)	32,176	(1,596)
Corporate	2,766,901	(98,818)	982,708	(69,265)	3,749,609	(168,083)
Asset-backed	362,053	(2,978)	302,948	(7,610)	665,001	(10,588)
Mortgage-backed	273,491	(3,503)	459,336	(17,996)	732,827	(21,499)
Total fixed maturity securities	$ 3,603,245	(108,882)	1,942,960	(101,478)	5,546,205	(210,360)

(Dollars in thousands)

Concentrations related to fixed maturity securities in an unrealized loss position are included in the tables below. The tables summarize the fixed maturity securities by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

Unrealized losses		Less than 12 months	12 months or longer	Total	Number of Securities
2019					
99.9%-80%					
Obligations of states and political subdivisions	$	(2,340)	(533)	(2,873)	50
Corporate		(1,833)	(5,620)	(7,453)	147
Asset-backed		(2,138)	(199)	(2,337)	131
Mortgage-backed		(872)	(751)	(1,623)	74
Below 80%					
Corporate		(63)	(1,650)	(1,713)	6
Total	$	(7,246)	(8,753)	(15,999)	408
2018					
99.9%-80%					
U.S. Treasury securities and obligations of U.S. government	$	(177)	(328)	(505)	17
Obligations of states and political subdivisions		(2,436)	(5,495)	(7,931)	140
Debt securities issued by foreign governments		(812)	(784)	(1,596)	7
Corporate		(95,971)	(63,877)	(159,848)	1,916
Asset-backed		(2,978)	(7,610)	(10,588)	296
Mortgage-backed		(3,503)	(17,996)	(21,499)	262
Below 80%					
U.S. Treasury securities and obligations of U.S. government		(158)	—	(158)	11
Corporate		(2,847)	(5,388)	(8,235)	79
Total	$	(108,882)	(101,478)	(210,360)	2,728

Evaluation of Other Than Temporarily Impaired Investments

Management regularly reviews its fixed maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in fair value of investments.

An analysis is prepared which focuses on the issuer's ability to service its debts and the extent and length of time the security has been valued below cost. This review process includes an assessment of the credit quality and an assessment of the present value of future cash flows of the identified investment in the securities portfolio and for equity securities, an assessment of near-term recovery and whether the security will recover its amortized cost basis in a reasonable period of time.

For corporate securities, the Company evaluates the present value of cash flows using the financial performance of the issuer based upon credit performance and investment ratings. Residential mortgage-backed securities and asset-backed securities are assessed for impairment using default estimates based on the underlying collateral performance including default rates, recovery rates and prepayment speeds. Cash flows generated by the collateral are then utilized, along with consideration for the issue's position in the overall structure, to determine cash flows associated with the security.

For any securities identified in the review of the portfolio, the Company considers additional relevant facts and circumstances in evaluating whether the security is other than temporarily impaired. Relevant facts and circumstances that may be considered include:

- comparison of current estimated fair value of the security as compared to cost;
- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer's key financial ratios based upon the issuer's financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;
- the Company's intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity securities, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

For each security deemed by management that meets the criteria for additional analysis, the Company prepares an analysis of the present value of the expected cash flows, using the interest rate implicit in the investment at the date of acquisition. To the extent that the present value of cash flows generated by a debt security is less than the amortized cost, an OTTI is recognized in the consolidated statements of operations.

For those debt securities for which the Company has the intent to sell the security, or if it is more likely than not that it will be required to sell the security before recovery of the amortized cost, the entire unrealized loss (the amount that the amortized cost basis exceeds the estimated fair value) is recognized in the consolidated statements of operations. For those debt securities for which the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security, but the security has suffered a credit loss (the amortized cost basis exceeds the present value of the expected cash flows), the impairment charge (excess of amortized cost over estimated fair value) is bifurcated with the credit loss portion recorded in the consolidated statements of operations, and the remainder, or non-credit loss portion, is recorded in other comprehensive income (loss). The Company prospectively accretes the value of the investment through interest income to the extent the future cash flows of the security are expected to be in excess of the new cost basis.

(Dollars in thousands)

The Company discloses as part of the separate component of AOCI the non-credit portion of any OTTI. Subsequent changes in estimated fair value that are not considered OTTI are not included in the separate component of AOCI.

Current Year Evaluation

The Company has concluded securities in an unrealized loss position as of December 31, 2019 and 2018 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold the fixed maturity security investments until recovery of estimated fair value or amortized cost and for equity securities, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses decreased from December 31, 2018 to December 31, 2019 due to tighter credit spreads and decreases in interest rates. Accordingly no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans consist of both commercial mortgage loans originated in the United States and Chile and residential mortgage loans originated in Chile. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of our mortgage loan portfolio as of December 31 were as follows:

		2019	2018
Mortgage loans			
Commercial mortgage loans	$	1,356,976	1,240,492
Residential mortgage loans		93,353	99,255
Total amortized cost		1,450,329	1,339,747
Valuation allowance		4,236	4,005
Net carrying value	$	1,446,093	1,335,742

Concentration of Credit Risk

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. 93.6% of the Company's portfolio is collateralized by properties located in the United States, with the remaining 6.4% located in Chile. Total loans in any state did not exceed 13.1% as of December 31, 2019 and 2018.

As of December 31, 2019, loans in the sates of Texas and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $177,018 and $147,536, respectively. As of December 31, 2018, loans in the states of Texas and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $157,754 and $152,103, respectively.

Furthermore, the Company manages risk by underwriting relatively nominal individual commercial loans. The average loan, at origination, was approximately $2,638 and $2,529 in 2019 and 2018, respectively.

(Dollars in thousands)

Commercial Mortgage Loans

The Company performs an annual performance review of the commercial mortgage loan portfolio and assigns a rating based on the property's loan to value ("LTV"), age, mortgage debt service coverage ("DSC") and occupancy. This analysis helps identify loans that may experience difficulty. If a loan is not paying in accordance with contractual terms, it is placed on a watch list and monitored through inspections and contact with the property's local representative. In addition, as part of portfolio monitoring, the Company physically inspected nearly 100% of the properties in the portfolio. The LTV and DSC ratios are applied consistently across the entire commercial mortgage loan portfolio.

The following table summarizes our commercial mortgage loan portfolio, net of allowance, LTV ratios and DSC ratios using available data as of December 31. The ratios are updated as information becomes available.

		DSC						
LTV		Greater than 2.0x	1.8x to 2.0x	1.5x to 1.8x	1.2x to 1.5x	1.0x to 1.2x	Less than 1.0x	Total
2019								
0% - 50%	$	284,557	73,016	144,925	138,914	55,935	7,892	705,239
50% - 60%		33,628	22,091	99,932	91,486	41,843	4,133	293,113
60% - 70%		—	7,395	35,513	125,792	21,459	6,470	196,629
70% - 80%		—	—	3,891	35,079	28,989	4,703	72,662
80% and greater		—	—	—	8,213	35,330	42,078	85,621
Total	$	318,185	102,502	284,261	399,484	183,556	65,276	1,353,264
2018								
0% - 50%	$	252,291	84,480	148,965	140,564	39,084	10,882	676,266
50% - 60%		11,851	27,190	71,427	91,783	51,540	6,463	260,254
60% - 70%		—	23,587	46,620	63,310	45,474	10,660	189,651
70% - 80%		—	—	978	33,244	24,159	19,241	77,622
80% and greater		—	—	2,043	7,801	11,714	11,661	33,219
Total	$	264,142	135,257	270,033	336,702	171,971	58,907	1,237,012

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. Our corporate policy directs that our LTV on new mortgages not exceed 75% for standard mortgages.

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the debt service coverage ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher debt service coverage ratio could indicate a better quality loan.

(Dollars in thousands)

Residential Mortgage Loans

The Company considers performing mortgages to be those loans that are either current on payments or delinquent by four payments or less. Upon missing the fifth payment, the Company considers these loans nonperforming. In accordance with the mortgage agreement, performing mortgages continue to record principal, interest and monetary correction. Monetary correction is defined as an economic adjustment to functional currency amounts arising from changes in inflation. The principal, interest and monetary correction values of those missed payments are 100% provisioned for. All loans classified as nonperforming are considered to be impaired.

Management continually monitors residential mortgages to determine their status. Residential mortgages that are nonperforming are required to have an appraisal every two years. Based on the appraised value, management determines if an adjustment to the carrying value is necessary. All loans classified as nonperforming have been placed on nonaccrual status.

The following table summarizes our residential mortgage loan portfolio, net of allowance, performing and nonperforming positions which was last updated as of December 31:

		2019	2018
Residential mortgage loans			
Performing	$	92,800	96,420
Nonperforming		29	2,310
Total	$	92,829	98,730

Allowance for Loan Losses

The allowance for loan losses is comprised of two components, specific and general, based on amounts collectively and individually evaluated for impairment. The Company's commercial mortgage loan portfolio has experienced minimal historical losses throughout the years, including the last three years. The residential mortgage loans are individually evaluated for impairment once a residential mortgage goes past due. The Company has not had any TDRs in 2019 or 2018.

The general component of the allowance for loan losses is maintained at a level believed adequate by management and reflects management's best estimate of probable credit losses, including losses incurred at the balance sheet date but not yet identified by specific loan.

(Dollars in thousands)

A rollforward of the allowance for loan losses is as follows:

		Commercial	Residential	Total
Balance, December 31, 2017	$	3,413	605	4,018
Provision		120	18	138
Charge-offs		—	(73)	(73)
Recoveries		(53)	(86)	(139)
Effect of exchange rates		—	61	61
Balance, December 31, 2018		3,480	525	4,005
Provision		288	65	353
Charge-offs		—	(13)	(13)
Recoveries		(56)	(62)	(118)
Effect of exchange rates		—	9	9
Balance, December 31, 2019	$	3,712	524	4,236

The Company has other financing receivables with contractual maturities of one year or less such as reinsurance recoverables and premiums receivables. The Company does not record an allowance for these items since the Company has not had any significant collection issues related to these types of receivables. The Company writes off the receivable if it is deemed to be uncollectible.

Mortgage Loan Aging

The table below depicts the loan portfolio exposure, net of allowance, of the remaining principal balances (which equal the Company's recorded investment), by type, as of December 31:

		30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2019								
Commercial mortgage loans	$	—	—	—	—	1,353,264	1,353,264	—
Residential mortgage loans		5,199	1,096	10,323	16,618	76,211	92,829	60
Total	$	5,199	1,096	10,323	16,618	1,429,475	1,446,093	60
2018								
Commercial mortgage loans	$	2,138	—	—	2,138	1,234,874	1,237,012	—
Residential mortgage loans		5,460	3,704	2,496	11,660	87,070	98,730	69
Total	$	7,598	3,704	2,496	13,798	1,321,944	1,335,742	69

Performance, Impairment and Foreclosures

At December 31, 2019 and 2018, the Company had no mortgage loans in the process of foreclosure. Mortgage loan write-downs were $0 in 2019, 2018 and 2017. There were four and eight foreclosures of residential mortgage loans during 2019 and 2018, respectively.

(Dollars in thousands)

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the balance sheet date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

Residential mortgages are placed on nonaccrual status once management believes the collection of accrued interest is doubtful. Once residential mortgages are classified as nonaccrual loans, interest income is recognized under the cash basis.

The carrying value of mortgage loans on nonaccrual status as of December 31:

		2019	2018
Mortgage loans			
Residential mortgage loans	$	2,117	2,310
Total	$	2,117	2,310

The recorded investment in and unpaid principal balance of impaired loans along with the related specific allowance for loan losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired as of December 31 were as follows:

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
2019						
With an allowance recorded:						
Commercial mortgages	$	1,589	1,926	(337)	1,628	125
Residential mortgages		2,281	2,805	(524)	1,169	—
Total	$	3,870	4,731	(861)	2,797	125
2018						
With an allowance recorded:						
Commercial mortgages	$	1,666	2,060	(394)	1,721	143
Residential mortgages		2,310	2,890	(580)	2,763	—
Total	$	3,976	4,950	(974)	4,484	143

(Dollars in thousands)

Other Long Term Investments

The components of other long-term investments were as follows as of December 31:

		2019	2018
Direct financing leases	$	57,533	88,419
FHLB common stock		50,039	43,326
Derivative instruments		114,065	106,904
Receivable for securities		1,823	1,939
Joint venture		22,239	22,103
Chilean financing receivables		21,147	—
Other invested assets		5,358	1,570
Total	$	272,204	264,261

The Company is a member of the Federal Home Loan Bank ("FHLB") of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts.

Effective January 1, 2019, contracts that previously qualified for direct financing lease classification under FASB ASC Topic 840 no longer qualify for lease accounting under Topic 842 and will be accounted for as financing receivables under Topic 310.

The following table lists the components of the net investment in direct financing leases as of December 31:

		2019	2018
Total minimum lease payments to be received	$	84,182	132,990
Less unearned income		(26,649)	(44,571)
Net investment in direct financing leases	$	57,533	88,419

The minimum lease payments did not include executory costs, allowance for uncollectibles, or unguaranteed residual values of leased property for 2019 and 2018. Past favorable payment experience, a minimum required LTV ratio of 75% - 80% at lease inception as well as the Company's right to repossess the property after two missed payments have resulted in not holding an allowance for uncollectibles by the Company and no leases are on nonaccrual status. Credit quality is monitored based on past payment history.

(Dollars in thousands)

The table below depicts the direct financing leasing exposure of remaining principal balances (which equal the Company's recorded investment) by type as of December 31:

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2019	$ 965	—	—	965	56,568	57,533	—
2018	$ 1,845	—	—	1,845	86,574	88,419	—

Future undiscounted cash flows from direct financing leases as of December 31, 2019 are as follows:

2020	$ 5,608
2021	6,168
2022	7,478
2023	10,877
2024	5,109
Thereafter	48,942
Total undiscounted lease payments	$ 84,182
Less imputed interest	(26,649)
Lease receivable	57,533

Securities Lending

As of December 31, 2019 and 2018, the Company received $246,578 and $313,492, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in the consolidated balance sheets in short-term investments securities lending collateral with a corresponding liability recorded in payables for securities lending collateral to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, the Company had loaned securities with a fair value of $238,652 and $304,031, respectively, which are recognized in the consolidated balance sheets in securities available-for-sale and equity securities.

Variable Interest Entities

In the normal course of business, the Company invests in fixed maturity securities structured through trusts, joint ventures, limited partnerships, or limited liability companies that could qualify as VIE. A VIE is a legal entity that lacks sufficient equity to finance their activities, or the equity investors of the entities as a group lack any of the characteristics of a controlling interest. The primary beneficiary of a VIE is generally the enterprise that has both the power to direct the activities most significant to the VIE, and is the enterprise that will absorb a majority of the fund's expected losses or receive a majority of the fund's expected residual returns. The Company evaluates its interest in certain fixed maturity securities, joint ventures, limited partnerships, and limited liability companies to determine if the entities meet the definition of a VIE and whether the Company is the primary beneficiary and should consolidate the entity based upon the variable interests it held both at inception and where there is a change in circumstances that requires a reconsideration.

(Dollars in thousands)

The Company has determined that it is not the primary beneficiary of these investments as the Company does not have the power to direct the activities that most significantly impact the entities' performance. The Company's maximum exposure to loss is limited to the carrying values of these securities. There are no liquidity arrangements, guarantees or other commitments by third parties that affect the fair value of the Company's interest in these assets.

Net Investment Income

Analysis of investment income by investment type follows for the years ended December 31:

		Investment income		
		2019	**2018**	**2017**
Gross investment income:				
Securities available-for-sale:				
Fixed maturity securities	$	478,703	507,723	408,653
Equity securities		—	—	2,557
Fixed maturity trading securities		23	68	88
Fixed maturity held-to-maturity securities		—	3,080	60,581
Equity securities		923	4,173	—
Mortgage loans on real estate		71,298	67,643	67,682
Real estate		5,804	5,865	6,558
Policy loans		39,156	35,166	28,913
Short-term investments		12,931	11,304	6,663
Other long-term investments		7,145	7,941	7,506
Total gross investment income		615,983	642,963	589,201
Interest expense		(58,582)	(63,196)	(58,533)
Other investment expenses		(32,607)	(26,489)	(23,724)
Net investment income	$	524,794	553,278	506,944

(Dollars in thousands)

Net Realized Gains (Losses)

Analysis of net realized gains (losses) by investment type follows for the years ended December 31:

		Realized (losses) gains on investments		
		2019	**2018**	**2017**
Securities available-for-sale:				
Fixed maturity securities[1]	$	207,982	2,356	3,493
Equity securities		—	—	1,566
Trading securities:				
Fixed maturity securities		—	1	5
Equity securities		—	—	755
Fixed maturity held-to-maturity securities		—	—	(12,190)
Equity securities, at fair value		920	783	—
Mortgage loans on real estate**		(126)	(92)	(3,906)
Real estate		1,896	(72)	(493)
Other long-term investments		(66)	157	4,089
Total realized losses on investments		210,606	3,133	(6,681)
Change in allowances for mortgage loans on real estate*		(232)	(67)	3,478
Net realized gains (losses) on investments***	$	210,374	3,066	(3,203)

* Commercial mortgage loans

** Includes the changes in the allowance for residential mortgages

*** Includes realized losses on derivatives which are presented separately on the statements of income

[1] $197,876 is attributable to the BOLI SPDA reinsurance treaty implemented in 2019. See Note 11 for further detail.

Realized gains (losses) on investments, as shown in the table above, include write-downs for OTTI of $4,960, $2,227 and $16,127 for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, fixed maturity securities with a carrying value of $49,313, which had a cumulative write-down of $16,336 due to OTTI, remained in the Company's investment portfolio.

(Dollars in thousands)

The following tables summarize total OTTI losses on securities by asset type for the years ended December 31:

		Total OTTI	Recognized in OCI	Recognized in earnings
2019				
Fixed maturity securities:				
Corporate	$	4,703	—	4,703
Asset-backed		(451)	(643)	192
Mortgage-backed		(6,678)	(6,743)	65
Total other-than-temporary impairment losses	$	(2,426)	(7,386)	4,960
2018				
Fixed maturity securities:				
Obligation of states and political subdivisions	$	878	878	—
Corporate		1,722	—	1,722
Asset-backed		(1,703)	(1,835)	132
Mortgage-backed		(3,209)	(3,582)	373
Total other-than-temporary impairment losses	$	(2,312)	(4,539)	2,227
2017				
Fixed maturity securities:				
Obligation of states and political subdivisions	$	1,272	443	829
Corporate		15,298	—	15,298
Asset-backed		(11,126)	(11,126)	—
Mortgage-backed		(666)	(666)	—
Total other-than-temporary impairment losses	$	4,778	(11,349)	16,127

Credit Loss Rollforward

The following table summarizes the cumulative amounts related to the Company's credit loss portion of the OTTI losses on fixed maturity securities held as of December 31, that the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the security prior to recovery of the amortized cost basis and for which the non-credit portion of the loss is included in other comprehensive income:

(Dollars in thousands)

		2019	2018	2017
Cumulative credit loss, beginning of year	$	22,288	32,069	63,083
New credit losses		3,058	1,172	12,248
Change in credit losses on securities included in the beginning balance		1,902	1,055	3,879
Subtotal		27,248	34,296	79,210
Less:				
Losses related to securities included in the current year beginning balance sold or paid down during the period		10,912	12,008	47,141
Cumulative credit loss, end of year	$	16,336	22,288	32,069

Sales of Fixed Maturity Securities, Available-for-Sale

The following table summarizes fixed maturity securities available-for-sale activity:

		2019	2018	2017
Proceeds	$	1,146,781	1,013,556	804,473
Gross realized gains	$	226,532	7,657	13,420
Gross realized losses	$	(7,223)	(4,640)	(10,247)

Prior to the reclassification of all fixed maturity held-to-maturity securities during 2018, the Company could sell securities classified as held-to-maturity if the Company became aware of evidence of significant deterioration in an issuer's creditworthiness and/or a significant increase in the risk weights of debt securities for regulatory RBC purposes. The Company sold zero, zero and one held-to-maturity securities in 2019, 2018 and 2017, respectively. Proceeds from the sale of those securities were $0, $0 and $6,000 in 2019, 2018 and 2017, respectively. There were no net losses realized on the sale of those securities in 2019, 2018 and 2017, respectively.

Net Unrealized Gains (Losses) on Available-for-Sale Securities

An analysis by investment type of the change in unrealized gains (losses), before taxes, on securities available-for-sale is as follows for the years ended December 31:

		2019	2018	2017
Securities available-for-sale:				
Fixed maturity securities	$	466,678	(316,985)	71,448
Equity securities		—	—	400
Change in net unrealized gains	$	466,678	(316,985)	71,848

(Dollars in thousands)

The following table summarizes the unrealized gains and losses recognized during the year ended December 31, 2019 on equity securities still held at December 31, 2019:

		2019	2018
Net gains and losses recognized during the period on equity securities	$	4,353	(3,828)
Less: Net gains and losses recognized during the period on equity securities sold during the period		466	(3,380)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$	4,819	(7,208)

The components of net unrealized gains (losses) on securities available-for-sale in AOCI arising during the period were as follows as of December 31:

		2019	2018	Change
Securities available-for-sale	$	598,928	132,250	466,678
Unrealized losses related to closed block		(33,020)	(8,124)	(24,896)
Future policy benefits and claims		(69,621)	(8,194)	(61,427)
Deferred policy acquisition costs		(123,824)	(9,572)	(114,252)
Other policyholder funds		25,428	(242)	25,670
Deferred federal income tax provision		(91,907)	(29,803)	(62,104)
Net unrealized gains	$	305,984	76,315	229,669

		2018	2017	Change
Securities available-for-sale	$	132,250	449,235	(316,985)
Impact of adoption of ASU 2016-01		—	4,548	(4,548)
Unrealized losses related to closed block		(8,124)	(26,086)	17,962
Unrealized (losses)/gains on other invested assets		—	2,236	(2,236)
Future policy benefits and claims		(8,194)	(46,728)	38,534
Deferred policy acquisition costs		(9,572)	(90,841)	81,269
Other policyholder funds		(242)	17,748	(17,990)
Deferred federal income tax provision		(29,803)	(68,760)	38,957
Net unrealized gains	$	76,315	241,352	(165,037)

		2017	2016	Change
Securities available-for-sale	$	453,783	381,935	71,848
Unrealized losses related to closed block		(26,086)	(20,995)	(5,091)
Unrealized (losses)/gains on other invested assets		2,236	—	2,236
Future policy benefits and claims		(46,728)	(33,220)	(13,508)
Deferred policy acquisition costs		(90,841)	(64,022)	(26,819)
Other policyholder funds		17,748	8,885	8,863
Prior year AOCI adjustment		—	3,635	(3,635)
Deferred federal income tax provision		(68,760)	(91,278)	22,518
Net unrealized gains	$	241,352	184,940	56,412

(8) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company pursuant to ASC Topic 815, *Derivatives and Hedging*, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, interest rate swaptions and equity swaps to economically hedge liabilities embedded in certain variable annuity products such as the GMAB, GMWB, GMIB and GLWB and in fixed indexed annuity and indexed universal life products.

In December 2018, the Company replaced the interest rate swaptions used in its interest rate hedging program. Each swaption consists of a 5 year option to enter into an interest rate swap on the 10 year swap rate. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2018, the Company purchased equity index put options to replace existing futures used to hedge the equity risk embedded in the variable annuity guarantees. One year S&P 500, Russell 2000, and NASDAQ 100 options were purchased. The Company continues to hold futures to hedge the foreign indices and currency exposure in the variable annuity guarantees. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In April 2018, the Company entered into S&P 500, Russell 2000, and Nasdaq 100 total return swap agreements. The swap was terminated in July 2018 and resulted in a loss of $32,000. In July of 2018, the Company entered into S&P 500, Russell 2000, and Nasdaq 100 total return swap agreements that were terminated in October 2018 and resulted in a gain of $19,600. Since the transactions above do not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2016, the Company entered into an equity index call option agreement. Under this agreement, three equity index call options will be purchased monthly. The S&P 500 and Russell 2000 options are one year call spread options. The custom Barclays instrument is a three year call. Starting in May 2018, the Company began purchasing one year calls for the custom Barclay instrument as well. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In November 2014, the Company entered into a cross currency swap agreement which qualified for hedge accounting as a cash flow hedge. The Company purchased a 10 year bond in the amount of €7 million with an annual foreign currency coupon of 1.93%. The Company concurrently entered into a matching cross currency swap effectively converting the cash flows of the Euro denominated bond into a U.S. denominated cash flows. The investment receives a fixed rate of 3.78% on the converted U.S. investment of $9,038. Interest on the bond is paid annually. During the years ended December 31, 2019 and 2018, the Company had foreign currency swap gains of $299 and losses of $76, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the years ended December 31, 2019 or 2018. As of December 31, 2019, no amounts are expected to be reclassified to income within the next 12 months.

The Company has entered into a reinsurance arrangement with a nonaffiliated reinsurer to offset a portion of its risk exposure to the GMIB rider in certain variable annuity contracts. This reinsurance contract is accounted for as a freestanding derivative.

(Dollars in thousands)

Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. These host contracts include variable annuities with GMAB, GMWB and GLWB riders, and fixed indexed annuities which include index features in excess of their guaranteed minimum values.

The following tables present a summary of the estimated fair value of derivatives held by the Company along with the amounts recognized in the consolidated balance sheets:

		December 31			
Derivatives not designated as hedging instruments under ASC 815	**Balance sheet location**	**2019 Fair value**	**2019 Notional Amount**	**2018 Fair value**	**2018 Notional Amount**
Asset derivatives:					
Equity futures	Other long-term investments	$ —	—	5,679	244,536
Currency futures	Other long-term investments	98	53,739	1,227	30,689
Equity put options	Other long-term investments	9	5,312	57,604	870,360
Equity index call options	Other long-term investments	52,554	1,888,182	9,221	1,841,661
Cross currency swaps	Other long-term investments	1,192	9,038	736	9,038
Swaptions	Other long-term investments	60,212	2,600,000	32,437	2,600,000
GMIB reinsurance contracts	Reinsurance	1,244,029	n/a	1,280,905	n/a
GMAB/GMWB embedded derivatives[1]	Other assets	22,151	n/a	603	n/a
Total		$ 1,380,245	4,556,271	1,388,412	5,596,284
Liability derivatives:					
GLWB embedded derivatives (variable annuity)	Future policy benefits and claims	$ 20,034	n/a	20,032	n/a
GMAB/GMWB embedded derivatives	Future policy benefits and claims	—	n/a	2,566	n/a
Fixed indexed annuity embedded derivatives[2]	Future policy benefits and claims	166,353	n/a	124,953	n/a
Currency futures	Other liabilities	2,143	215,305	2,866	265,613
Equity put options	Other liabilities	56,756	1,587,313	—	—
Total		$ 245,286	1,802,618	150,417	265,613

1 GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.

2 Represents embedded derivative portion of the fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

(Dollars in thousands)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the years ended December 31:

Derivatives not designated as hedging instruments under ASC 815	Location of gain (loss) recognized in income on derivatives		Amount of (loss) gain recognized in income on derivatives 2019	2018	2017
Equity futures	Net realized gains (losses): derivative instruments	$	(33,478)	(24,244)	(224,527)
Currency futures	Net realized gains (losses): derivative instruments		(1,577)	16,163	(29,713)
Equity put options	Net realized gains (losses): derivative instruments		(189,561)	55,955	(17,133)
Equity index call options	Net realized gains (losses): derivative instruments		42,429	(20,742)	4,764
Equity swaps	Net realized gains (losses): derivative instruments		173	(18,452)	(19,315)
Swaptions	Net realized gains (losses): derivative instruments		27,774	(14,661)	(5,370)
External reinsurance embedded derivative	Net realized gains (losses): derivative instruments		(203)	(19)	—
GMIB reinsurance contracts	Benefits and claims		(36,876)	93,017	(122,012)
GMAB/GMWB embedded derivatives	Benefits and claims		24,114	(33,690)	36,191
GLWB embedded derivatives	Benefits and claims		(2)	(3,482)	2,579
Fixed indexed annuity embedded derivatives[1]	Benefits and claims		(41,400)	(124,953)	—
Total		$	(208,607)	(75,108)	(374,536)

[1] The amounts recorded in benefits and claims reflect the change in the excess of fair value over account value. The reserve held as of December 31, 2017 was account value and therefore there was no income impact.

Credit Risk

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments.

Because exchange traded futures are affected through regulated exchanges and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records and requiring collateral for all derivatives in accordance with the International Swaps and Derivatives Association and Credit Support Annex (“ISDA”/”CSA”) agreements in place with all of our counterparties. The Company manages its credit risk related to the freestanding reinsurance derivative by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2019 and 2018, a non-affiliated reinsurer held assets in trust with an estimated fair value of $953,387 and $891,834, respectively, and a letter of credit of $178,888 and $299,602, respectively.

(Dollars in thousands)

(9) Deferred Policy Acquisition Costs

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2019 and 2018 were as follows:

	2019		2018
Balance - beginning of year	$ 1,966,022		1,807,505
Acquisition costs deferred	156,827		231,828
Amortization	(269,610)	1	(154,006)
DAC recorded as benefits and claims	(59,249)	2	—
Unrealized investment (gains) losses	(114,252)		81,269
Effect of foreign currency translation and other	(317)		(574)
Balance - end of year	$ 1,679,421		1,966,022

1. During 2019, the unlocking of the whole life product line decreased DAC and earnings by $96,900. The sustained lower interest rate environment necessitated lowering the earned rate, which lowers future margins, increases the k-factors used to amortize DAC and resulted in a lower DAC balance.

2. As part of the external BOLI and SPDA reinsurance treaty executed on July 1, 2019, the Company recorded the DAC transferred to the external reinsurer, which was part of the cost of reinsurance asset, to future policy benefits and claims. DAC amortization on the consolidated statements of income reflects the amount of DAC amortized, net of the transfer impact. The balance of the DAC asset, shown in the table above, includes adjustments for both the amortization and the transfer.

(10) Future Policy Benefits and Claims

The liability for future policy benefits and claims is comprised of basic and benefit reserves for traditional life products, group life and health policies, universal life policies, and investment contracts, including riders.

The liability for future policy benefits for traditional life products has been established based upon the net level premium method using interest rates varying from 2.0% to 6.0%.

The liability for future policy benefits and claims for ONSP's group life and health insurance policies is comprised of claims and expense reserves and incurred but not reported ("IBNR"). The claims and expense reserves have been calculated using the present values of expected future cash flows of known claims using discount rates that vary by currency ranging from 2.4% to 5.7%. IBNR reserves have been estimated using historical claim reporting information.

The liability for future policy benefits for universal life policies and investment contracts represents approximately 69.3% and 66.3% of the total liability for future policy benefits as of December 31, 2019 and 2018, respectively. The liability has been established based on accumulated contract values without reduction for surrender penalty provisions. The average interest rate credited on investment product policies was 3.3%, 3.3% and 3.3% for the years ended December 31, 2019, 2018 and 2017, respectively. Approximately 29.5% and 33.7%, as of December 31, 2019 and 2018, respectively, of the universal life policies and investment contracts were at their guaranteed minimum interest rate.

The Company has established a reserve for three universal life plans with lifetime secondary guarantees, which the Company discontinued. At December 31, 2019 and 2018, this reserve balance was $58,841 and $50,590, respectively.

The liability for future policy benefits for ONSV's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 5.0% and 4.6% for the years ended December 31, 2019 and 2018, respectively.

The liability for future policy benefits for ONSP's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 3.5% for the years ended December 31, 2019 and 2018.

Reserves are calculated using withdrawal, mortality, and morbidity rates. Withdrawal rates vary by issue age, type of coverage and policy duration and are based on Company experience. Mortality and morbidity rates which are guaranteed within insurance contracts are based on published tables and Company experience.

As discussed in Note 3, the Company has five main types of rider benefits offered with individual variable annuity contracts: GMDBs, GMIBs, GLWBs, GMABs, and GMWBs. The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Variable Annuity Riders

<u>GMDB Riders</u>
Certain variable annuity contracts include GMDB riders with the base contract and offer additional death and income benefits through riders that can be added to the base contract. These GMDB riders typically provide that upon the death of the annuitant, the beneficiaries could receive an amount in excess of the contract value. The GMDB rider benefit could be equal to the premiums paid into the contract, the highest contract value as of a particular time, e.g., every contract anniversary, or the premiums paid into the contract times an annual interest factor. The Company assesses a charge for the GMDB riders and prices the base contracts to allow the Company to recover a charge for any built-in death benefits.

The Company's GMDB claim reserves are determined by estimating the expected value of death benefits and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation if actual experience or other evidence suggests that earlier assumptions should be revised. Additionally, a decline in the stock market, causing the contract value to fall below the amount defined in each contract, could result in additional claims.

<u>GMIB Riders</u>
Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company's current annuitization rates, the annuitant

will automatically receive the higher monthly income. The Company discontinued offering the GMIB rider in virtually all states in May 2010. NSLAC continued to sell the GMIB rider in the state of New York until August 2012.

GMIB claim reserves are determined each period by estimating the expected value of annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

GLWB Riders
The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. Such guaranteed withdrawals may start any time after the annuitant reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant attains a higher age band before the owner starts taking withdrawals. In some versions of GLWB riders sold in 2013 and later, there is a guaranteed minimum percentage withdrawal amount for the first 15 years of the contract; if the policyholder’s account value goes to zero subsequent to the 15 year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the 10 year treasury rate from the preceding 90 calendar days, with the calculated treasury linked rate subject to a specified cap and floor.

At policy inception, the GLWB base is set at the amount of the purchase payments and it is increased by the amount of future purchase payments. It increases (roll-up) by up to eight percent simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to two hundred percent of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

The GLWB may also contain a step-up feature which preserves potential market gain by ratcheting up to the contract value, if higher, on each anniversary. If the contract has both a roll-up and step-up feature, the GLWB base will be the greater of: 1) the GLWB base on the previous anniversary plus any additional purchase payments; 2) the step-up base; or 3) the roll-up base.

The initial GLWB riders (issued May 1, 2010 through December 31, 2010) had a built-in death benefit. This death benefit is reduced dollar for dollar for withdrawals. It differs from most of the other death benefits that decline pro rata for withdrawals. Thus, when the contract value is less than the death benefit, withdrawals will reduce the death benefit under the GLWB rider by a smaller amount than the reduction for other death benefits.

The Company also offers single life and joint life versions of the GLWB rider. Under the joint life version, if the annuitant dies after the owner has started taking withdrawals the surviving spouse may elect a spousal continuation under the rider and continue to receive the same payment. Under the single life version, the guaranteed amount that may be withdrawn could decline either because 1) the contract value is less than the GLWB base and under the single life GLWB rider the contract value then becomes the new GLWB base and/or 2) the surviving spouse is in a different age band.

The initial GLWB riders, which are a closed block, represent an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims. The estimated fair value of the GLWB embedded derivative was calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

For GLWB riders issued beginning January 1, 2011, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period and recognizing the excess ratably over the accumulation period based on total assessments as the later generation riders do not meet the definition of a derivative. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit. A GMAB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of the GMAB embedded derivative is calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. A GMWB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of a GMWB embedded derivative is calculated based on actuarial assumptions related to projected benefit cash flows, incorporating numerous assumptions including, but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled "GMAB."

(Dollars in thousands)

The following tables summarize the account values and net amount at risk, net of reinsurance, for variable annuity contracts with guarantees invested in both general and separate accounts as of December 31 (note that most contracts contain multiple guarantees):

		2019			
		Death benefits	Living benefits		
		GMDB	GMIB	GLWB	GMAB
Return of net deposit					
Total account value	$	6,404,612	—	—	3,207,226
Separate account value	$	6,080,923	—	—	3,205,824
Net amount at risk [1]	$	32,880	—	—	10
Weighted average attained age of contract holders		69	—	—	67
Return of net deposits accrued at a stated rate					
Total account value	$	892,336	—	—	8,018
Separate account value	$	878,652	—	—	6,872
Net amount at risk [1]	$	160,820	—	—	—
Weighted average attained age of contract holders		74	—	—	72
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Total account value	$	2,511,305	6,790,521	8,910,042	—
Separate account value	$	2,501,216	6,693,607	8,909,500	—
Net amount at risk [1]	$	540,086	370,742	103,342	—
Weighted average attained age of contract holders		70	69	68	—
Return of highest anniversary value					
Total account value	$	9,537,277	—	—	—
Separate account value	$	9,347,848	—	—	—
Net amount at risk [1]	$	6,296	—	—	—
Weighted average attained age of contract holders		68	—	—	—
Total					
Total account value	$	19,345,530	6,790,521	8,910,042	3,215,244
Separate account value	$	18,808,639	6,693,607	8,909,500	3,212,696
Net amount at risk [1]	$	740,082	370,742	103,342	10
Weighted average attained age of contract holders		69	69	68	67

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

(Dollars in thousands)

	2018			
	Death benefits	Living benefits		
	GMDB	GMIB	GLWB	GMAB
Return of net deposit				
Total account value	$ 6,304,533	—	—	3,189,635
Separate account value	$ 5,948,929	—	—	3,186,119
Net amount at risk [1]	$ 124,807	—	—	8,758
Weighted average attained age of contract holders	68	—	—	66
Return of net deposits accrued at a stated rate				
Total account value	$ 845,451	—	—	8,489
Separate account value	$ 832,660	—	—	6,819
Net amount at risk [1]	$ 229,320	—	—	149
Weighted average attained age of contract holders	73	—	—	73
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value				
Total account value	$ 2,549,366	6,891,179	8,452,408	—
Separate account value	$ 2,535,941	6,782,520	8,443,673	—
Net amount at risk [1]	$ 828,741	448,715	92,534	—
Weighted average attained age of contract holders	69	68	67	—
Return of highest anniversary value				
Total account value	$ 9,192,906	—	—	—
Separate account value	$ 8,972,703	—	—	—
Net amount at risk [1]	$ 462,894	—	—	—
Weighted average attained age of contract holders	67	—	—	—
Total				
Total account value	$ 18,892,256	6,891,179	8,452,408	3,198,124
Separate account value	$ 18,290,233	6,782,520	8,443,673	3,192,938
Net amount at risk [1]	$ 1,645,762	448,715	92,534	8,907
Weighted average attained age of contract holders	68	68	67	66

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

For guarantees of benefits that are payable in the event of death (GMDB), the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable at annuitization (GMIB), the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

(Dollars in thousands)

For benefit guarantees that are payable upon withdrawal (GLWB), the net amount at risk is generally defined as the present value of the current maximum guaranteed withdrawal available to or taken by the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the balance sheet date.

The assets supporting the variable portion of all variable annuities are carried at fair value and reported as assets held in separate accounts, with an equivalent amount reported as liabilities related to separate accounts. All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models and/or have other investment restrictions. The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2019 and 2018.

The following table summarizes account balances of variable annuity contracts with guarantees that were invested in separate accounts as of December 31:

		2019	**2018**
Mutual funds:			
Bond	$	5,250,098	5,164,084
Equity		12,853,796	12,308,626
Money market		704,745	817,523
Total	$	18,808,639	18,290,233

The following table summarizes the reserve balances, net of reinsurance, for variable annuity contracts with guarantees as of December 31:

		GMDB	**GMIB**	**GLWB**	**GMAB**
Balance at December 31, 2017	$	117,441	(515,127)	60,367	(31,727)
Incurred claims		16,506	6,237	25	42
Paid claims		(16,506)	(6,237)	(25)	(42)
Other [1]		16,267	47,025	20,262	33,689
Balance at December 31, 2018	$	133,708	(468,102)	80,629	1,962
Incurred claims		18,776	12,172	1,022	—
Paid claims		(18,776)	(12,172)	(1,022)	—
Other [1]		6,354	98,874	33,212	(24,113)
Balance at December 31, 2019	$	140,062	(369,228)	113,841	(22,151)

1. The components that make up the Other line item above include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings and market factors.

The reserve balances in the above table include reserves for both direct and reinsurance ceded balances. As of December 31, 2019, direct G reserves were $1,156,379, ceded G reserves were $1,293,855 and net G reserves were $(137,476). As of December 31, 2018, direct G reserves were $1,075,689, ceded G reserves were $1,327,492 and net G reserves were $(251,803). The direct reserves were calculated in accordance with FASB ASC Topic 944, *Financial Services* and the reinsurance ceded reserves were calculated in accordance with FASB ASC Topic 815, *Derivatives*. See Note 6 for a reconciliation of the change in the reinsurance ceded reserve.

Fixed Indexed Annuity Riders

GLWB Riders

Certain fixed indexed annuity contracts include a GLWB rider. The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. There are two versions of GLWB rider offered: a single life GLWB with the annuitant as the covered person, and a joint life GLWB with the annuitant and the annuitant's spouse as the covered persons.

The rider provides for a guaranteed payment of the maximum allowable withdrawal ("MAW") each index year during the lifetime withdrawal period. Such guaranteed withdrawals may start any time after the annuitant/youngest covered spouse reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant/youngest covered spouse attains a higher age band before the guarantee is elected.

At the policy's initial sweep date, the GLWB base is set at the amount of the purchase payments. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base. On each anniversary of the initial sweep date, except under excess withdrawal, the step-up GLWB base is equal to the greater of the GLWB base on the prior day, and the then current contract value, after deducting any applicable charges for the contract and credited interest. The annual credit base is the GLWB base just prior to the index year processing, plus the annual credit calculation base just prior to index processing, multiplied by an index or bonus credit rate. Upon a step-up, the annual credit calculation base will reset to the contract value at the time of step-up.

For the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California, the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to AV at the time of exchange. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base.

For these GLWB riders, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period, and comparing this to the expected value of assessments for the contract, where assessments are contract fees and interest margins. Liabilities are accrued as a proportion to the accumulated assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate.

The base account reserve balances, net of reinsurance, for fixed indexed annuity contracts were $166,353 of embedded derivative and $931,394 of host and other liability as of December 31, 2019. The balances were $124,953 of embedded derivative and $954,862 of host and other liability as of December 31, 2018. The G reserve balances, net of reinsurance, for fixed indexed annuity contracts with guarantees were $12,990 and $6,360 as of December 31, 2019 and December 31, 2018, respectively. The components that make up the reserve include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings, and market factors.

The total account value of the fixed indexed annuities was approximately $1,077,000 and $1,096,000 as of December 31, 2019 and 2018, respectively. The account value specific to the GLWB riders was approximately $567,000 and $586,000 as of December 31, 2019 and 2018, respectively.

Direct and net G reserves were $12,990 and $6,360 as of December 31, 2019 and 2018, respectively. No G reserves were ceded to external parties during 2019 and 2018.

(11) Reinsurance

The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth. The Company routinely enters into reinsurance transactions with other insurance companies, third parties and subsidiaries. This reinsurance involves either ceding certain risks to or assuming risks from other insurance companies. The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions.

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 16%, 16% and 17% of gross earned life and accident and health premiums during 2019, 2018 and 2017, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB and GLWB. For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $198,600 and $276,138 as of December 31, 2019 and 2018, respectively.

Reinsurance agreements that do not transfer significant insurance risk are recorded using deposit accounting. The Company enters into such agreements with unaffiliated reinsurers. Effective April 1, 2016, the Company entered into an agreement to cede certain whole life blocks of business written between January 1, 2016 and December 31, 2016. Effective January 1, 2017, the Company entered into an additional agreement to cede certain whole life blocks of business written between January 1, 2017 and December 31, 2017. Effective October 1, 2017, these agreements were amended and restated to combine the previous treaties from 2014 through 2016, and add 2017 as well as 2018 prospectively. This combined treaty is accounted for using deposit accounting. At the inception of each of these deposit accounting agreements, a risk charge liability was recorded in other liabilities on the consolidated balance sheets, with a corresponding risk charge expense recorded in other operating expenses on the consolidated statements of operations. The risk charge liabilities and expenses related to these agreements were $2,395, $2,022 and $1,405 at and as of December 31, 2019, 2018 and 2017, respectively.

Effective December 31, 2018, the Company entered into an agreement to cede its quota share of the net liability on certain term life policies issued between June 4, 2007 through December 31, 2017, and in force as of the effective date. This treaty is accounted for using deposit accounting. The risk charge liabilities and expenses related to this agreement settle quarterly, beginning March 31, 2019. The risk charge expense related to this agreement was $435 at and as of December 31, 2019.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce BOLI and SPDA blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio. As a result of this transaction, available-for-sale securities and cash of $2,797,281 were transferred to the reinsurer, resulting in a realized gain of $197,876 for the year ended December 31, 2019. This transaction resulted in a $1,929,233 increase included in reinsurance recoverable on the consolidated balance sheets as of December 31, 2019. The BOLI block of business met the requirements for reinsurance accounting, however, because the SPDA block qualifies as investment contracts, the SPDA portion of the agreement did not meet the criteria for reinsurance accounting and was accounted for under deposit accounting. As a result, a reinsurance deposit asset of $935,792 was recorded in the consolidated balance sheets at the inception of the treaty. The asset is carried at a net amortized value of $905,770 on the consolidated balance sheets as of December 31, 2019.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for ONLIC, ONLIC ceded variable annuity-related risks, living and death benefits to SYRE for the GMIB, GMDB, and GLWB riders. Effective April 1, 2019, ONLIC recaptured its direct business previously ceded to SYRE. ONLIC now cedes these variable annuity-related risks and certain additional guarantee risks, which were previously retained, to SUNR, which retrocedes GMIB and associated risks and riders to SYRE. Additionally, to consolidate the management of such living benefit risks, ONLIC assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC ceded 100% of the fixed indexed annuities exchange program business and associated GLWB riders to SYRE. ONLIC assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

ONLAC writes a significant amount of term and universal life insurance that requires statutory reserves in excess of the Company's best estimate economic reserves (i.e. redundant reserves). To efficiently manage the statutory surplus impact to ONLAC and improve capacity to write new business, the Company established two affiliated Vermont captive insurers, MONT and KENW, and an Ohio captive, CMGO. ONLAC cedes certain term life policies and certain death benefit guarantee universal life policies to MONT. ONLAC cedes certain term life policies to KENW and CMGO. MONT, KENW and CMGO entered into external reinsurance covering certain of the assumed blocks of business. Additionally, MONT, KENW and CMGO retrocede term life policies on a yearly renewable term basis to ONLIC, which ONLIC cedes to external reinsurers.

ONSV entered into a proportional quota share agreement with ONSP whereby the Company assumes 50% of the premiums and claims related to ONSP's participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to premiums and claims incurred between January 1, 2015 and December 31, 2016.

All of the affiliated reinsurance transactions eliminate in consolidation at the ONFS and ONMH levels.

(Dollars in thousands)

The reconciliation of traditional life and accident and health total premiums to net premiums for the years ended December 31, were as follows:

		2019	2018	2017
Direct premiums	$	1,083,857	1,050,888	977,421
Reinsurance assumed - external		1,075	1,219	1,363
Reinsurance assumed - intercompany		257,514	238,704	234,812
Reinsurance ceded - external		(197,528)	(183,327)	(188,256)
Reinsurance ceded - intercompany		(257,514)	(238,704)	(234,812)
Net premiums earned	$	887,404	868,780	790,528

(12) Long-Term Debt Obligations

Long-term debt obligations outstanding were as follows as of December 31:

		2019	2018
Surplus notes			
6.875% fixed rate due 2042	$	247,504	247,393
5.000% fixed rate due 2031		4,019	3,979
5.800% fixed rate due 2027		5,897	5,883
8.500% fixed rate due 2026		49,798	49,767
Senior notes			
6.625% fixed rate due 2031		247,411	247,264
6.375% fixed rate due 2020		—	299,218
Term Loan			
3.96% variable rate due 2022		399,249	—
Total long-term debt obligations	$	953,878	853,504

Surplus Notes
In June 2012, ONLIC issued a $250,000, 6.875% fixed rate surplus note due June 15, 2042. Interest on this surplus note is payable semi-annually on June 15 and December 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In December 2011, ONLIC issued a $4,500, 5.000% fixed rate surplus note to Security Mutual Life Insurance Company of New York (“SML”), as payment for the purchase of additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.800% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued $50,000, 8.500% fixed rate surplus note, due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

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 $250,000, 6.625% fixed rate senior note due May 1, 2031. Interest is payable semi-annually on May 1 and November 1. ONFS may redeem this senior note at its option.

In April 2010, ONFS issued a $300,000, 6.375% fixed rate senior note due April 30, 2020. Interest is payable semi-annually on April 30 and October 30. ONFS may redeem this senior note at its option. During April 2019, ONFS redeemed this senior note. This included a make-whole payment to note holders of $10,263 included in loss on debt retirement on the income statement.

The senior notes are obligations of ONFS and are not subject to Department approval for payments of principal or interest. Claims of the policyholders of ONLIC and ONLAC have priority over these senior notes if either company is unable to pay policyholder claims.

Term Loan
On April 5, 2019, the Company issued a $400,000 term loan due April 5, 2022. Interest is payable quarterly based on a variable base rate or the London Inter-bank Offered Rate ("LIBOR") plus the applicable margin. The rate selected at December 31, 2019 was LIBOR. The average interest rate paid for the year ended December 31, 2019 was 3.96%. This loan was retired in January, 2020 with the issuance of a new senior note. See Note 3(w) for more information.

Interest Expense
Total interest expense, including amortization of debt discounts and issuance costs, on all obligations was $58,571, $58,576 and $58,533 during the years ended December 31, 2019, 2018, and 2017, respectively. Total interest expense is included in investment expenses as a component of net investment income.

(13) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. On March 29, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

(Dollars in thousands)

ONFS utilized $565,000 of this facility as of December 31, 2019 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

ONFS utilized $110,000 and $810,000 of this facility as of December 31, 2019 and 2018, respectively, to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS borrowed $75,000 against the facility in December 2017 for the benefit of SYRE, which is recorded in short-term borrowings in the consolidated balance sheets. The $15,000 ONFS borrowed to fund the 2014 intercompany sale transaction of ONSP to the Dutch holding company from ONSA was transferred to the new facility. During 2019, these borrowings were repaid.

On December 31, 2019, ONFS entered into a $50,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. ONFS utilized $30,000 of this facility as of December 31, 2019 to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $50,000, 364-Day letter of credit facility with a bank in order to finance and to support the reserve requirements of SYRE. ONLIC is the only beneficiary of the related letters of credit. ONFS utilized $50,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS terminated the facility during 2019.

In December 2018, ONFS entered into a $150,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE and ONLIC (related to NSLAC). ONLIC and NSLAC are the only beneficiaries of the related letters of credit. ONFS utilized $75,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS terminated the facility during 2019.

Total interest and fees paid on these credit facilities were $14,429, $11,565 and $3,978 in 2019, 2018 and 2017, respectively.

(14) Income Taxes

The provision for income taxes is as follows:

		2019	2018	2017
Current expense (benefit)	$	895	(972)	(15,119)
Deferred (benefit) expense		(34,830)	(5,056)	(189,720)
Provision for income taxes	$	(33,935)	(6,028)	(204,839)

(Dollars in thousands)

The following table is the reconciliation of the provision for income taxes based on enacted U.S. federal income tax rates to the provision for income taxes reported in the consolidated financial statements for the years ended December 31:

		2019	2018	2017
Pre-tax income times U.S. enacted tax rate	$	(21,220)	14,066	(62,436)
Tax-preferred investment income		(12,359)	(22,579)	(43,093)
Foreign subsidiaries statutory tax differential		(2,531)	(590)	(2,208)
Deemed income from foreign operations		—	(3,314)	8,369
U.S. Tax reform rate change - Non-equity		—	4,137	(77,549)
U.S. Tax reform rate change - Equity		—	—	(33,329)
Tax contingencies		(298)	126	(51)
Other, net		2,569	2,202	5,635
Provision for income taxes	$	(33,839)	(5,952)	(204,662)
Effective tax rate		33.5%	(8.9)%	114.7%

The Company files income tax returns in the U.S. federal jurisdiction, foreign countries and various state jurisdictions.

As discussed in Note 4, the United States enacted new tax legislation effective January 1, 2018. The effects of the tax rate change on deferred taxes are reflected in the tax rate reconciliation above. The primary impact on our 2017 financial results was associated with the effect of reducing the U.S. income tax rate from 35% to 21% on our deferred tax balances as of December 31, 2017, and a one-time deemed repatriation tax on certain unremitted earnings of foreign subsidiaries. Other material provisions of the U.S. tax reform impacting the Company effective January 1, 2018 include, but are not limited to provisions: 1) reducing the dividends received deduction; 2) increasing the tax deferred acquisition cost rates (Tax DAC); 3) modifying the tax reserve calculation; and 4) eliminating the corporate alternative minimum tax (AMT).

The largest component of tax-preferred investment income in the rate reconciliation above is the Dividends Received Deduction ("SA DRD") on separate account assets held in connection with variable annuity and life contracts. For 2019, 2018 and 2017 tax returns, the Company recognized an income tax benefit of $6,866, $9,754 and $35,950, respectively.

The Company has made the decision to permanently re-invest the foreign subsidiaries' earnings, thus local foreign country tax rules and tax rates govern the reporting of taxes rather than the U.S. tax rules and tax rate. In 2014, the Chilean government passed legislation increasing the enacted tax rate each year and is currently 27% in 2018 and thereafter. The impact of this legislation is reflected in the above rate reconciliation table.

(Dollars in thousands)

The tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities that give rise to significant components of the net deferred tax liability relate to the following as of December 31:

		2019	2018
Deferred tax assets:			
Pension and benefit obligations	$	21,023	23,647
Future policy benefits		1,542,728	871,286
Derivatives		41,907	34,590
Net operating loss carryforwards		143,021	164,989
Tax credits		39,750	40,203
Fixed Asset Capitalization and Depreciation		33,585	21,090
Other		2,544	3,590
Total gross deferred tax assets		1,824,558	1,159,395
Valuation allowance on deferred tax assets		—	—
Net deferred tax assets		1,824,558	1,159,395
Deferred tax liabilities:			
Investments		118,924	19,001
Deferred policy acquisition costs		248,152	311,272
Section 481(a) adjustment		4,709	16,673
Reinsurance recoverable		1,583,632	911,781
Other		8,395	6,983
Total gross deferred tax liabilities		1,963,812	1,265,710
Net deferred tax liability	$	139,254	106,315

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future income, and prudent and feasible tax planning strategies in making this assessment. Based upon the level of historical taxable income, projections for future income over the periods in which the deferred tax assets are deductible and available tax planning strategies, the Company believes it is more likely than not that it will realize the benefits of these deductible differences.

As of December 31, 2019, the Company has non-life net operating loss carryforwards of $475,668 expiring in years 2028 through 2037. As of December 31, 2018, the Company has non-life net operating loss carryforwards of $486,170 expiring in years 2027 through 2037. As of December 31, 2019, SYRE has a net operating loss of $188,967 expiring in 2033, to be carried forward and used only to offset future taxable income of SYRE. As of December 31, 2018, SYRE had a net operating loss of $202,628 expiring in 2033, to be carried forward and used only to offset future taxable income of SYRE. All loss carryforwards are expected to be fully utilized before expiring.

As of December 31, 2019 and 2018, the Company had no federal valuation allowances recorded. As of December 31, 2019 and 2018, the Company had no net capital loss carryforwards. As of December 31, 2019, the Company has $2,059 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2013-2017. As of December 31, 2019, the Company has tax credit carryforwards of $39,750 expiring in years 2023 through 2038. As of December 31, 2019, the Company had tax credit carryforwards of $40,203 expiring in years 2019 through 2038. As of December 31, 2019, the Company had alternative minimum tax credits of $8,049 that now reside in the current tax receivable as a result of tax reform.

The U.S. tax reform imposed a one-time deemed repatriation tax in 2017 on the greater of unremitted earnings and profits from foreign operations of our subsidiaries determined as of November 2, 2017 or December 31, 2017, which amounted to $5,055. Deferred tax liabilities are recognized for taxes payable on the unremitted earnings from foreign operations of our subsidiaries, except where it is our intention to indefinitely reinvest a portion or all of these undistributed earnings. We currently do not intend to repatriate these unremitted earnings. As of December 31, 2019 and 2018, it was not practicable to determine the amount of the unrecognized deferred tax liability that would arise if foreign earnings were remitted.

(15) Pensions and Other Post-Retirement Benefits

a) Home Office Pension Plan

The Company sponsors a funded qualified pension plan covering all home office employees hired prior to January 1, 1998. This plan was amended effective December 31, 2019, to freeze the accrual of future benefits. The impact of the curtailment is included below. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The Company also sponsors unfunded pension plans covering certain home office employees where benefits exceed Code 401(a)(17) and Code 415 limits.

The Company also has other deferred compensation and supplementary plans. One of the supplementary plans was also amended effective December 31, 2019, to freeze the accrual of future benefits. The impact of the curtailment is included below.

The measurement dates were December 31, 2019 and 2018.

b) Home Office Post-Retirement Benefit Plans

The Company currently offers eligible retirees the opportunity to participate in a post-retirement health and group life plan. This plan was amended effective July 1, 2013, to provide participants younger than age 65, a fixed portion of the health insurance contract premium and for participants age 65 and older, a fixed dollar amount which the participant must use to independently purchase their own insurance. Previously, this plan provided all participants a fixed portion of the health insurance contract premium. The portion the Company pays is periodically increased and is a function of participant service. Only home office employees hired prior to January 1, 1998 may become eligible for these benefits provided that the employee meets the retirement age and years of service requirements.

This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2019 and 2018.

c) General Agents' Pension Plan

The Company sponsors an unfunded, nonqualified defined benefit pension plan covering its general agents hired prior to January 1, 2005. This plan provides benefits based on years of service and average compensation during the final five and ten years of service.

The measurement dates were December 31, 2019 and 2018.

d) Agents' Post-Retirement Benefits Plans

The Company sponsors a post-retirement health and group life plan. Only agents with contracts effective prior to January 1, 1998 who meet the retirement age and service requirements are eligible for these benefits. The health and group life plans are contributory, with retirees contributing approximately 50% of premium for coverage. As with all plan participants, the Company reserves the right to change the retiree premium contribution at renewal.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2019 and 2018.

e) Obligations and Funded Status

Information regarding the funded status of the pension plans as a whole and other benefit plans as a whole as of December 31 is as follows:

(Dollars in thousands)

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	94,331	127,704	6,306	6,764
Service cost		2,121	3,107	25	43
Interest cost		4,711	4,859	280	261
Actuarial loss (gain)		24,333	(17,650)	1,404	565
Benefits paid*		(5,561)	(23,689)	(457)	(1,327)
Settlement/curtailment		(24,328)	—		—
		—	—	—	—
Projected benefit obligation at end of year	$	95,607	94,331	7,558	6,306
Accumulated benefit obligation	$	93,092	80,143		
Change in plan assets:					
Fair value of plan assets at beginning of year	$	50,703	66,945	—	—
Plan sponsor contribution		—	—	—	—
Actual return on plan assets		10,365	(5,687)	—	—
Benefits and expenses paid		(4,459)	(10,555)	—	—
Fair value of plan assets at end of year	$	56,609	50,703	—	—
Funded status**	$	(38,998)	(43,628)	(7,558)	(6,306)

* Benefits paid include amounts paid from both funded and unfunded benefit plans.

** Funded status is recorded in other liabilities in the consolidated balance sheets.

The following tables show the funded status of the pension plans as of December 31:

		Qualified Pension Plan	Unfunded pension plan	Total
2019				
Projected benefit obligation	$	70,897	24,710	95,607
Fair value of plan assets		56,609	—	56,609
Funded status	$	(14,288)	(24,710)	(38,998)
2018				
Projected benefit obligation	$	64,093	30,238	94,331
Fair value of plan assets		50,703	—	50,703
Funded status	$	(13,390)	(30,238)	(43,628)

(Dollars in thousands)

	Pension benefits		Other benefits	
	2019	**2018**	**2019**	**2018**
Amounts recognized in the balance sheet consist of:				
Other liabilities	$ (38,998)	(43,628)	(7,558)	(6,306)

Amounts recognized in other comprehensive income (loss) arising during the period consist of the following:

	Pension benefits			Other benefits		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Net actuarial loss (gain)	$ 17,535	(7,237)	7,290	1,404	565	(1,146)

	Pension benefits		Other benefits	
	2019	**2018**	**2019**	**2018**
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	$ 28,691	32,220	2,588	1,278
Prior service credit	—	—	—	(127)
Total	$ 28,691	32,220	2,588	1,151

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2020 are $2,634 and $0, respectively. The estimated net loss and prior service cost for the other post-retirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2020 are $266 and $0, respectively. There are no plan assets that are expected to be returned to the Company during the next twelve months.

(Dollars in thousands)

	Pension benefits		
	2019	**2018**	**2017**
Components of net periodic benefit cost:			
Service cost	$ 2,121	3,107	3,378
Interest cost	4,711	4,859	5,163
Expected return on plan assets	(3,568)	(4,726)	(4,375)
Amortization of net loss/(gain)	3,194	4,158	4,097
Settlement/curtailment	60	2,596	5,710
Net periodic benefit cost	$ 6,518	9,994	13,973

	Other benefits		
	2019	**2018**	**2017**
Components of net periodic benefit cost:			
Service cost	$ 25	43	58
Interest cost	280	261	299
Amortization of prior service cost	(127)	(128)	(128)
Amortization of net loss/(gain)	95	29	40
Net periodic benefit cost	$ 273	205	269

Information for defined benefit pension plans with an accumulated benefit obligation in excess of fair value of plan assets as of December 31:

	Pension benefits	
	2019	**2018**
Projected benefit obligation	$ 95,607	94,331
Accumulated benefit obligation	93,092	80,143
Fair value of plan assets	56,609	50,703

(Dollars in thousands)

f) Assumptions

	Pension benefits		Other benefits	
	2019	**2018**	**2019**	**2018**
Weighted average assumptions used to determine net periodic benefit cost at January 1:				
Discount rate	4.80%	4.03%	4.74%	4.04%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	4.19%	4.35%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	6.90%	7.80%
Age 65 and older	—	—	0.70%	0.70%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	6.80%	7.70%
Age 65 and older	—	—	0.60%	0.60%
Year that the rate reaches the ultimate trend rate	—	—	2023	2023
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	3.61%	4.81%	3.49%	4.74%
Rate of compensation increase	4.10%	3.83%	4.25%	3.50%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage point increase	1 Percentage point decrease
Effect on total of 2019 service cost and interest cost	$ 13	(11)
Effect on 2019 other post-retirement benefit obligation	314	(277)

(Dollars in thousands)

g) Plan Assets

The following table presents the hierarchy of the Company's pension plan assets at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2019				
Bond funds	$ 19,152	—	—	19,152
Equity funds	37,457	—	—	37,457
Total assets	$ 56,609	—	—	56,609
2018				
Bond funds	$ 17,640	—	—	17,640
Equity funds	33,063	—	—	33,063
Total assets	$ 50,703	—	—	50,703

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy described in Note 6.

The Company's other post-retirement benefit plans were unfunded at December 31, 2019 and 2018.

The assets of the Company's defined benefit pension plan ("the Plan") are invested in group variable annuity contracts with ONLIC offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2019 and 2018, $35,245 and $29,430, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of equity securities, debt securities and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan's short-term liquidity needs and its long-term liabilities. The target allocations are currently 70% equity securities and 30% debt securities.

For diversification and risk control purposes, where applicable, each asset class is further divided into sub classes such as large cap, mid cap and small cap and growth, core and value for equity securities and U.S. domestic, global and high yield for debt securities. To the extent possible, each sub asset class utilizes multiple fund choices and no single fund contains more than 25% of Plan assets (exclusive of any short term increases in assets due to any Plan funding). The Plan performance is measured by a weighted benchmark consisting of equity and debt benchmarks in weights determined by the Plan committee.

The overall expected long term rate of return on assets is determined by a weighted average return of fixed income and equity indexes. Fixed income securities (including cash) make up 35% of the weighted average return and equity securities make up 65% of the weighted average return.

(Dollars in thousands)

The following table shows the weighted average asset allocation by class of the Company's qualified pension plan assets as of December 31:

	2019	2018
Equity securities	66%	65%
Debt securities	34	35
Total	100%	100%

h) Cash Flows

(i) Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2019 and 2018 was $0. The Plan Sponsor contributed $0 and $0 to the qualified pension plan for the years ended December 31, 2019 and 2018, respectively. The contribution to the qualified pension plan is estimated to be $6,000 for the 2020 plan year.

(ii) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	Other benefits
2020	$ 8,550	537
2021	7,327	564
2022	9,694	587
2023	7,693	602
2024	8,409	574
2025 - 2029	32,420	2,455

i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2019, 2018 and 2017 was $6,011, $7,281 and $5,925, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,615, $2,956 and $2,900 in 2019, 2018 and 2017, respectively.

The Company has other deferred compensation and supplemental pension plans not included in the above tables. The expenses for these plans were $14,345, $(6,268) and $18,336 in 2019, 2018 and 2017, respectively. In 2018, a portion of the liability was released resulting in a negative expense during the year.

(16) Closed Block

Effective August 1, 1998, ONLIC was reorganized with approval of the Board of Directors, the Company's policyholders, and the Ohio Department of Insurance under provisions of the Ohio Revised Code to become a stock company 100% owned by ONFS. This reorganization contained an arrangement, known as a closed block (the "Closed Block"), to provide for dividends on policies that were in force on the effective date and were within classes of individual policies for which the Company had a dividend scale in effect at the time of the reorganization. The Closed Block was designed to give reasonable assurance to owners of affected policies that assets will be available to support such policies, including maintaining dividend scales in effect at the time of the reorganization, if the experience underlying such dividend scales continues. The assets, including revenue therefrom, allocated to the Closed Block will accrue solely to the benefit of the owners of policies included in the Closed Block until the Closed Block is no longer in effect. The Company is not required to support the payment of dividends on the Closed Block policies from its general funds.

The financial information of the Closed Block is consolidated with all other operating activities, and is prepared in conformity with FASB ASC 944-805, *Financial Services-Insurance-Business Combinations.* This presentation reflects the contractual provisions and not the actual results of operations and financial position. Many expenses related to the Closed Block operations are charged to operations outside the Closed Block; accordingly, the contribution from the Closed Block does not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

(Dollars in thousands)

Summarized financial information of the Closed Block as of December 31, 2019 and 2018, and for each of the years in the three-year period ended December 31, 2019 follows:

		2019	2018
Closed Block liabilities:			
Future policy benefits and claims	$	566,456	581,984
Policyholders' dividend accumulations		32,216	33,633
Other policyholder funds		28,912	9,946
Deferred federal income taxes		6,934	1,706
Other liabilities		1,320	1,329
Total Closed Block liabilities	$	635,838	628,598
Closed Block assets:			
Fixed maturity securities available-for-sale, at fair value (amortized cost of $420,536 and $378,831 as of December 31, 2018 and 2017, respectively)	$	448,860	428,660
Mortgage loans on real estate, net		29,751	38,641
Policy loans		78,844	82,788
Cash and short-term investments		11,314	6,071
Accrued investment income		4,065	4,249
Deferred policy acquisition costs		29,777	32,851
Reinsurance recoverable		1,231	895
Other assets		431	694
Total Closed Block assets	$	604,273	594,849
Excess of reported Closed Block liabilities over Closed Block assets	$	31,565	33,749
Amounts included in accumulated other comprehensive income:			
Unrealized investment gains, net of tax		34,437	10,056
Allocated to policyholder dividend obligation, net of tax		(1,417)	(1,932)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$	64,585	41,873

(Dollars in thousands)

		2019	2018	2017
Change in policyholder dividend obligation:				
Balance at beginning of year	$	33,633	35,565	37,697
Net unrealized investment activity		(1,417)	(1,932)	(2,132)
Balance at end of year	$	32,216	33,633	35,565
Closed Block revenues and expenses:				
Traditional life insurance premiums	$	16,922	18,284	20,101
Net investment income		26,979	28,788	30,318
Net realized gains (losses) on investments		425	463	(275)
Benefits and claims		(27,989)	(31,104)	(33,082)
Provision for policyholders' dividends on participating policies		(6,312)	(7,201)	(8,211)
Amortization of deferred policy acquisition costs		(3,089)	(3,015)	(3,028)
Other operating costs and expenses		(1,635)	(1,660)	(1,927)
Income before federal income taxes		5,301	4,555	3,896
Income tax expense		(50)	1,382	506
Closed Block net income	$	5,351	3,173	3,390

(17) Regulatory RBC and Dividend Restrictions

The Company is required to comply with statutory accounting practices prescribed or permitted by regulatory authorities. Annual Statements for the Company's domestic insurance subsidiaries ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, filed with their respective insurance departments, are prepared on a basis of accounting practices prescribed or permitted by such regulatory authority in their respective states of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not prescribed.

The Company's Ohio domiciled life insurance subsidiaries, ONLIC, ONLAC, CMGO and SUNR, do not have any permitted statutory accounting practices as of December 31, 2019 or 2018. NSLAC, a New York domiciled life insurance company, does not have any permitted statutory accounting practices as of December 31, 2019 or 2018.

The Company's subsidiary, SUNR, applies a prescribed practice which values assumed GMDB and GLWB risks on variable annuity contracts from ONLIC using separate alternative reserving bases from the Statutory Accounting Principles detailed within the NAIC *Accounting Practices and Procedures manual* ("NAIC SAP") pursuant to Ohio Revised Code Chapter 3964 and approved by the Ohio Department of Insurance. The prescribed practice related to ONLIC guaranteed risks decreased the Company's carrying value of SUNR, included in common stocks – affiliates on the statutory statements of admitted assets, liabilities, capital and surplus, by $164,187 as of December 31, 2019. If the prescribed practices were not applied, the Company's risk-based capital would continue to be above regulatory action levels.

The Company's Vermont domiciled life insurance subsidiary, MONT, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2014. The approval continues indefinitely. The Company was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a stop loss agreement. This stop loss agreement is from a third party unauthorized reinsurer and is used to fund the reinsurer's obligation to the Company. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

The Company's Vermont domiciled life insurance subsidiary, KENW, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2013. The approval continues indefinitely. The Company was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a letter of credit and a stop loss agreement. This stop loss agreement is from a third party unauthorized reinsurer and is used to fund the reinsurer's obligation to the Company. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

In 2015, the Company redomiciled SYRE to the Cayman Islands from the State of Delaware. The Company received approval from the Cayman Islands Monetary Authority ("CIMA") regarding the use of permitted practices to use GAAP as the basis of accounting and to recognize, as an admitted asset, a letter of credit. The approval continues indefinitely.

Statutory Surplus and Income

State insurance regulators and the NAIC have adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. As of December 31, 2019, ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, exceeded the minimum RBC requirements.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2019, the Company's primary life insurance subsidiary ONLIC's total adjusted capital and company action level RBC were $1,137,229 and $222,139, respectively, providing an RBC ratio of 512%. Additionally, as of December 31, 2019, ONLIC's authorized control level RBC was $111,070.

The combined statutory basis net income of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $(204,121), $(91,843) and $48,308 for the years ended December 31, 2019, 2018 and 2017, respectively.

The combined statutory basis capital and surplus of ONLIC, ONLAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $1,019,863 and $1,019,073 as of December 31, 2019 and 2018, respectively.

The primary reasons for the difference between statutory and GAAP accounting for reporting purposes include the following provisions for GAAP:

- the costs related to successful efforts to acquire business, principally commissions and certain policy issue expenses, are amortized over the period benefited rather than charged to operations in the year incurred;
- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;
- investments in fixed maturity available-for-sale securities are carried at fair value rather than amortized cost;
- certain assets designated as non-admitted under statutory accounting are excluded from the balance sheet; under GAAP, these assets would be included in the consolidated balance sheets, net of any valuation allowance;
- the asset valuation reserve and interest maintenance reserve are not recorded;

- separate account seed money is classified as a trading security recorded at estimated fair value as opposed to a component of separate account assets;
- the fixed maturity securities that are related to NSLAC's funds withheld reinsurance arrangement are classified as trading securities recorded at estimated fair value as opposed to amortized cost;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive (loss) income and comprehensive (loss) income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain VIEs, has the power to direct the activities most significant to the VIE while for statutory, consolidation is not applicable; and
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus.

Additionally, state regulators and rating agencies do not always use the same methodologies for calculating RBC ratios. There is a risk that a rating agency will not give us credit for certain regulatory RBC rules or permitted practices, which could result in a reduced rating even though the Company's RBC ratio and those of our insurance subsidiaries remain high based upon state regulatory rules and practices.

Dividend Restrictions
The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLIC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $102,000 may be paid by ONLIC to ONFS in 2020 without prior approval. Dividends of $55,000, $60,000 and $70,000 were declared and paid by ONLIC to ONFS in 2019, 2018 and 2017, respectively.

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $63,000 may be paid by ONLAC to ONLIC in 2020 without prior approval. ONLAC declared and paid ordinary dividends to ONLIC of $30,857, $27,000 and $27,000 in 2019, 2018 and 2017, respectively. Extraordinary dividends of $75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid during 2018 or 2017.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter where CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2019, 2018 or 2017.

The payment of dividends by SUNR to ONLIC is limited by the SUNR plan of operations, which was approved by the Ohio Department of Insurance. SUNR is not permitted to pay dividends to its parent, ONLIC, until 2021.

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $2,000 may be paid by NSLAC to ONLIC in 2020 without prior approval. No dividends were declared or paid by NSLAC in 2019, 2018 or 2017.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2019, 2018 or 2017. No dividends were declared or paid by KENW to ONLIC in 2019, 2018 or 2017.

SYRE is subject to limitations, imposed by CIMA, on the payment of dividends to its stockholder, ONFS. Dividends shall only be paid out of the SYRE's retained earnings and any paid-in capital in excess of par, provided that, after giving effect to each such dividend, the remaining capital is in excess of any capital requirements as prescribed by the CIMA. SYRE cannot pay any dividends without prior approval from CIMA. No dividends were declared or paid by SYRE in 2019, 2018 or 2017.

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans, bonds, common stocks and venture capital partnerships of $60,873 and $89,518 as of December 31, 2019 and 2018, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the consolidated financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Leases

The Company determines if an arrangement is, or contains, a lease at the inception date. Operating and finance lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the discount rate for the lease at the commencement date. As the rate implicit in the lease is not readily determinable for operating leases, an incremental borrowing rate based on information available at the commencement date to determine the present value of future lease payments is utilized. Variable components of the lease payments such as fair value adjustments, utilities and maintenance costs are expensed as incurred and not included in determining the present value. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. The Company accounts for lease and non-lease components separately and does not apply the lease guidance under ASC 842 to short-term lease arrangements.

(Dollars in thousands)

Operating leases are included in operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet. Finance leases are included in other assets and other liabilities on the consolidated balance sheet.

The Company has operating leases for hardware, software and transportation equipment, and finance leases for office equipment.

Additional information related to leases is as follows:

The components of lease expense for the year ended December 31, 2019, are as follows:

Financing lease cost		
Amortization of right-of-use assets	$	33
Interest on lease liabilities		9
Operating lease cost		1,825
Short term lease cost		30
Total lease expense	$	1,897

Maturity of lease liabilities under non-cancelable operating and finance leases as of December 31, 2019, are as follows:

		Operating leases	Financing leases
2020	$	1,858	43
2021		1,590	43
2022		1,331	33
2023		1,257	—
2024		906	—
Thereafter		2,047	—
Total future minimum lease payments		8,989	119
Less imputed interest		(882)	(9)
Total	$	8,107	110

(Dollars in thousands)

Payments due under non-cancelable operating leases under ASC 840 as of December 31, 2018 were as follows:

2019	$	4,162
2020		4,007
2021		3,201
2022		923
2023		849
Thereafter		2,477
Total minimum lease payments	$	15,619

The following table provides a summary of our lease terms and discount rates for the year ended December 31, 2019:

Weighted-average remaining lease term (years) - financing leases	2.84
Weighted-average remaining lease term (years) - operating leases	6.22
Weighted-average discount rate - financing leases	6.82%
Weighted-average discount rate - financing leases	3.25%

Supplemental information related to our leases for the year ended December 31, 2019, is as follows:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from financing leases	$	9
Operating cash flows from operating leases		1,825
Financing cash flows from financing leases		34
Right-of-use assets obtained in exchange for new finance lease liabilities		—
Right-of-use assets obtained in exchange for new operating lease liabilities		479

Information as Lessor

The Company adopted ASC 842 using the modified retrospective approach whereby the cumulative effect of adoption was recognized on the adoption date and prior periods were not restated. On adoption of the standard, the Company elected the package of practical expedients provided for under ASC 842 as a single election and was consistently applied to all existing leases as of January 1, 2019. The Company also elected the practical expedient related to separating lease and non-lease components, provided certain conditions are met. Under ASC 842, the Company is required to account for leases using an approach that is substantially equivalent to ASC 840's guidance for operating leases.

(Dollars in thousands)

As a lessor, the Company leases office properties to lessees in exchange for monthly payments that cover rent and certain cost recoveries. The Company's operating leases qualify for single component accounting, and the non-lease components follow the same timing and pattern of transfer as the lease payments; therefore, all revenue from operating leases is accounted for under the new lease accounting standard and is classified within net investment income in the consolidated statements of operations. The Company's operating lease income does not include material amounts of variable payments.

Some of the Company's leases have termination options and/or extension options. Termination options allow the customer to terminate the lease prior to the end of the lease term under certain circumstances. Lease agreements generally do not contain an option to purchase the office property at the end of the lease term.

The Company recognized rental revenues related to operating lease payments of $6,199 during the year ended December 31, 2019. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at December 31 2019 for operating leases:

2020	$	4,272
2021		2,781
2022		1,874
2023		1,392
2024		994
Thereafter		2,716
Total undiscounted future minimum cash flows	$	14,029

(20) Commitments and Contingencies

Several subsidiaries of the Company are a party to eleven federal court cases and eight FINRA arbitrations stemming from the strategic changes announced in September 2018, specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in all of the cases is a disputed interpretation of certain language in Ohio National Life's contracts with the broker dealers who sold Ohio National Life's annuities. One case purports to be on behalf of a class, but no motions for class certification have yet been filed and no class has been certified. The Company sought early dismissal in five of the court cases claiming that the contract meaning is clear on its face, but three of the courts have declined to dismiss without trial. One previously pending case has been resolved. The first case currently set for trial is in July, 2020. The Company expects to continue to vigorously defend itself against these allegations. However, litigation is inherently uncertain and the outcome thereof cannot be predicted. Accordingly, it is possible that the ultimate outcome in one or more of the proceedings may be material to the Company's results of operations for a particular period depending upon, among other factors, the size of the loss and the level of the Company's results of operations for the period.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Schedule 1

Consolidating Information - Balance Sheet

December 31, 2019

(Dollars in thousands)

Assets	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Investments:												
Securities available-for-sale at fair value:												
Fixed maturities	$ –	300,364	316,179	152,207	378,255	55,366	1,856,146	5,486,015	–	8,544,533	9,745,959	9,745,959
Fixed maturities - on loan	–	–	–	–	–	–	71,590	167,062	–	238,652	238,652	238,652
Investment in subs	–	–	–	–	–	–	–	933,199	(933,199)	–	–	–
Fixed maturities held-to-maturity, at amortized cost	–	–	–	–	–	–	–	75,000	(75,000)	–	–	–
Fixed maturities, trading securities	–	–	–	–	–	160	–	–	–	160	160	160
Equity securities, at fair value	70	–	–	–	–	–	1	5,928	–	5,998	40,468	40,468
Equity securities - on loan, at fair value	–	–	–	–	–	–	–	–	–	–	–	–
Mortgage loans on real estate, net	–	–	–	–	9,119	–	435,087	929,115	–	1,373,321	1,446,093	1,446,093
Real estate, net	–	–	–	–	–	–	–	25,758	–	25,758	52,270	52,270
Policy loans	–	–	–	–	–	–	124,930	744,694	–	869,624	875,097	875,097
Other long-term investments	–	–	–	–	–	–	12,113	159,174	–	171,286	272,204	272,204
Short-term investments securities lending collateral	–	–	–	–	–	–	74,080	172,498	–	246,578	246,578	246,578
Short-term investments	–	7,541	4,384	4,622	–	1,000	–	131,749	–	149,296	213,529	213,529
Total investments	70	307,905	320,563	156,829	387,374	56,526	2,573,947	8,830,192	(1,008,199)	11,625,206	13,131,010	13,131,010
Cash	17,071	2,110	5,954	8,333	250	2,935	29,954	141,066	–	207,672	287,223	288,218
Accrued investment income	–	2,800	2,680	1,178	3,045	391	17,982	48,880	(229)	76,726	77,849	77,849
Deferred policy acquisition costs	–	–	14,559	18,713	–	18,747	308,349	1,046,671	(10,032)	1,397,007	1,679,421	1,679,421
Reinsurance recoverable	–	17,929	17,611	11,322	581,329	8,860	2,904,941	3,910,391	(2,448,755)	5,003,628	3,946,180	3,946,180
Reinsurance deposit asset	–	–	–	–	–	–	23,850	881,920	–	905,770	905,770	905,770
Derivative funds withheld due from affiliate	–	–	–	–	64,161	–	–	58,931	(93,715)	29,377	–	–
Reinsurance funds withheld due from affiliate, net	–	–	–	–	–	–	–	–	–	–	–	–
Operating lease right-of-use assets	–	–	–	–	–	–	–	18,689	–	18,689	8,115	8,115
Other assets	8,553	30	37	38	92,515	3,982	10,127	305,832	(137,815)	283,298	386,324	386,324
Assets held in separate accounts	–	–	–	–	–	402,036	268,295	19,255,771	–	19,926,103	19,926,103	19,926,103
Federal income tax recoverable	–	82	3,004	3,639	–	247	–	–	(4,985)	1,988	17,715	17,811
Deferred federal income taxes	83	–	–	–	70,832	–	5,429	–	(76,344)	–	–	–
Total assets	$ 25,777	330,856	364,408	200,052	1,199,506	493,724	6,142,874	34,498,343	(3,780,074)	39,475,464	40,365,710	40,366,801
Liabilities and Equity												
Future policy benefits and claims	$ –	154,128	233,980	140,516	948,649	30,594	5,136,914	10,450,768	(2,456,905)	14,638,644	15,724,764	15,724,764
Policyholders’ dividend accumulations	–	–	–	–	–	–	–	32,964	–	32,964	32,964	32,964
Other policyholder funds	–	5,777	–	–	–	–	69,963	90,174	–	165,914	170,779	170,779
Short-term debt	–	–	–	–	–	–	–	–	–	–	1,675	1,675
Long-term debt obligations	–	75,000	–	–	–	–	–	307,218	(75,000)	307,218	953,878	953,878
Accrued Federal income taxes:												
Current	100	–	–	–	454	–	358	4,072	(4,985)	–	–	–
Deferred	–	33,587	69,840	19,236	–	2,866	–	250,639	(76,569)	299,598	139,253	139,253
Payable to afiiliate for derivative funds withheld program	–	–	–	–	63,792	–	–	34,784	(93,716)	4,860	–	–
Reinsurance funds withheld due to affiliate, net	–	–	–	–	–	–	–	525,879	–	525,879	–	–
Operating lease liabilities	–	–	–	–	–	–	–	18,689	–	18,689	8,107	8,107
Other liabilities	12,965	494	812	(2,511)	30,879	1,167	50,026	478,631	(138,042)	434,419	543,620	543,617
Payables for securities lending collateral	–	–	–	–	–	–	74,080	172,498	–	246,578	246,578	246,578
Liabilities related to separate accounts	–	–	–	–	–	402,036	268,295	19,255,771	–	19,926,103	19,926,103	19,926,103
Total liabilities	13,065	268,986	304,632	157,241	1,043,774	436,663	5,599,636	31,622,087	(2,845,217)	36,600,866	37,747,721	37,747,718
Equity:												
Common stock and additional paid-in-capital	10,830	34,250	5,000	25,250	137,404	33,345	97,577	298,076	(343,655)	298,076	9,592	–
Accumulated other comprehensive income	–	12,240	14,181	6,073	11,079	1,912	69,363	208,660	(112,549)	210,961	234,779	234,922
Retained earnings	1,882	15,380	40,595	11,488	7,249	21,804	376,298	2,369,520	(478,653)	2,365,561	2,373,618	2,384,161
Total equity excluding non-controlling interest	12,712	61,870	59,776	42,811	155,732	57,061	543,238	2,876,256	(934,857)	2,874,598	2,617,989	2,619,083
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Total equity	12,712	61,870	59,776	42,811	155,732	57,061	543,238	2,876,256	(934,857)	2,874,598	2,617,989	2,619,083
Total liabilities and equity	$ 25,777	330,856	364,408	200,052	1,199,506	493,724	6,142,874	34,498,343	(3,780,074)	39,475,464	40,365,710	40,366,801

See accompanying Independent Auditor's Report

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Schedule 2

Consolidating Information - Statement of Income

Year to date December 31, 2019

(Dollars in thousands)

	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Revenues:												
Traditional life insurance premiums												
Direct	$ –	(5,584)	–	–	–	6	1,308,426	1,549,284	–	2,852,132	2,901,330	2,901,330
Reinsurance premiums	–	(3,188)	5,627	45,904	–	–	(1,364,048)	(722,617)	–	(2,038,322)	(2,039,164)	(2,039,164)
Traditional life insurance premiums	$ –	(8,772)	5,627	45,904	–	6	(55,622)	826,667	–	813,810	862,166	862,166
Accident and health insurance premiums	–	–	–	–	–	–	19,466	5,773	–	25,238	25,238	25,238
Annuity premiums and charges	–	–	–	–	419,634	6,489	18	(33,820)	–	392,321	445,085	445,085
Universal life policy charges	–	8,047	–	–	–	–	131,980	4,340	–	144,368	147,999	147,999
Group life and health insurance premiums	–	–	–	–	–	–	–	–	–	–	113,099	113,099
Change in value of trading fixed maturity securities	–	–	–	–	–	(4)	–	–	–	(4)	(4)	(4)
Change in value of equity securities	–	–	–	–	–	–	84	(505)	–	(421)	4,819	4,819
Change in value of reinsurance derivatives	–	–	–	–	–	–	–	–	–	–	–	–
Net investment income	75	6,016	11,405	4,899	8,562	1,945	139,872	404,610	(80,697)	496,688	524,787	524,794
Net realized (losses) gains on investments												
Investment gains (losses):												
Total other-than-temporary impairment losses on securities	–	–	–	–	–	–	1,286	1,140	–	2,426	2,426	2,426
Portion of impairment losses recognized in other comprehensive income	–	–	–	–	–	–	(3,435)	(3,951)	–	(7,386)	(7,386)	(7,386)
Net other-than-temporary impairment losses on securities recognized in earnings	–	–	–	–	–	–	(2,149)	(2,811)	–	(4,960)	(4,960)	(4,960)
Realized gains (losses), excluding other-than-temporary losses on securities	–	(31)	575	(9)	348	(55)	85,179	133,537	(6,393)	213,151	215,334	215,334
Investment (losses) gains	–	(31)	575	(9)	348	(55)	83,030	130,726	(6,393)	208,191	210,374	210,374
Derivative instruments	–	–	–	–	(47,094)	–	1,214	(5,831)	–	(51,711)	(154,443)	(154,443)
Gain (loss) on debt retirement	–	–	–	–	–	–	–	–	–	–	(10,263)	(10,263)
Investment management fees	45,181	–	–	–	–	–	–	–	–	45,181	45,181	45,181
Other income	45,752	–	–	–	–	1,107	2,598	83,449	(6,982)	125,924	126,424	126,424
	91,008	5,260	17,607	50,794	381,450	9,488	322,640	1,415,409	(94,072)	2,199,585	2,340,462	2,340,469
Benefits and expenses:												
Benefits and claims	–	11,762	7,286	37,970	371,720	777	154,587	712,095	478	1,296,676	1,578,810	1,578,810
Provision for policyholders' dividends on participating policies	–	–	–	–	–	–	–	114,298	–	114,298	114,298	114,298
Amortization of deferred policy acquisition costs	–	–	2,011	1,768	–	2,876	46,162	248,484	(1,159)	300,143	265,038	265,038
Impairment of goodwill and intangible assets	–	–	–	–	–	–	–	–	–	–	–	–
Commisions, net	64,860	2,836	6,649	8,651	–	1,678	(20,168)	79,266	(6,411)	137,362	175,902	175,902
Other operating costs and expenses	18,198	382	337	365	566	1,078	56,177	180,815	–	257,920	307,494	307,959
	83,058	14,980	16,283	48,754	372,286	6,409	236,758	1,334,958	(7,092)	2,106,399	2,441,542	2,442,007
Income (loss) before income tax	7,950	(9,720)	1,324	2,040	9,164	3,079	85,882	80,451	(86,980)	93,186	(101,080)	(101,538)
Income taxes:												
Current expense (benefit)	1,240	(1,856)	(4,651)	(9,457)	75,691	513	19,746	(62,678)	–	18,547	991	895
Deferred expense (benefit)	82	(259)	4,914	9,881	(73,777)	(245)	(4,165)	43,643	(1,056)	(20,983)	(34,830)	(34,830)
	1,322	(2,115)	263	424	1,914	268	15,581	(19,035)	(1,056)	(2,436)	(33,839)	(33,935)
Net income (loss)	6,628	(7,605)	1,061	1,616	7,250	2,811	70,301	99,486	(85,924)	95,622	(67,241)	(67,603)
Less: net income attributable to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Net income (loss) attributable to ONMH	$ 6,628	(7,605)	1,061	1,616	7,250	2,811	70,301	99,486	(85,924)	95,622	(67,241)	(67,603)

See accompanying Independent Auditor's Report

THE OHIO NATIONAL LIFE INSURANCE COMPANY

(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Financial Statements and Supplementary Information

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors
The Ohio National Life Insurance Company:

We have audited the accompanying financial statements of The Ohio National Life Insurance Company (a wholly owned subsidiary of Ohio National Financial Services, Inc.) (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Ohio Department of Insurance (the Department). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Department, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Department described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the schedules of supplemental insurance information, investment risk interrogatories, and summary of investments is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Columbus, Ohio
May 7, 2020

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2019 and 2018

(Dollars in thousands, except share amounts)

Admitted Assets		**2019**	**2018**
Investments:			
Bonds	$	5,382,681	7,018,143
Preferred stocks		5,101	18,292
Common stocks at fair value (cost $42,492 in 2019 and $37,680 in 2018)		41,721	38,406
Common stock of unconsolidated life insurance subsidiaries at statutory equity (cost $181,082 in 2019 and $181,332 in 2018)		323,640	352,946
Common stocks of nonlife insurance subsidiaries at statutory equity (cost $10,830 in 2019 and 2018)		9,049	8,498
Mortgage loans on real estate		930,632	859,830
Real estate, at cost less accumulated depreciation		25,758	26,407
Contract loans		744,593	638,824
Cash, cash equivalents and short-term investments		397,382	327,430
Receivables for securities		528	136
Derivatives		111,721	107,064
Other invested assets		251,659	76,570
Securities lending reinvested collateral assets		172,498	230,305
Receivable for collateral		26,000	—
Total investments		8,422,963	9,702,851
Premiums and other considerations deferred and uncollected		90,293	85,262
Accrued investment income		48,870	64,367
Current federal income tax recoverable		—	34,254
Deferred tax asset, net		121,096	132,476
Other assets		285,765	181,741
Separate account assets		19,255,771	18,883,485
Total admitted assets	$	28,224,758	29,084,436
Liabilities and Capital and Surplus			
Reserves for future policy benefits:			
Life policies and contracts	$	5,884,659	7,129,776
Accident and health policies		27,437	28,833
Annuity and other deposit funds		663,946	666,396
Contract claims		19,593	18,007
Other policyholders' funds:			
Policyholders' dividend accumulations		32,964	34,266
Provision for policyholders' dividends payable in following year		109,863	112,196
Other		1,498	1,144
Current federal income taxes		4,072	—
Payable to parent, subsidiaries and affiliates		202,678	146,625
Interest maintenance reserve		20,020	28,906
Asset valuation reserve		40,774	2,422
Transfers to separate accounts due or accrued, net		(123,076)	(173,980)
Payable for securities		4,556	1,428
Payable for securities lending		172,498	230,305
Reinsurance funds withheld due to affiliate, net		492,467	484,274
Other liabilities		395,175	471,280
Separate account liabilities		19,255,771	18,883,485
Total liabilities		27,204,895	28,065,363
Capital and surplus:			
Class A common stock, $1 par value. Authorized, issued, and outstanding 10,000,000 shares		10,000	10,000
Surplus notes		309,775	309,698
Gross paid in and contributed surplus		283,297	283,297
Aggregate write-ins for special surplus funds		35,826	(4,409)
Unassigned surplus		380,965	420,487
Total capital and surplus		1,019,863	1,019,073
Total liabilities and capital and surplus	$	28,224,758	29,084,436

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Operations

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Premiums and other considerations:			
Life and annuity	$	1,047,377	2,222,765
Accident and health		5,773	5,981
Total premiums and other considerations:		1,053,150	2,228,746
Investment income:			
Interest on bonds		264,249	284,323
Dividends on stocks		2,734	3,380
Dividends from subsidiaries		112,750	31,924
Interest on mortgage loans		44,104	41,426
Real estate income		1,829	1,932
Interest on contract loans		32,065	27,261
Other income		14,700	15,702
Total investment income		472,431	405,948
Less investment expenses		32,235	33,856
Net investment income		440,196	372,092
Total income		1,493,346	2,600,838
Death and other benefits:			
Death benefits		45,566	98,072
Accident and health benefits		1,405	2,178
Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries		3,538,173	3,383,480
Total death and other benefits		3,585,144	3,483,730
Change in reserves for future policy benefits and other funds		639,895	669,329
Commissions		186,543	318,169
General insurance expenses		143,920	170,690
Insurance taxes, licenses, and fees		19,851	18,860
Net transfers from separate accounts		(3,027,908)	(2,139,023)
Total expenses		1,547,445	2,521,755
(Loss) income before dividends to policyholders, benefit for federal income taxes, and net realized capital losses		(54,099)	79,083
Dividends to policyholders		112,994	116,431
Loss before benefit for federal income taxes and net realized capital losses		(167,093)	(37,348)
Benefit for federal income taxes		(88,213)	(9,704)
Loss before net realized capital losses		(78,880)	(27,644)
Net realized capital losses, net of interest maintenance reserve and income taxes		(4,935)	(27,776)
Net loss	$	(83,815)	(55,420)

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	Common stock	Surplus notes	Gross paid in and contributed surplus	Aggregate write-ins for special purpose funds	Unassigned surplus	Total capital and surplus
Balance at December 31, 2017	$ 10,000	309,622	283,297	(11,532)	510,163	1,101,550
Net income	—	—	—	—	(55,420)	(55,420)
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	4,403	4,403
Change in net unrealized foreign exchange capital gain	—	—	—	—	(137)	(137)
Change in net deferred income tax	—	—	—	—	29,729	29,729
Change in nonadmitted assets and related items	—	—	—	—	(16,816)	(16,816)
Change in asset valuation reserve	—	—	—	—	3,420	3,420
Correction of an error, net of tax	—	—	—	—	(1,063)	(1,063)
Benefit plan adjustment	—	—	—	—	6,208	6,208
Voluntary reserve	—	—	—	7,123	—	7,123
Dividends to stockholder	—	—	—	—	(60,000)	(60,000)
Balance at December 31, 2018	10,000	309,698	283,297	(4,409)	420,487	1,019,073
Net loss	—	—	—	—	(83,815)	(83,815)
Amortization of surplus note	—	77	—	—	—	77
Change in net unrealized capital gains	—	—	—	—	41,436	41,436
Change in net unrealized foreign exchange capital loss	—	—	—	—	(1)	(1)
Change in net deferred income tax	—	—	—	—	(16,822)	(16,822)
Change in nonadmitted assets and related items	—	—	—	—	16,728	16,728
Change in asset valuation reserve	—	—	—	—	(38,352)	(38,352)
Correction of an error, net of tax	—	—	—	—	(1,446)	(1,446)
Deferred coinsurance gain	—	—	—	—	40,784	40,784
Benefit plan adjustment	—	—	—	—	(366)	(366)
Voluntary reserve	—	—	—	4,409	93,158	97,567
Segregated special surplus for the benefit of affiliate	—	—	—	35,826	(35,826)	—
Dividends to stockholder	—	—	—	—	(55,000)	(55,000)
Balance at December 31, 2019	$ 10,000	309,775	283,297	35,826	380,965	1,019,863

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Cash Flow

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019		2018
Cash flow from operations:				
Premiums, other considerations, and fund deposits	$	1,087,409		1,847,775
Investment income		441,010		372,370
		1,528,419		2,220,145
Less:				
Death and other benefits		3,368,750		2,614,046
Commissions, taxes, and other expenses		288,797		445,230
Dividends paid to policyholders		115,392		100,620
Net transfers from separate accounts		(3,078,812)		(2,216,518)
		694,127		943,378
Net cash provided by operations		834,292		1,276,767
Cash flow from investing activities:				
Proceeds from investments sold, matured, or repaid:				
Bonds		753,192		919,511
Stocks		16,952		4,851
Mortgage loans on real estate		107,996		124,424
Other		3,106		2,435
Total investment proceeds		881,246		1,051,221
Less cost of investments acquired:				
Bonds		1,010,788		2,016,210
Stocks		7,534		6,426
Mortgage loans on real estate		181,512		180,882
Real estate		382		2,546
Other		65,584		63,326
Total investments acquired		1,265,800		2,269,390
Less increase in contract loans		105,791		95,801
Net cash used in investing activities		(490,345)		(1,313,970)
Cash flow from financing and other miscellaneous sources:				
Deposits on deposit-type contracts and other liabilities		119,313		122,022
Withdrawals on deposit-type contracts and other liabilities		(145,228)		(131,929)
Dividends to stockholder		(55,000)		(60,000)
Other, net		(193,080)		(8,754)
Net cash used in financing		(273,995)		(78,661)
Net increase (decrease) in cash, cash equivalents and short-term investments		69,952		(115,864)
Cash, cash equivalents and short-term investments:				
Beginning of year		327,430		443,294
End of year	$	397,382		327,430
Supplemental disclosures of cash flow information for non-cash transactions:				
Change in securities lending collateral	$	(57,807)	$	229,772
Funds held under fixed indexed annuity reinsurance agreement, net		(40,411)		482,442
Capital contribution to affiliate		80,000		—
Affiliate reinsurance agreements, net		(378,976)		—
Coinsurance reinsurance agreement		(1,694,934)		—
Deferred gain on coinsurance reinsurance agreements		12,061		—

See accompanying notes to statutory financial statements.

(1) Organization and Business

Organization
The Ohio National Life Insurance Company ("ONLIC" or the "Company") is a stock life insurance company wholly owned by Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS is 100% owned by Ohio National Mutual Holdings, Inc. ("ONMH"), a mutual holding company organized under Ohio insurance laws.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual insurance holding companies.

ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary, National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary, Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company, Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company, Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company, Sunrise Captive Re, LLC ("SUNR"), an Ohio authorized reinsurer, Ohio National Investments, Inc. ("ONII"), an investment advisor, Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934, and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

Business
ONLIC is a life and health (disability) insurer licensed in 49 states, the District of Columbia and Puerto Rico. The Company offered a full range of life, disability, and annuity products through independent agents and other distribution channels and is subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018, that it will exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision follows a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective September 15, 2018, the Company no longer accepts applications for annuities or new retirement plans, however, will continue to service and support existing clients in both product lines.

In 2018, the Company offered certain variable annuity policyholders with the guaranteed minimum income benefit ("GMIB") rider the opportunity to exchange that policy and associated rider for a fixed indexed annuity policy with an enhanced guaranteed lifetime withdrawal benefit ("GLWB") rider. More than $500,000 in account value was exchanged under this program.

Additionally, in late 2018 and through March 15, 2019, the Company offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. The Company paid approximately $115,000 and $58,000 related to the buy-back during 2019 and 2018, respectively, which is included in benefits and claims on the corresponding statements of operations. See Note 3(p) for more information regarding the buy-back.

The Company is subject to regulation by the insurance departments of states in which it is licensed and undergoes periodic examinations by those departments.

(Dollars in thousands)

(2) Basis of Presentation

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Ohio Department of Insurance (the "Department"), which is an other comprehensive basis of accounting that differs from U.S. generally accepted accounting principles ("GAAP"). The Department requires that insurance companies domiciled in the State of Ohio prepare their statutory basis financial statements in accordance with the Statement of Statutory Accounting Principles ("SSAP") that are described in the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* (the "Manual") subject to any deviations prescribed or permitted by the state insurance commissioner.

ONLIC does not have any permitted or prescribed statutory accounting practices as of December 31, 2019 and 2018. ONLIC's wholly-owned Vermont subsidiaries have permitted accounting practices as disclosed in Note 3(c). The statutory financial statements presented represent the accounts of the Company and do not include the accounts of any of its subsidiaries.

The Company's subsidiary, SUNR, applies a prescribed practice which values assumed guaranteed minimum death benefit ("GMDB") and guaranteed lifetime withdrawal benefit ("GLWB") risks on variable annuity contracts from the Company using a separate alternative reserve basis pursuant to Ohio Revised Code Chapter 3964 and approved by the Ohio Department of Insurance. The prescribed practice related to the Company's guaranteed risks decreased the Company's carrying value of SUNR, included in common stocks – affiliates on the statutory statements of admitted assets, liabilities, capital and surplus, by $164,187 as of December 31, 2019. If the prescribed practices were not applied, the Company's risk-based capital would continue to be above regulatory action levels.

A reconciliation of the Company's net loss and capital and surplus between NAIC SSAP and practices prescribed by the State of Ohio are shown below:

		2019
Net Income		
Company state basis	$	(83,815)
State prescribed practices that are an increase/(decrease) from NAIC SAP		—
NAIC SAP	$	(83,815)
Surplus		
Company state basis	$	1,019,863
State prescribed practices that are an increase/(decrease) from NAIC SAP		
Subsidiary valuation - SUNR		(164,187)
NAIC SAP	$	1,184,050

Statutory accounting practices are different in some respects from financial statements prepared in accordance with GAAP. The primary reasons for the differences between equity and net income on a GAAP basis versus capital and surplus and net income on a statutory basis are that, for GAAP reporting purposes:

- The costs related to acquiring business, principally commissions and certain policy issue expenses related to successful acquisition efforts, are amortized over the period benefited rather than charged to income in the year incurred;
- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;
- investments in fixed maturity securities are carried at either amortized cost or fair value based on their classifications; investments in fixed maturity securities classified as available-for-sale are carried at estimated fair value with net unrealized holding gains and losses reported in other comprehensive income; fixed maturity securities designated as trading are carried at fair value with net unrealized holding gains and losses reported in income; under statutory accounting, investments in bonds are reported at the lower of amortized cost or fair value based on their NAIC rating and any adjustments to fair value are reported directly in surplus, see Note 3(c) for more information regarding bond valuation;
- only contracts that have significant mortality or morbidity risk are classified as insurance contracts; otherwise they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments; for statutory reporting, contracts that have any mortality or morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts;
- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at fair value as opposed to a component of separate account assets;
- under GAAP, "nonadmitted" assets do not exist, while for statutory reporting nonadmitted assets are excluded from surplus; see Note 3(b) for more information regarding nonadmitted assets;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive income and comprehensive income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain variable interest entities, is the primary beneficiary while for statutory, consolidation is not applicable;
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus;

- certain assets and liabilities are reported gross of ceded reinsurance balances;
- deposits to universal life contracts, investment contracts and limited payment contracts are not included in revenue;
- negative cash balances are reported as liabilities;
- certain annuity related contracts give rise to embedded derivatives for GAAP. STAT does not recognize these embedded derivatives; and
- on a statutory basis only, the correction of immaterial prior period errors are recorded directly to surplus.

The Company's consolidated equity in accordance with GAAP was $2,874,598 and $2,609,008 as of December 31, 2019 and 2018, respectively. The Company's consolidated net income in accordance with GAAP was $95,622 and $92,763 for the years ended December 31, 2019 and 2018, respectively.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Company that materially affect financial reporting are summarized below.

(a) Use of Estimates

In preparing the statutory financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statutory financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most significant estimates and assumptions include those used in determining the liability for future policy benefits and claims, contingencies, provision for income taxes, deferred taxes, uncertain income tax positions and contingencies, and valuation of and impairment losses on investments. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the date of the statutory financial statements. Management believes the amounts provided are appropriate.

(b) Nonadmitted Assets

Certain assets designated as "nonadmitted assets" (principally furniture, equipment, certain deferred taxes, and certain receivables) have been excluded from total admitted assets by a direct charge to surplus.

(c) Investments

Investment Income
Interest and dividends on investments is recorded within investment income. Realized capital gains and losses are reported net of federal income tax and transfers to the interest maintenance reserve ("IMR"). Realized gains (losses) on the sale of investments are determined on the basis of specific security

identification on the trade date. Unrealized gains and losses on investments are charged or credited to unassigned surplus in accordance with NAIC rules.

Dividends are recorded on the ex-dividend date and interest is accrued as earned using an effective yield method giving effect to amortization of premiums and accretion of discounts.

Bonds
Bonds are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC Investment Analysis Office. Bonds are rated as "1" (highest quality), "2" (high quality), "3" (medium quality), "4" (low quality), "5" (lowest quality, not in or near default) or "6" (lowest quality, in or near default). Bonds rated as categories 1 through 5 are reported in the financial statements at amortized cost using the modified scientific method. Bonds rated as category 6 are reported at the lower of amortized cost or fair value.

Mortgage-backed securities are generally stated at amortized cost and are amortized using anticipated prepayment assumptions based on a retrospective adjustment method that estimates prepayment activity by way of certain factors, including seasonality, current levels of interest rates, economic activity, and the term and age of the underlying collateral.

All securities defined as hybrid securities by the SVO are reported as bonds and are carried at amortized cost.

Preferred and Common Stocks
Preferred stocks rated by the SVO as categories 1-3 are reported at amortized cost. Those rated as categories 4-6 are reported at the lower of amortized cost or fair value.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO, and quoted market prices when information is not available from the SVO.

Investments in the Company's wholly owned insurance subsidiaries are carried at audited statutory equity with changes in net assets, other than dividends declared, recognized as net unrealized capital gains or losses through surplus. Investments in the Company's special purpose financial captive reinsurers are carried as follows: MONT and KENW are carried at zero due to the fact that the State of Vermont has granted a permitted practice to allow the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus was to fall below the level of all capital contributions then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. The investment in SUNR is carried at the value of SUNR's statutory surplus, adjusted for the prescribed practice described in Note 2. Investments in wholly owned noninsurance subsidiaries are carried at the value of their underlying audited GAAP basis equity, adjusted for nonadmitted assets, based on the significance of their operations beyond holding assets for the use of the Company. The Company does not record the investment in ONII, a noninsurance subsidiary, as it does not have audited GAAP financial statements for 2019 and 2018.

Management reviews its investments in subsidiary, controlled, and affiliated entities for impairment based upon if it is probable that the Company will be able to recover the carrying amount of the investment or if there is evidence indicating the inability of the investee to sustain earnings, which would justify the carrying amount of the investment.

Management regularly reviews its bond and stock portfolios in order to evaluate the necessity to record impairment losses for other-than-temporary declines in estimated fair value of investments. See Note 6 for management's description and analysis of the portfolio.

Mortgage Loans on Real Estate
Mortgage loans on real estate are recorded at the unpaid principal balance of the loan, net of valuation allowance and unamortized discount. Management periodically reviews the portfolio for impairment and obtains updated valuations of the underlying collateral as needed. Significant changes (increase or decrease) in the net value of the collateral are adjusted through the valuation allowance; however, the net carrying value amount of the loan shall not exceed the recorded investment in the loan.

Loans in foreclosure and loans considered impaired as of the statutory statement of admitted assets, liabilities, and capital and surplus date are placed on nonaccrual status and written down to the estimated fair value, net of estimated selling costs, of the underlying property to derive a new cost basis. Interest received on nonaccrual status mortgage loans on real estate is included in net investment income in the period received.

Commercial mortgages can be restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case by case basis to evaluate whether a TDR has occurred and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral.

Real Estate
Real estate, occupied by the Company and held for the production of income, is generally carried at depreciated cost, net of encumbrances. Accumulated depreciation was $5,133 and $4,103 as of December 31, 2019 and 2018, respectively.

The Company occupies less than 50% of buildings held for the production of income.

Contract Loans
Contract loans are stated at unpaid principal balances. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate. Generally, interest is capitalized on the policy's anniversary date.

Cash, Cash Equivalents and Short-term Investments
Short-term investments are carried at amortized cost and cash equivalents are carried at fair value. Cash equivalents are short-term and highly liquid investments with original maturities of three months or less and short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at time of purchase.

Derivatives
The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity product. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. These derivative instruments are carried at estimated fair value. The realized changes in fair value are recorded in net realized capital losses, net of interest maintenance reserve and income taxes. The unrealized changes in fair value are recorded in unassigned surplus.

The Company enters into derivative transactions that meet the criteria for hedge accounting. The Company purchased a foreign currency swap that meets the criteria for hedge accounting and is accounted for consistent with the underlying hedged asset. The swap instrument is carried at estimated fair value and changes in estimated fair value of the swaps are recorded as unrealized capital gains or losses in unassigned surplus.

Other Invested Assets
Other invested assets primarily consist of an inter-company surplus note, accounted for at amortized cost less any portion deemed to be nonadmitted.

Securities Lending Program
The Company participates in an indemnified securities lending program administered by an unaffiliated agent in which certain portfolio holdings are loaned to third parties. The borrower must deliver to the Company's agent collateral having a market value equal to at least 102% and 105%, respectively, of the market value of the domestic and foreign securities loaned. The collateral received by the Company's agent from the borrower to secure loans on behalf of the Company must be in the form of cash, securities issued or guaranteed by the U.S. government or its agencies, or a bank letter of credit or equivalent obligation as may be pre-approved by the Company. The Company monitors the estimated fair value of the loaned securities on a daily basis and additional collateral is obtained as necessary. Securities lending reinvested collateral assets and the corresponding liability, payables for securities lending, are recorded on the statutory statements of admitted assets, liabilities, and capital and surplus. Income and expenses associated with securities lending transactions are reported within net investment income.

(d) Segregated Special Surplus Fund

The Company has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with a reinsurance agreement undertaken during the year. The assets are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 200% of its authorized control level risk based capital. The segregated special surplus fund is held in a custodial account. At December 31, 2019, the required amount to be segregated was $35,826 recorded in the aggregate write-ins for special surplus funds on the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus and the Statutory Statements of Changes in Capital and Surplus. Total value of the custodial account was $36,437, which was invested in the following assets at December 31, 2019:

		2019
Cash and cash equivalents	$	3,090
Securities available-for-sale, at fair value:		
Fixed maturity securities		25,579
Mortgage loans on real estate, net		7,768
Total custodial account value	$	36,437

(e) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. Separate account liabilities for individual annuities issued in 1992 and after represent contract holders' funds adjusted for possible future surrender charges in accordance with the Commissioner's Annuity Reserve Valuation Method ("CARVM"). The difference between full account value and CARVM is reflected in transfers to separate accounts due or accrued, net, as prescribed by the NAIC, on the statutory statements of admitted assets, liabilities and capital and surplus. The annual change in the difference between full account value and CARVM is reflected in the statutory statements of income as part of the net transfers from separate accounts. The Company's revenue reflects fees charged to the separate accounts including administrative services and risks assumed and for the activity related to guaranteed contracts, which are riders to existing variable annuity contracts that are guaranteed by the Company's general account assets.

Under accounting procedures prescribed by the NAIC, the Company records seed money contributed to or withdrawn from variable annuity separate accounts through a direct charge or credit to surplus. Seed money held in separate accounts represents the difference between separate account assets and liabilities. The change in separate account surplus, developed through seed money contributions, withdrawals, and unrealized gains and losses generated thereon, is also recorded directly to surplus, without providing for federal income tax, or income tax reductions. Dividend and capital gain distributions on seed money are recorded as other income in the statutory statements of income.

Premium income, benefits and expenses of the separate accounts are included in the statutory statements of income with the offset recorded in net transfers from separate accounts in the statutory statements of income. Investment income and realized capital gains (losses) on the assets of separate accounts, other than seed money, accrue to contract holders and are not recorded in the statutory statements of income. Unrealized capital gains (losses) on assets of separate accounts accrue to contract holders and, accordingly, are reflected in the separate account liability to the contract holder.

(f) Revenues and Expenses

Premiums are credited to revenue over the premium paying period of the policies. Individual accident and health (disability) premiums are earned ratably over the terms of the related contracts or policies. Universal life and annuity premiums are recognized as revenue when received. Amounts received related to deposit contracts with mortality or morbidity risk, such as traditional life products and certain annuities with life contingencies, are recorded as premiums. Amounts received as payment for deposit contracts that do not incorporate any mortality or morbidity risk, including those annuities without life contingencies and guaranteed investment contracts, are not reported as revenue, but are recorded directly to the appropriate policy reserve account.

Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred.

(g) Reserves for Future Policy Benefits

Life Policies and Contracts
Reserves for traditional life products are based on statutory mortality and interest requirements without consideration for withdrawals. The mortality table and interest assumptions currently being used for the majority of new policies issued are the 2001 Commissioners Standard Ordinary ("CSO") table with an interest rate of 3.5%. With respect to in force policies, the mortality tables and interest assumptions used are primarily the 1941 CSO table with interest rates of 2.25% to 2.5%, the 1958 CSO table with interest rates of 1.75% to 4.5%, the 1980 CSO table with interest rates of 3.0% to 5.5%, the 2001 CSO table with interest rates of 3.0% to 4.0%, and the 2017 CSO table with an interest rate of 3.5%.

The Company waives the deduction of deferred fractional premium at death and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Reserves are computed using continuous functions to reflect these practices.

The method used in valuation of substandard policies is to hold 50% of the annual substandard premium as the substandard reserve in addition to the reserve calculated using standard mortality.

The Company had $6,695,902 and $4,540,932 of individual life insurance in force as of December 31, 2019 and 2018, respectively, and $1,100,703 and $478,968 of related reserves as of December 31, 2019 and 2018, respectively, for which the gross premiums were less than the net premiums according to the standard valuation set by the Department.

Tabular interest, tabular less actual reserves released, and tabular cost for all life contracts are determined in accordance with NAIC Annual Statement instructions. Traditional life, permanent and term products use a formula that applies a weighted average interest rate determined from a seriatim valuation file to the mean average reserves.

Accident and Health (Disability) Policies
The aggregate reserves for individual accident and health (disability) policies consist of active life reserves, disabled life reserves and unearned premium reserves. The active life reserves are calculated on a two year preliminary term basis at interest rates of 3.0% to 6.0%, using either the 1964 Commissioner's Disability

Table (policies issued prior to 1990) or the 1985 Commissioner's Individual Disability Table A (policies issued after 1989). The disabled life reserves are calculated using either the 1985 Commissioner's Individual Disability Table C, at interest rates of 3.5% to 5.5% (claims incurred after 1989) or the 1964 Commissioner's Disability Table, at an interest rate of 3.5% (claims incurred prior to 1990).

Annuity and Other Deposit Funds
The Company issued traditional variable annuity contracts through its separate accounts, for which investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

The Company also issued nontraditional variable annuity contracts in which the Company provides various forms of guarantees/riders to benefit the related contract holders.

The Company has five main types of rider benefits offered with individual variable annuity contracts:

- guaranteed minimum death benefit ("GMDB");
- guaranteed minimum income benefit ("GMIB");
- guaranteed minimum accumulation benefit ("GMAB");
- guaranteed minimum withdrawal benefit ("GMWB"); and
- guaranteed lifetime withdrawal benefit ("GLWB").

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Actuarial Guideline 43 ("AG43") interprets the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. AG43 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The guideline applies the principles of asset adequacy analysis directly to the risks associated with these products and guarantees. The AG43 liability is evaluated under both standard and stochastic scenarios net of currently held applicable hedge asset cash flows. The Company holds the reserve liability valuation at the higher of the standard or stochastic scenario values. These guarantee reserves are included in the general account reserves.

Actuarial Guideline 35 ("AG35") interprets the standards for the valuation of reserves for fixed indexed annuities. AG35 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The reserves for both the base policy and the rider guarantees and are included in general account liabilities.

The reserves and deposit liabilities for individual deferred annuity products have been established based on the participants' net contributions, policy term, interest rates and various contract provisions. The average interest rates credited on these annuity policies were 2.77% and 2.77% for the years ended December 31, 2019 and 2018, respectively. The reserves for individual annuity policies issued after 1991 have been adjusted for possible future surrender charges in accordance with CARVM.

Reserves for ordinary (individual) immediate annuities are determined primarily using the 1937 Standard Annuity Table (interest rate of 11.25%), the 1971 Individual Annuity Mortality Table (interest rate of 11.25%), the 1983 Annuity Table (interest rates of 6.25% to 11.00%), the Annuity 2000 Table (interest rates of 4.00% to 7.00%), or the IAR2012 Mortality Table (interest rates of 2.25% to 4.25%). Group immediate annuity reserves are based primarily on the 1971 Group Annuity Mortality Table (interest rates of 11% to 11.25%), the 1983 Group Annuity Mortality Table (interest rates of 6.25% to 9.25%) or the 1994 Group Annuity Mortality Table (interest rates of 3.00% to 7.00%).

(h) Participating Business/Policyholders' Dividends

Participating business, which refers to policies that participate in profits through policyholders' dividends, represents 20.5% and 19.8% of the Company's ordinary life insurance in force at December 31, 2019 and 2018, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholders' funds in the statutory statements of admitted assets, liabilities and capital and surplus. The policyholder dividends incurred are recorded in dividends to policyholders in the statutory statements of income.

Policyholder dividends are approved annually by the Company's board of directors based upon the amount of distributable surplus. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity, and expense experience for the year, as well as management's judgment as to the appropriate level of statutory surplus to be retained by the Company.

(i) Asset Valuation Reserve/Interest Maintenance Reserve

In compliance with statutory requirements, the Company maintains an asset valuation reserve ("AVR") and an IMR as prescribed by the NAIC.

The AVR is a formula reserve, which addresses specific asset risk areas and consists of the default component and the equity component. The default component provides for future credit related losses on bonds including corporate debt securities, preferred stocks, derivative instruments, net of reinsurance, and mortgages. The equity component covers all types of equity investments. The two components are designed to address the default and equity risks of the Company's assets by calculating maximum reserve targets and controlling the flow of the reserve from and into surplus. The change in AVR is charged or credited directly to unassigned surplus.

The IMR minimizes the statutory statements of income impact of interest rates related realized capital gains and losses. Realized capital gains and losses for all types of bonds that result from changes in the overall level of interest rates are removed from the net realized capital gains (losses) amount and credited or charged to the liability for IMR. This liability is amortized into income over the remaining life of each bond based on a seriatim method.

Credit related other-than-temporary impairment losses are recorded through the AVR; interest related other-than-temporary impairment losses are recorded through the IMR.

(Dollars in thousands)

(j) Reinsurance

Reinsurance is an agreement by which a reporting entity transfers all or part of its risk under a contract to another reporting entity. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, including those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

Accounting for reinsurance requires the use of significant management estimates and assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the strength of counterparties to its reinsurance agreements. Reinsurance does not discharge the Company from its primary liability to policyholders and to the extent that a reinsurer should be unable to meet its obligations, the Company would be liable to policyholders.

Premium income, reserves for future policy benefits, and liabilities for contract claims are stated net of reinsurance. Premiums, benefits and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company records a receivable for reinsured benefits paid and reduces policyholders' reserves for the portion of insurance liabilities that are reinsured. Commissions and expense allowances on reinsurance ceded are recorded as revenue.

(k) Federal Home Loan Bank ("FHLB") Agreements

The Company is a member of the FHLB of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts. The Company had outstanding deposit contracts of $350,000 as of December 31, 2019 and December 31, 2018 which are included in annuity and other deposit funds on the statutory statements of admitted assets, liabilities, and capital and surplus. The Company uses the deposits for the purpose of additional spread income.

FHLB capital stock purchased at December 31 is indicated in the table below and is only in the general account. FHLB capital stock is included in common stocks at fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

		2019	2018
Membership stock - Class B	$	30,000	25,000
Activity stock		11,552	11,552
Total	$	41,552	36,552
Actual or estimated borrowing capacity as determined by the insurer	$	577,615	577,615

(Dollars in thousands)

Membership stock eligible and not eligible for redemption at December 31, 2019 is as follows:

Membership stock		Current year total	Not eligible for redemption	Less than 6 months	6 months to less than 1	1 to less than 3 years	3 to 5 years
Class B	$	30,000	30,000	—	—	—	—

Total collateral pledged to FHLB as of December 31 is indicated in the table below and is only in the general account.

		2019	2018
Total collateral pledged:			
Fair value	$	394,748	399,899
Carrying value		380,273	401,075
Total borrowing		350,000	350,000

The maximum amount pledged as of December 31 is as follows:

		2019	2018
Maximum amount pledged:			
Fair value	$	400,134	404,638
Carrying value		400,032	408,075
Total borrowing		350,000	350,000

Borrowing from FHLB as of December 31 is indicated in the table below and is only in the general account.

2019		General account	Funding agreements reserves established
Funding agreements	$	350,000	350,000
2018			
Funding agreements	$	350,000	350,000

The maximum amount available during the reporting period ended December 31, 2019 is indicated in the table below and is only applicable to the general account.

		2019
Funding agreements	$	350,000

The Company has no prepayment obligations under debt, funding agreements or other agreements.

(l) Income Taxes

Total federal income taxes are based upon the Company's best estimate of its current and deferred tax liabilities. Current tax expense is reported on the statutory statements of income as provision for federal income tax expenses if resulting from operations, and within net realized capital gains (losses) if resulting from capital transactions. Changes in the balance of deferred taxes, which provided for book versus tax temporary differences, are subject to limitations and are reported on various lines within surplus. Limitations of deferred income taxes are recorded on the change in nonadmitted assets line, whereas, deferred taxes associated with net unrealized capital gains (losses) are shown within that caption on a net basis. Accordingly, the reporting of temporary differences, such as reserves and policy acquisition costs, and permanent differences, such as dividend received deduction and tax credits, results in effective tax rates that differ from the federal statutory tax rate.

The Company is included as part of the life/non-life consolidated federal income tax return of its ultimate parent, ONMH. The method of allocation of tax among the consolidated affiliates is subject to a written agreement and is based on the affiliates' separate company taxable income. Net operating losses and realized losses are settled when utilized. Intercompany settlements are made at least quarterly.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act. See Note 4 for a description of the new tax law.

(m) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred. On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's statutory financial statements.

(n) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans.

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality. Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's statutory financial statements.

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsors a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions are based on the net earnings of the Company. Accordingly, the Company recognizes compensation cost for current contributions.

(o) Equity and Undistributed Income of Subsidiaries

Dividends received by the Company from its affiliates are recognized in investment income provided that the dividend is not in excess of undistributed accumulated earnings.

(p) New Accounting Standards

In November 2018, the NAIC adopted revisions to SSAP No. 51R, *Life Contracts*, SSAP No. 52, *Deposit-Type Contracts*, and SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which were effective on December 31, 2019 and applied on a prospective basis. The revisions added product level granularity to the existing disclosures for annuity actuarial reserves and deposit-type liabilities by withdrawal characteristics, and added similar disclosures to life products. These revisions did not have an impact on the Company's financial statements; however, revised or new disclosures were included in Note 11.

In November of 2018, the NAIC issued SSAP No. 108, *Derivatives Hedging Variable Annuity Guarantees*, effective January 1, 2020. This guidance establishes statutory accounting principles to address certain, limited derivative transactions hedging variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity. Eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities. The Company has not yet evaluated the impact of this standard on its financial statements.

In November of 2017, the NAIC adopted modifications to SSAP No. 86 *Derivatives*. This guidance captures information on financing premium in derivative contracts in aggregate and requires disclosures in a narrative format. The adoption of this new guidance was immaterial.

In August of 2017, the NAIC adopted modifications to SSAP No. 26 *Bonds*. This guidance clarifies that recognized losses from other-than-temporary impairments shall be recorded entirely to the asset valuation reserve or the interest maintenance reserve in accordance with the Annual Statement instructions. The adoption of this guidance did not impact the Company's financial statements.

In June of 2017, the NAIC adopted modifications to SSAP No. 37 *Mortgage Loans*. This guidance clarifies the definition of a mortgage loan to include both "participant" and a "co-lender" within the definition of a mortgage loan. The adoption of this guidance did not have a material impact on the Company's financial statements.

The Company plans to adopt prospective principles based reserving for life contracts in 2020 and all applicable SSAP and Actuarial Guideline additions and updates, including the retrospective update to Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities.

(q) Subsequent Events

The Company has evaluated subsequent events through May 7, 2020, the date the statutory financial statements were available to be issued.

Subsequent to December 31, 2019, on March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, "the CARES ACT", was signed into legislation which includes tax provisions relevant to businesses that during 2020 could impact taxes related to 2018 and 2019. Some of the significant changes are reducing the interest expense disallowance for 2019 and 2020, allowing the five year carryback of net operating losses for 2018-2020, suspension of the 80% limitation of taxable income for net operating loss carryforwards for 2018-2020, and the acceleration of depreciation expense from 2018 and forward on qualified improvement property. The Company is required to recognize the effect on the financial statements in the period the law was enacted, which is 2020.

Subsequent to year end, the Company increased its borrowing capacity with the Federal Home Loan Bank of Cincinnati by approximately $215,000, had new borrowings of $100,000 and renewed borrowings of $50,000.

(4) Risks

The Company participates in an industry where there are risk factors that could have material adverse effects on the business and operating results. The following is a description of the various risk factors:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company's products, or additional unanticipated expenses in the pricing of its products.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, *Income Taxes*, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the President signs a bill into law.

The Act reduces the corporate income tax rate to 21 percent (previously 35 percent), effective January 1, 2018, for all corporations. The effects of the new legislation are recognized by adjusting the Company's deferred tax assets and/or deferred tax liabilities as of December 31, 2017. The effects of changes in tax laws or rates on deferred tax assets or deferred tax liabilities are allocated to capital and surplus and are reflected in the tax rate reconciliation in Note 15.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations may be designed to protect or benefit policyholders and thus affect the Company's operating results.

Changes in the tax treatment for corporate owned life insurance ("COLI") and bank owned life insurance ("BOLI") could impact the Company's ability to sell those products in the future or existing policies may be surrendered or allowed to lapse.

Increased assessments from guaranty associations may occur if there is an increase of impaired, insolvent or failed insurers in the jurisdictions in which the Company operates.

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 13% of total individual annuity reserves as of December 31, 2019 and 2018. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

Mortality Risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation may occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company attempts to reduce this risk through geographical diversification and the purchase of reinsurance.

Reinsurance Risk is the risk that the reinsurance companies, where the Company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into reinsurance contracts to cede a portion of its life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies it chooses to cede risk to, requiring collateral to support ceded reserves, and following up on any outstanding balances with reinsurance companies.

Ratings Risk is the risk that rating agencies change their outlook or rating of the Company. If such ratings were lowered significantly relative to our competitors, our ability to market products to new customers could be harmed as well as the potential loss of existing customers. The Company monitors its Risk-Based Capital ("RBC") and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Cyber Risk is the potential for information and systems to be vulnerable to adverse events, such as breaches, thefts, compromised integrity, damage, fraud, or business disruption, caused by internal, external or third parties. The loss of confidentiality, integrity or availability for information and systems could disrupt operations, result in the loss of business, materially affect profitability and negatively impact the Company's reputation. The Company utilizes a defense in depth approach to physically, administratively and technically mitigate cyber risk. Multiple layers of security controls provide redundancy in the event a security control fails or a vulnerability is exploited. Despite these efforts, there is still a risk a cyber incident could happen.

Credit Risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivative counterparties, default on their contractual obligations or experience adverse changes that would affect the Company. The Company attempts to minimize the adverse impact of this risk by monitoring the portfolio diversification, the Company's exposure to impairment, collectability of the loans, and the credit quality of reinsurers and derivative counterparties, as well as, in many cases, requiring collateral, lines of credit or assets in trust to manage credit exposure.

Interest Rate Risk is the risk that interest rates will change and impact the valuation of the bond investments. A change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. To the extent that liabilities come due more quickly than assets mature, an insurer would have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Equity Market Risk is the risk of loss due to declines in the equity markets in which the Company participates. A decline in the stock market will affect the value of equity securities and the contract value of the Company's individual variable annuity contracts which offer guaranteed benefit riders as well as fixed indexed annuity contracts. Losses in the equity market could result in declines in separate account assets and assets under management thus affecting investment management fees revenue.

The Company attempts to minimize the adverse impact of equity market risk by monitoring the diversification of the Company's investment portfolio and through reinsurance arrangements with third-parties. The Company uses equity index put options, equity index call options, equity swaps and interest rate swaptions to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities.

Liquidity Risk is the risk that the Company may not have the ability to sell certain investments to meet obligations of the Company.

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, the Company manages the BOLI growth to not exceed a specified percentage of general account assets to minimize the risk of liquidity strain.

Investment Risk – see Note 6 for additional risks specific to the investment portfolio.

Coronavirus (COVID-19)
The Company is exposed to potential risk associated with the recent outbreak of Coronavirus ("COVID-19"). As this is a currently fluid situation, the impact of a widespread COVID-19 outbreak is difficult to assess and predict, and the Company is closely monitoring the situation through the Hamilton County Public Health office, as well as the Centers for Disease Control ("CDC"). 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.

Subsequent to December 31, 2019, equity and financial markets have experienced significant volatility and interest rates have continued to decline due to the COVID-19 pandemic. The Company is currently in the process of determining the potential long-term impact of the pandemic to its operations and financial condition.

(5) Fair Value Measurements

Included in various investment related line items in the statutory financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or for certain bonds and preferred stock when carried at the lower of cost or market.

Fair Value Hierarchy
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in circumstances.

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the statutory statements of admitted assets, liabilities, and capital and surplus into a three level hierarchy based on the priority of the inputs to the valuation technique in accordance with SSAP No. 100, *Fair Value Measurements*. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets and liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include cash, cash equivalents and short-term investments, separate account assets and exchange traded derivatives.

- **Level 2 –** Fair value is based on significant inputs, other than quoted prices included in Level 1 that are observable in active markets or that are derived principally from or corroborated by observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, and private placement securities, derivatives, common stocks, securities lending reinvested collateral and cash equivalent securities.

- **Level 3 –** Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management's best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain corporate debt, asset-backed or mortgage-backed securities, and derivative securities.

(Dollars in thousands)

The following tables present the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31:

		Level 1	Level 2	Level 3	Total
2019					
Assets:					
Investments:					
Bonds	$	—	278	—	278
Common stocks		—	41,721	—	41,721
Cash, cash equivalents and short-term investments		359,332	38,067	—	397,399
Derivatives		98	111,623	—	111,721
Securities lending reinvested collateral assets		—	172,498	—	172,498
Other assets:					
Separate account assets		19,255,771	—	—	19,255,771
Total assets	$	19,615,201	364,187	—	19,979,388
Liabilities:					
Other liabilities:					
Derivatives	$	2,143	56,756	—	58,899
Total liabilities	$	2,143	56,756	—	58,899

		Level 1	Level 2	Level 3	Total
2018					
Assets:					
Investments:					
Bonds	$	—	196	—	196
Common stocks		—	38,406	—	38,406
Cash, cash equivalents and short-term investments		327,430	—	—	327,430
Derivatives		6,906	100,158	—	107,064
Securities lending reinvested collateral assets		—	230,305	—	230,305
Other assets:					
Separate account assets		18,883,485	—	—	18,883,485
Total assets	$	19,217,821	369,065	—	19,586,886
Liabilities:					
Other liabilities:					
Derivatives	$	2,866	—	—	2,866
Total liabilities	$	2,866	—	—	2,866

(Dollars in thousands)

The carrying amount and the NAIC estimated fair value of all financial instruments were as follows as of December 31. The valuation techniques used to estimate these fair values are described below.

2019	Carrying amount	NAIC estimated fair value	Fair value hierarchy level: Level 1	Level 2	Level 3
Assets:					
Investments:					
Bonds	$ 5,382,681	5,654,920	10,568	5,590,437	53,915
Preferred stocks	5,101	5,759	—	5,759	—
Common stocks, other than investments in affiliates	41,721	41,721	—	41,721	—
Mortgage loans on real estate	930,632	956,016	—	—	956,016
Contract loans	744,593	829,205	—	—	829,205
Cash, cash equivalents and short-term investments	397,382	397,399	265,649	38,067	—
Derivatives	111,721	111,721	98	111,623	—
Other invested assets	251,659	257,288	—	85,986	171,302
Securities lending reinvested collateral assets	172,498	172,503	—	172,503	—
Other assets:					
Separate account assets	19,255,771	19,255,771	19,255,771	—	—
Liabilities:					
Guaranteed investment contracts	$ 511,969	497,711	—	497,711	—
Individual deferred annuities	629,201	625,599	—	625,599	—
Immediate and other annuity deposits	1,398,661	1,388,538	—	1,388,538	—
Other policyholder funds	142,827	142,827	142,827	—	—
Derivatives	58,899	58,899	2,143	56,756	—
Separate account liabilities	19,255,771	19,255,771	19,255,771	—	—

(Dollars in thousands)

2018		Carrying amount	NAIC estimated fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets:						
Investments:						
Bonds	$	7,018,143	7,046,661	10,512	6,998,851	37,298
Preferred stocks		18,292	17,954	—	17,954	—
Common stocks, other than investments in affiliates		38,406	38,406	—	38,406	—
Mortgage loans on real estate		859,830	854,877	—	—	854,877
Contract loans		638,824	677,219	—	—	677,219
Cash, cash equivalents and short-term investments		327,430	327,430	327,430	—	—
Derivatives		107,064	107,064	6,906	100,158	—
Other invested assets		76,570	90,065	—	90,065	—
Securities lending reinvested collateral assets		230,305	230,305	—	230,305	—
Other assets:						
Separate account assets		18,883,485	18,883,485	18,883,485	—	—
Liabilities:						
Guaranteed investment contracts	$	541,154	514,763	—	514,763	—
Individual deferred annuities		1,681,087	1,663,862	—	1,663,862	—
Immediate and other annuity deposits		1,256,535	1,256,678	—	1,256,678	—
Other policyholder funds		146,462	146,462	146,462	—	—
Derivatives		2,866	2,866	2,866	—	—
Separate account liabilities		18,883,485	18,883,485	18,883,485	—	—

Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of SSAP No. 100, *Fair Value Measurements*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

The Company has policies and guidelines that establish valuation methodologies and consistent application of such methodologies. These policies and guidelines provide controls around the valuation process. These controls include appropriate review and analysis of investment prices against market activity or price variances, review of price source changes, and review of methodology changes.

The following is a discussion of the methodologies used to determine estimated fair values for the financial instruments and policy reserves listed in the above tables:

Bonds – The estimated fair value of bonds is based on market prices published by the SVO, where available. Otherwise, the fair value of bonds is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities. The Company classifies these bonds as Level 1 assets.

When there are no recent reported trades, the Company uses third party pricing services that use matrix or model processes to develop a security price using future cash flow expectations and collateral performance discounted at an estimated market rate. For the pricing of asset-backed and mortgage-backed securities, the models include estimates for future principal prepayments based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Since these securities have been priced using market observable inputs that are obtained by the independent pricing services, the Company has classified these bonds as Level 2 assets.

Bonds not priced by independent services are generally priced using an internal pricing matrix. The internal pricing matrix is developed by obtaining spreads for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular bond to be priced using the internal matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that bond. The estimated market yield is then used to estimate the fair value of the particular bond. Since the inputs used for the internal pricing matrix are based on observable market data, the Company has classified these fair values within Level 2.

In some instances, the independent pricing service will price securities using independent broker quotations from market makers and other broker/dealers recognized to be market participants, which utilize inputs that may be difficult to corroborate with observable market data. These bonds are classified as Level 3 assets.

Preferred stocks – The estimated fair values of preferred stocks are determined from market prices published by the SVO. The Company has classified these fair values as Level 2 as they are priced using market observable inputs.

Common stocks – The Company's primary common stock holding is FHLB stock which is carried at par, which approximates fair value. The FHLB stock is not traded on an active market and is classified as a Level 2 asset.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO or quoted market prices when fair market values are not available from the SVO. The Company has classified these other common stock fair values as Level 2 as they are priced using market observable inputs.

Cash, cash equivalents and short-term investments – Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash and cash equivalents are comprised of money market funds, bank deposits, and commercial paper.

Short-term investments are considered Level 2 since they are short-term, highly liquid investments that are not traded on an active market but are both a) readily convertible to known amounts of cash, and b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. These short-term investments are recorded at carrying value, which approximates fair value since they are so close to maturity.

Derivatives – The Company enters into long-term investments comprised of equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity and fixed indexed annuity products. The equity futures and currency futures are exchange traded derivatives and the fair value is based on an active market quotation. The Company has classified the fair values of the exchange traded derivatives as Level 1. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. These derivative assets are classified as Level 2 assets.

Securities lending reinvested collateral assets – Securities lending reinvested collateral is considered Level 2 for the purposes of our fair value classification since they are short-term money market funds that are only available to securities lending customers and are not traded on an active market.

Separate account assets – Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the statutory statement of admitted assets, liabilities, and capital and surplus. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified separate account assets as Level 1 assets.

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has classified the fair value of mortgage loans using the discounted cash flow analysis as Level 3 since certain significant inputs such as credit rating are internal.

Contract loans – The fair value of policy loans is estimated using discounted cash flow calculations. The Company has classified these fair values as Level 3 since the expected life of the loan is based on internal assumptions.

Other invested assets – The Company's other invested assets include an affiliated surplus note. The fair value of the affiliated surplus note is determined by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments.

The Company has classified the fair value generally as Level 2 since the valuation inputs are based on market observable information.

The carrying amount reported in the statutory financial statements of unaffiliated joint ventures or partnership interests that have underlying characteristics of common stocks approximates fair value. The Company has classified these fair values as Level 2 since the valuation inputs are based on market observable information.

The carrying amount reported in the statutory financial statements of the Company's investment in SUNR, an affiliated subsidiary, was $171,302. This amount is included in Other invested assets at December 31, 2019 and the Company has classified the fair value as Level 3 since the valuation inputs are not based on market observable information.

Deferred and immediate annuity and investment contracts – The fair value of the Company's liabilities under investment contracts is disclosed using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Interest rates used are similar to currently offered contracts with maturities consistent with those remaining for the contracts being valued. The Company has classified these fair values as Level 2 since the inputs are market observable.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the statutory financial statements for these instruments approximates their estimated fair value. The Company has classified these amounts as Level 1 since these amounts can be converted to cash by the policyholder.

Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Changes in the observability of significant valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the market observability of valuation inputs that are significant to the fair value measurement.

The Company had no transfers between levels in 2019 or 2018.

Common Stock of Subsidiaries

Common stock of unconsolidated non-life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONEQ, and ONESCO. At December 31, 2019 and 2018, no non-life insurance subsidiary's common stock exceeded 10% of the Company's admitted assets.

(Dollars in thousands)

Description of SCA Investment	12/31/2018 Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub 1 or Sub 2)	NAIC Response Received (Yes/No)	NAIC Valuation (Amount)	NAIC Disallowed Valuation Method (Yes/No)
ONEQ	$ 1,994	9/17/2019	Sub 2	Yes	$ 1,994	No
ONESCO	6,504	9/17/2019	Sub 2	Yes	6,504	No

Common stock of unconsolidated life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONLAC, NSLAC, and SUNR. The investment in SUNR was carried at the amount of capital contributions made by the Company at December 31, 2018 and was immaterial. Investments in the Company's special purpose financial captive reinsurers are carried differently. MONT and KENW are carried at zero due to the fact that the State of Vermont has allowed the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus were to fall below the level of all capital contributions, then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. At December 31, 2019 and 2018, none of the Company's unconsolidated life insurance subsidiaries' common stock exceeded 10% of the Company's admitted assets.

(6) Investments

Investment Risks and Uncertainties

Investments are exposed to various risks and uncertainties that affect the determination of estimated fair values, the ability to sell certain investments during strained market conditions, the recognition of impairments, and the recognition of income on certain investments. These risks and uncertainties include:

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other than temporary impairments; and
- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

Any of these situations are reasonably possible and could result in a charge to income in a future period.

The determination of impairments is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with each asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

(Dollars in thousands)

The recognition of income on certain investments, including asset-backed and mortgage-backed securities, is dependent upon certain factors such as prepayments and defaults, and changes in factors could result in changes in amounts to be earned.

Bonds and Stocks

Bonds and Stocks by Sector
The carrying value, gross unrealized gains and losses, and estimated fair values of investments in bonds and stocks at December 31 are as follows:

	2019			
	Carrying value*	**Gross unrealized gains**	**Gross unrealized losses**	**NAIC estimated fair value**
Bonds:				
U.S. government	$ 92,570	4,108	(115)	96,563
States, territories and possessions	564,504	23,397	(1,969)	585,932
Political subdivisions of states	7,605	410	—	8,015
Special revenue and assessment	389,967	15,398	(527)	404,838
Industrial and miscellaneous	4,325,035	238,416	(7,117)	4,556,334
Hybrid securities	3,000	238	—	3,238
Total bonds	$ 5,382,681	281,967	(9,728)	5,654,920
Preferred stocks	$ 5,101	658	—	5,759
Common stocks	$ 42,492	19	(790)	41,721

* Represents cost for Common stocks

(Dollars in thousands)

	2018			
	Carrying value*	**Gross unrealized gains**	**Gross unrealized losses**	**NAIC estimated fair value**
Bonds:				
U.S. government	$ 163,425	3,444	(3,852)	163,017
All other governments	16,940	—	(808)	16,132
States, territories and possessions	559,222	14,421	(3,660)	569,983
Political subdivisions of states	13,694	521	(2)	14,213
Special revenue and assessment	344,751	8,368	(4,698)	348,421
Industrial and miscellaneous	5,917,111	130,082	(115,309)	5,931,884
Hybrid securities	3,000	11	—	3,011
Total bonds	$ 7,018,143	156,847	(128,329)	7,046,661
Preferred stocks	$ 18,292	55	(393)	17,954
Common stocks	$ 37,680	1,291	(565)	38,406

* Represents cost for Common stocks

Included in the above tables under the caption U.S. government are bonds that were issued by agencies not backed by the full faith and credit of the U.S. government such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investments with an amortized cost of $8,574 and $8,708 were on deposit with various regulatory agencies as required by law as of December 31, 2019 and 2018, respectively.

Maturities of Bonds

The carrying value and the NAIC estimated fair value of bonds at December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration.

	Carrying value	**NAIC estimated fair value**
Due in one year or less	$ 435,498	457,524
Due after one year through five years	1,805,171	1,896,471
Due after five years through ten years	1,906,007	2,002,407
Due after ten years	1,236,005	1,298,518
Total	$ 5,382,681	5,654,920

(Dollars in thousands)

Continuous Gross Unrealized Losses for Bonds and Stocks
The following tables present the NAIC estimated fair value and gross unrealized losses of the Company's bonds (aggregated by sector) and preferred and common stocks in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

		Less than 12 months		12 months or longer		Total	
		NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2019							
Bonds:							
U.S. government	$	14,660	(57)	2,178	(58)	16,838	(115)
States, territories and possessions		115,741	(1,677)	2,708	(292)	118,449	(1,969)
Special revenue and assessment		34,669	(233)	21,621	(294)	56,290	(527)
Industrial and miscellaneous		301,704	(3,224)	75,955	(3,893)	377,659	(7,117)
Total bonds		466,774	(5,191)	102,462	(4,537)	569,236	(9,728)
Preferred and common stocks		–	–	141	(790)	141	(790)
Total	$	466,774	(5,191)	102,603	(5,327)	569,377	(10,518)

		Less than 12 months		12 months or longer		Total	
		NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2018							
Bonds:							
U.S. government	$	30,443	(385)	68,156	(3,467)	98,599	(3,852)
All other governments		16,132	(808)	–	–	16,132	(808)
States, territories and possessions		90,116	(1,423)	83,849	(2,237)	173,965	(3,660)
Political subdivisions of states		–	–	2,643	(2)	2,643	(2)
Special revenue and assessment		34,552	(379)	121,602	(4,319)	156,154	(4,698)
Industrial and miscellaneous		2,149,404	(67,616)	944,634	(47,693)	3,094,038	(115,309)
Total bonds		2,320,647	(70,611)	1,220,884	(57,718)	3,541,531	(128,329)
Preferred and common stocks		7,961	(239)	1,204	(719)	9,165	(958)
Total	$	2,328,608	(70,850)	1,222,088	(58,437)	3,550,696	(129,287)

(Dollars in thousands)

The tables below summarize the bonds by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

	Less than 12 months	12 months or longer	Total
2019			
99.9%-80%:			
U.S. government	$ (57)	(58)	(115)
States, territories and possessions	(1,677)	(292)	(1,969)
Special revenue and assessment	(233)	(294)	(527)
Industrial and miscellaneous	(3,224)	(2,352)	(5,576)
Below 80%:			
Industrial and miscellaneous	—	(1,541)	(1,541)
Total	$ (5,191)	(4,537)	(9,728)

	Less than 12 months	12 months or longer	Total
2018			
99.9%-80%:			
U.S. government	$ (385)	(3,467)	(3,852)
All other governments	(808)	—	(808)
States, territories and possessions	(1,423)	(2,237)	(3,660)
Political subdivisions of states	—	(2)	(2)
Special revenue and assessment	(379)	(4,319)	(4,698)
Industrial and miscellaneous	(66,369)	(43,673)	(110,042)
Below 80%:			
Industrial and miscellaneous	(1,247)	(4,020)	(5,267)
Total	$ (70,611)	(57,718)	(128,329)

Evaluation of Other Than Temporarily Impaired Investments
Management regularly reviews its bond and stock portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in fair value of investments.

An analysis is prepared which focuses on the issuer's ability to service its debts and the length of time and extent the bond has been valued below cost. This review process includes an assessment of the credit quality or an assessment of the future cash flows of the identified investment in the portfolio.

For any securities identified in the review of the portfolio, the Company considers additional relevant facts and circumstances in evaluating whether the security is other than temporarily impaired ("OTTI"). Relevant facts and circumstances that may be considered include:

- comparison of current estimated fair value of the security as compared to cost;

- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer's key financial ratios based upon the issuer's financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;
- the Company's intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity investments, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

In addition to the above, for certain securitized financial assets with contractual cash flows, including loan-backed and structured securities, the Company periodically evaluates the securities using the currently estimated cash flows, including new prepayment assumptions using the retrospective adjustment methodology. If the evaluation based on currently estimated cash flows results in discounted estimated future cash flows less than the book value, an OTTI is considered to have occurred. If the Company has the ability to hold and no intent to sell the security, the impairment amount recognized as a realized loss would be the difference between the amortized cost and the discounted cash flows.

For bonds that are OTTI and securities where the Company intends to sell or does not have the ability to hold the security, the realized loss would equal the difference between the amortized cost and its fair value at the statutory statements of admitted assets, liabilities, and capital and surplus date.

For industrial and miscellaneous securities, the Company evaluated the financial performance of the issuer based upon credit performance and investment ratings, and expects to recover the entire amortized cost of each security.

As of December 31, 2019, investments in loan-backed and structured securities for which an OTTI has not been recognized in earnings and which were in an unrealized loss position had a fair value of $264,444. Loan-backed and structured securities in an unrealized loss position for less than 12 months had a fair value of $227,881 and unrealized losses of $2,039. Loan-backed and structured securities in an unrealized loss position for greater than 12 months had a fair value of $36,563 and unrealized losses of $417. These loan-backed and structured securities were primarily categorized as industrial and miscellaneous.

(Dollars in thousands)

Current Year Evaluation
The Company has concluded that securities in an unrealized loss position as of December 31, 2019 and 2018 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold these investments until recovery of estimated fair value or amortized cost and for equity investments, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses decreased from December 31, 2018 to December 31, 2019 due to tighter credit spreads and decreased interest rates. Accordingly, no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage loans consist of commercial mortgage loans originated in the United States. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of the commercial mortgage loan portfolio as of December 31, 2019 and 2018 were $930,632 and $859,830, respectively.

The minimum and maximum gross lending rates for commercial mortgage loans for the years ended December 31 were:

	2019	2018
Minimum	3.8%	3.9%
Maximum	5.1%	5.3%

Concentration of Credit Risk
The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. The Company's portfolio is collateralized by properties located in the United States. Total loans in any state did not exceed 17.3% as of December 31, 2019 or 2018.

The states that exceed 10% of the total loan portfolio were as follows as of December 31:

	2019	2018
Ohio	$ 137,753	148,611
California	117,533	100,155
Texas	113,405	104,983

Portfolio Analysis
The Company performs an annual performance review of the commercial mortgage loan portfolio and assigns a rating based on the property's loan-to-value ("LTV"), age, mortgage debt service coverage ("DSC") and occupancy. This analysis helps identify loans that may experience difficulty. If a loan is not paying in accordance with contractual terms, it is placed on a watch list and monitored through inspections and contact with the property's local representative. In addition, as part of portfolio monitoring, the Company physically inspected nearly 100% of the properties in the portfolio. The LTV and DSC ratios are applied consistently across the entire commercial mortgage loan portfolio.

(Dollars in thousands)

The following table summarizes our commercial mortgage loan portfolio, net of allowance, LTV ratios and DSC ratios using available data as of December 31. The ratios are updated as information becomes available.

	DSC						
LTV	**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2019							
0% - 50%	$ 188,656	47,845	103,410	98,764	43,610	4,064	486,349
50% - 60%	30,622	11,576	69,841	60,525	33,348	843	206,755
60% - 70%	—	—	20,387	106,108	10,340	3,002	139,837
70% - 80%	—	—	3,899	21,224	23,648	4,078	52,849
80% and greater	—	—	—	4,922	15,458	24,462	44,842
Total	$ 219,278	59,421	197,537	291,543	126,404	36,449	930,632

	DSC						
LTV	**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2018							
0% - 50%	$ 154,291	54,500	105,266	92,760	31,660	7,776	446,253
50% - 60%	9,702	12,571	60,451	52,577	46,941	3,834	186,076
60% - 70%	—	23,636	23,164	44,808	29,797	7,936	129,341
70% - 80%	—	—	—	47,311	18,213	16,901	82,425
80% and greater	—	—	—	6,790	3,310	5,635	15,735
Total	$ 163,993	90,707	188,881	244,246	129,921	42,082	859,830

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. Our corporate policy directs that our LTV on new mortgages not exceed 75% for standard mortgages. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 75% in 2019 and 2018.

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the debt service coverage ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher debt service coverage ratio could indicate a better quality loan.

(Dollars in thousands)

Mortgage Loan Aging
The table below depicts the commercial mortgage loan portfolio exposure of the remaining balances (which equal the Company's recorded investment), by type, as of December 31:

		30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2019	$	—	—	—	—	930,632	930,632	—
2018	$	2,144	—	—	2,144	857,686	859,830	—

Performance, Impairment and Foreclosures
The Company had no mortgage loans in the process of foreclosure at December 31, 2019 and 2018. There were no mortgage loan write-downs in 2019 and 2018. The Company did not have an allowance for credit losses at December 31, 2019 or 2018.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the statutory statements of admitted assets, liabilities, and capital and surplus date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

The Company had no mortgage loans on nonaccrual status as of December 31, 2019 and 2018.

The Company did not have any significant troubled debt restructurings of mortgage loans during 2019 or 2018.

The Company had no recorded investments in and unpaid principal balance of impaired commercial loans at December 31, 2019 or 2018.

No mortgages were sold to ONFS in 2019 or 2018.

The Company has a mortgage loan receivable from ONFS of $22,482 and $23,257 as of December 31, 2019 and 2018, respectively.

The Company has other financing receivables with contractual maturities of one year or less such as reinsurance recoverables and premiums receivables. The Company does not record a valuation allowance for these items since the Company has not had any significant collection issues related to these types of receivables. The Company writes off the receivable if it is deemed to be uncollectible.

Securities Lending

As of December 31, 2019 and 2018, the Company received $172,498 and $230,305, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in securities lending reinvested collateral assets in the statutory statements of admitted assets, liabilities, and capital and surplus with a corresponding liability of payable for securities lending to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2019 and 2018. The estimated fair value of loaned securities was $168,640 and $223,155 as of December 31, 2019 and 2018, respectively.

(Dollars in thousands)

Insurer Self-Certified Securities

The following represents securities for which the Company does not have all the information required for the NAIC to provide an NAIC designation, but for which the Company is receiving timely payments of principal and interest. These securities are referred to as "5GI Securities."

	Number of 5GI Securities		Aggregate BACV		Aggregate Fair Value	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Bonds	$ 2	1	1,848	1,000	1,858	1,000

Net Realized Capital Gains (Losses) and Change in Unrealized Capital Gains (Losses)

The following is a summary of realized capital gains (losses) and the change in unrealized capital gains (losses), including realized losses for OTTI of investments, for the years ended December 31:

	Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2019			
Bonds[1]	$ 129,862	(3)	129,859
Common stocks	1,244	(29,687)	(28,443)
Derivative instruments	(5,333)	36,651	31,318
Other	(202)	34,475	34,273
Total	125,571	41,436	167,007
Less amount credited to interest maintenance reserve[2]	132,388	—	132,388
Net (losses) gains before tax	(6,817)	41,436	34,619
Taxes on investment losses/gains	1,882	(9,428)	(7,546)
Admitted deferred tax asset	—	9,428	9,428
Net (losses) gains after tax	$ (4,935)	41,436	36,501

[1] Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13.

[2] Included in this amount are impacts from the BOLI SPDA reinsurance treaty discussed in Note 13. $109,964 became a component of the initial deferred gain for this reinsurance treaty.

(Dollars in thousands)

		Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2018				
Bonds	$	1,531	(2,778)	(1,247)
Common stocks		691	2,223	2,914
Derivative instruments		(27,485)	5,376	(22,109)
Other		(641)	(555)	(1,196)
Total		(25,904)	4,266	(21,638)
Less amount credited to interest maintenance reserve		1,218	—	1,218
Net (losses) gains before tax		(27,122)	4,266	(22,856)
Taxes on investment losses/gains		(654)	(2,643)	(3,297)
Admitted deferred tax asset		—	2,643	2,643
Net (losses) gains after tax	$	(27,776)	4,266	(23,510)

Realized capital gains and losses, net of tax, for all types of bonds that result from changes in the overall level of interest rates are credited or charged to the IMR, and these capital gains or losses are amortized into income over the remaining period of time based on the original maturity date of the bond sold.

Realized capital losses on investments, as shown in the tables above, include write-downs for OTTI of $2,810 and $1,552 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, securities with a carrying value of $38,994 which had a cumulative write-down of $11,746 due to OTTI, remained in the Company's investment portfolio.

Included in the write-downs for OTTI are write-downs for OTTI on loan-backed and structured securities of $192 and $1,552 for 2019 and 2018, respectively. The table below lists each security that recognized OTTI impairment in 2019 due to the fact that the present value of the cash flows expected to be collected was less than the amortized cost basis of the securities:

CUSIP		Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI in Current Period	Amortized Cost After OTTI	Fair Value	Date of Financial Statement When Reported
690732AE2	$	2,993	1,935	1,058	1,935	1,935	3/31/2019
21075WBX2		201	138	63	138	192	6/30/2019
03072SLT0		2,181	2,104	76	2,104	2,101	12/31/2019
21075WCJ2		119	67	52	67	92	12/31/2019
65504LAN7		3,106	1,545	1,561	1,545	1,545	12/31/2019
Total	$	8,600	5,789	2,810	5,789	5,865	

(Dollars in thousands)

Sales of Bonds
Proceeds from sales of investments in bonds, excluding calls, during 2019 and 2018 were $954,114 and $662,441, respectively. Gross gains of $139,017 and $4,970, and gross losses of $6,218 and $2,564 were realized on those transactions in 2019 and 2018, respectively.

(7) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity products, such as the GMAB, GMWB, GMIB and GLWB, and in fixed indexed annuity products.

The following tables summarize the carrying value and notional amounts of the Company's derivative financial instruments as of December 31:

	Assets		Liabilities	
	Carrying value*	Notional amount	Carrying value**	Notional amount
2019				
Currency futures	$ 98	53,739	2,143	215,305
Equity puts	9	5,312	56,756	1,587,313
Equity index call options	50,225	1,827,082	—	—
Currency swap	1,177	9,038	—	—
Swaption	60,212	2,600,000	—	—
Total	$ 111,721	4,495,171	58,899	1,802,618
2018				
Equity futures	$ 5,679	244,536	—	—
Currency futures	1,227	30,689	2,866	265,613
Equity puts	57,604	870,360	—	—
Equity index call options	9,097	1,823,403	—	—
Currency swap	1,020	9,038	—	—
Swaption	32,437	2,600,000	—	—
Total	$ 107,064	5,578,026	2,866	265,613

* Included in derivatives
** Included in other liabilities

(Dollars in thousands)

Credit Risk

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments.

Because exchange traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records.

The Company manages its credit risk related to certain reinsurance contracts by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2019 and 2018, a non-affiliated reinsurer held assets in trust with an estimated fair value of $953,387 and $891,834, respectively, and a letter of credit of $178,888 and $299,602, respectively. As of December 31, 2019 and 2018, Sycamore Re, Ltd ("SYRE"), an affiliated reinsurer, held assets in trust with an estimated fair value of $7,564 and $7,406, respectively, and a letter of credit of $110,000 and $935,000, respectively.

For equity futures and currency futures, cash or an acceptable security is posted to the margin account whenever the Company has open derivatives positions to meet the initial margin maintenance requirement. Additional cash or securities are posted to the account if the margin balance is less than the maintenance margin requirement due to market movements. Conversely, the Company can request funds back if the Company has a margin surplus greater than the maintenance requirement.

(8) Deferred and Uncollected Life Insurance Premiums

Deferred and uncollected life insurance premiums are included in premiums and other considerations deferred and uncollected in the Company's statutory statements of admitted assets, liabilities, and capital and surplus. The table below summarizes these deferred and uncollected life insurance premiums, gross and net of loading for the years ended December 31:

	2019		2018	
	Gross	Net of loading	Gross	Net of loading
Ordinary new business	$ 15,503	2,831	15,259	3,083
Ordinary renewal	114,399	87,462	108,154	82,179
Total	$ 129,902	90,293	123,413	85,262

(Dollars in thousands)

(9) Separate Accounts

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. For the current reporting year, the Company reported assets and liabilities from variable individual annuities and variable group annuities.

In accordance with the State of Ohio procedures on approving items within the separate account, the separate account classification of the product is supported by the Ohio Statute 3907.15.

As of December 31, 2019 and 2018, the Company's separate account statement included legally insulated assets of $19,255,771 and $18,883,485, respectively. The assets legally insulated from the general account as of December 31, are attributed to the following:

		2019	2018
Variable individual annuities	$	18,406,791	17,918,169
Variable group annuities		815,371	935,832
Variable immediate annuities		33,609	29,484
Total	$	19,255,771	18,883,485

At December 31, 2019, there were no separate account securities lending arrangements.

In accordance with the products/transactions recorded within the separate account, some separate account liabilities are guaranteed by the general account. (In accordance with the guarantees provided, if the investment proceeds are insufficient to cover the rate of return guaranteed for the product, the policyholder proceeds will be remitted by the general account.)

As of December 31, 2019, the general account of the Company had a maximum guarantee for separate account liabilities of $1,610.

To compensate the general account for the risk taken, the separate account has paid risk charges as follows for the past five years:

		Risk charges
2019	$	230,543
2018		248,184
2017		244,227
2016		230,772
2015		213,087

As of December 31, 2019, the general account of the Company had paid $102,471 towards separate account guarantees.

(Dollars in thousands)

The Company does not guarantee a return of the contract holders' separate account. Information regarding the nonguaranteed separate accounts of the Company is as follows as of and for the years ended December 31:

		2019	2018
Premiums, considerations or deposits at year end	$	155,907	712,604
Reserves at year end for accounts with assets at:			
Market value	$	18,976,270	18,544,703
Amortized cost		156,425	164,801
Total reserves	$	19,132,695	18,709,504
By withdrawal characteristics:			
Subject to discretionary withdrawal:			
With market value adjustment	$	—	—
At book value without market value adjustment and with current surrender charge of 5% or more		—	—
At market value		19,098,968	18,679,987
At book value without market value adjustment and with current surrender charge of less than 5%		—	—
Subtotal		19,098,968	18,679,987
Not subject to discretionary withdrawal		33,727	29,518
Total reserves	$	19,132,695	18,709,505

The following is a reconciliation of net transfers from separate accounts for the years ended December 31:

		2019	2018
Transfers as reported in the summary of operations of the Separate Accounts Statement:			
Transfers to separate accounts	$	155,883	713,299
Transfers from separate accounts		3,183,815	2,851,627
Net transfers from separate accounts before reconciling adjustments		(3,027,932)	(2,138,328)
Reconciling adjustments:			
Processing income		24	(695)
Other net		—	—
Net transfers from separate accounts	$	(3,027,908)	(2,139,023)

(10) Reserves for Future Policy Benefits

The reserves for future policy benefits are comprised of liabilities for life policies and contracts, accident and health (disability) policies, and annuity and other deposit funds including riders.

As discussed in Note 3, the Company has five main types of rider benefits offered with individual variable annuity contracts: GMDBs, GMIBs, GLWBs, GMABs and GMWBs. The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Variable Annuity Riders

GMDB Riders
Certain variable annuity contracts include GMDB riders with the base contract and offer additional death and income benefits through riders that can be added to the base contract. These GMDB riders typically provide that upon the death of the annuitant, the beneficiaries could receive an amount in excess of the contract value. The GMDB rider benefit could be equal to the premiums paid into the contract, the highest contract value as of a particular time, e.g., every contract anniversary, or the premiums paid into the contract times an annual interest factor. The Company assesses a charge for the GMDB riders and prices the base contracts to allow the Company to recover a charge for any built-in death benefits.

GMIB Riders
Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company's current annuitization rates, the annuitant will automatically receive the higher monthly income. This means that the contract value could be significantly less than the guaranteed income base, but it might not provide any benefit to the policyholder or any cost to the Company. In addition, some policyholders may not be willing to give up access to their contract value that occurs with annuitization under the rider. Effective May 1, 2010, the Company discontinued offering the GMIB rider.

The Company's GMIB and GMDB riders issued prior to April 1, 2008 are reinsured with a non-affiliated reinsurer up to a certain level of coverage. The Company has reinsurance agreements in place with an affiliate for reinsurance coverage on the amounts in excess of the underlying non-affiliated reinsurance which has a $135 million deductible that must be covered by the Company before coverage is provided by the affiliate. The Company established a voluntary reserve using the AG43 stochastic computation ("CTE98") for this deductible portion.

The voluntary reserve is the difference between the stochastic CTE98 reserve for the deductible less the implicit reserve for the deductible in the reported reserve prior to adding the CTE98 reserve for the deductible. As of December 31, 2018, the implicit reserve for the deductible was $0 using the standard scenario reserve prior to increasing the deductible reserve to $99,150 using CTE98. The voluntary reserve was initially set up at December 31, 2011 with a balance of $93,158, which was recorded as a direct reduction to unassigned surplus. Effective April 1, 2019, the Company has reinsured all amounts in excess of the non-affiliated reinsurance to an affiliate, Sunrise Captive Re, LLC, therefore this voluntary reserve has been released.

GLWB Riders
The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. Such guaranteed withdrawals may start any time after the annuitant reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant attains a higher age band before the owner starts taking withdrawals. In some versions of GLWB riders sold in 2013 and later, there is a guaranteed minimum percentage withdrawal amount for the first 15 years of the contract; if the policyholder's account value goes to zero subsequent to the 15 year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the 10 year treasury rate from the preceding 90 calendar days, with the calculated treasury linked rate subject to a specified cap and floor.

At policy inception, the GLWB base is set at the amount of the purchase payments and it is increased by the amount of future purchase payments. It increases (roll-up) by up to eight percent simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

The GLWB may also contain a step-up feature which preserves potential market gain by ratcheting up to the contract value, if higher, on each anniversary. If the contract has both a roll-up and step-up feature, the GLWB base will be the greater of: 1) the GLWB base on the previous anniversary plus any additional purchase payments; 2) the step-up base; or 3) the roll-up base.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to two hundred percent of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

The initial GLWB riders (issued May 1, 2010 through December 31, 2010) had a built-in death benefit. This death benefit is reduced dollar for dollar for withdrawals. It differs from most of the other death benefits that decline pro rata for withdrawals. Thus, when the contract value is less than the death benefit, withdrawals will reduce the death benefit under the GLWB rider by a smaller amount than the reduction for other death benefits.

The Company also offers single life and joint life versions of the GLWB rider. Under the joint life version, if the annuitant dies after the owner has started taking withdrawals the surviving spouse may elect a spousal continuation under the rider and continue to receive the same payment. Under the single life version, the guaranteed amount that may be withdrawn could decline either because 1) the contract value is less than the GLWB base and under the single life GLWB rider the contract value then becomes the new GLWB base and/or 2) the surviving spouse is in a different age band.

The GLWB riders, issued beginning January 1, 2011, are offered by the Company in both single-life and joint-life versions. In conjunction with the second generation GLWB riders, the Company also began selling new death benefit riders in both single-life and joint-life versions.

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled "GMAB."

The following tables summarize the net amount at risk, net of reinsurance, for variable annuity contracts with guarantees invested in both general and separate accounts as of December 31 (note that most contracts contain multiple guarantees):

		2019			
		Death benefits	**Living benefits**		
		GMDB	**GMIB**	**GLWB**	**GMAB**
Return of net deposit					
Net amount at risk [1]	$	28	—	—	
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	1,019	—	—	
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	340	—	—	—
Return of highest anniversary value					
Net amount at risk [1]	$	223	—	—	—
Total					
Net amount at risk [1]	$	1,610	—	—	—

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

		2018			
		Death benefits	Living benefits		
		GMDB	GMIB	GLWB	GMAB
Return of net deposit					
Net amount at risk [1]	$	56,298	—	—	865
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	188,893	—	—	98
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	28,118	—	—	—
Return of highest anniversary value					
Net amount at risk [1]	$	383,169	—	—	—
Total					
Net amount at risk [1]	$	656,478	—	—	963

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

For guarantees of benefits that are payable in the event of death (GMDB), the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable at annuitization (GMIB), the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable upon withdrawal (GLWB), the net amount at risk is generally defined as the present value of the current maximum guaranteed withdrawal available to or taken by the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the balance sheet date.

All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models, and/or have other investment restrictions. Net amount at risk represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

(Dollars in thousands)

The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2019 and 2018.

The following table summarizes account balances of variable annuity contracts with guarantees that were invested in separate accounts as of December 31:

		2019	2018
Mutual funds:			
Bond	$	5,128,733	5,050,601
Equity		12,586,572	12,063,381
Money market		691,507	804,191
Total	$	18,406,812	17,918,173

The reserves on guaranteed riders are held in the general accounts and there are no guaranteed separate accounts.

Fixed Indexed Annuity Riders

GLWB Riders
Certain fixed indexed annuity contracts include a GLWB rider. The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. There are two versions of GLWB rider offered: a single life GLWB with the annuitant as the covered person, and a joint life GLWB with the annuitant and the annuitant's spouse as the covered persons.

The rider provides for a guaranteed payment of the maximum allowable withdrawal (MAW) each index year during the lifetime withdrawal period. Such guaranteed withdrawals may start any time after the annuitant/youngest covered spouse reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant/youngest covered spouse attains a higher age band before the guarantee is elected.

At the policy's initial sweep date, the GLWB base is set at the amount of the purchase payments. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base. On each anniversary of the initial sweep date, except under excess withdrawal, the step-up GLWB base is equal to the greater of the GLWB base on the prior day, and the then current contract value, after deducting any applicable charges for the contract and credited interest. The annual credit base is the GLWB base just prior to the index year processing, plus the annual credit calculation base just prior to index processing, multiplied by an index or bonus credit rate. Upon a step-up, the annual credit calculation base will reset to the contract value at the time of step-up.

(Dollars in thousands)

For the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California, the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to AV at the time of exchange. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base.

The total account value, net of reinsurance, of the fixed indexed annuities was over $500,000. The account value, net of reinsurance, specific to the GLWB riders was over $50,000 as of December 31, 2019 and 2018.

(11) Annuity Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2019:

Individual Annuities

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 1,141,780	—	1,141,780	4.9%
At book value less surrender charge	83,851	—	83,851	0.4%
At fair value*	—	18,283,597	18,283,597	79.1%
Total with adjustment or at market value	1,225,631	18,283,597	19,509,228	84.4%
At book value without adjustment	1,584,098	—	1,584,098	6.8%
Not subject to discretionary withdrawal	2,021,179	5,627	2,026,806	8.8%
Total, gross	4,830,908	18,289,224	23,120,132	100.0%
Reinsurance ceded	3,134,900	—	3,134,900	
Total, net	$ 1,696,008	18,289,224	19,985,232	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	$ 77,968	—	77,968	

* Includes $18,283,597 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

Group Annuities

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 89,030	—	89,030	8.7%
At book value less surrender charge	—	—	—	0.0%
At fair value*	—	815,371	815,371	79.4%
Total with adjustment or at market value	89,030	815,371	904,401	88.1%
At book value without adjustment	—	—	—	0.0%
Not subject to discretionary withdrawal	93,822	28,100	121,922	11.9%
Total, gross	182,852	843,471	1,026,323	100.0%
Reinsurance ceded	—	—	—	
Total, net	$ 182,852	843,471	1,026,323	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	$ —	—	—	

* Includes $815,371 of variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

Deposit-Type Contracts

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 161,969	—	161,969	23.2%
At book value less surrender charge	—	—	—	0.0%
At fair value*	—	—	—	0.0%
Total with adjustment or at market value	161,969	—	161,969	23.2%
At book value without adjustment	35,939	—	35,939	5.2%
Not subject to discretionary withdrawal	499,002	—	499,002	71.6%
Total, gross	696,910	—	696,910	100.0%
Reinsurance ceded	—	—	—	
Total, net	$ 696,910	—	696,910	
Amount at book value less surrender charge that will move to at book value without adjustment in the year after the statement date	$ —	—	—	

(Dollars in thousands)

As of December 31, 2019, withdrawal characteristics of life actuarial reserves were as follows:

	General account			Separate account - guaranteed and non-guaranteed		
	Account value	Cash value	Reserve	Account value	Cash value	Reserve
Subject to discretionary withdrawal, surrender values or policy loans:						
Term policies with cash value	$ —	—	—	—	—	—
Universal life	905,715	905,715	907,921	—	—	—
Universal life with secondary guarantees	—	—	518	—	—	—
Indexed universal life with secondary guarantees	—	—	—	—	—	—
Other permanent cash value life insurance	3,392,843	3,392,843	3,984,215	—	—	—
Variable life	—	—	—	—	—	—
Variable universal life	—	—	—	—	—	—
Miscellaneous reserves	—	—	14,535	—	—	—
Not subject to discretionary withdrawal or no cash values						
Term policies without cash value	XXX	XXX	11,326	XXX	XXX	—
Accidental death benefits	XXX	XXX	—	XXX	XXX	—
Disability - active lives	XXX	XXX	26,054	XXX	XXX	—
Disability - disabled lives	XXX	XXX	10,744	XXX	XXX	—
Miscellaneous reserves	XXX	XXX	1,840	XXX	XXX	—
Total, gross	4,298,558	4,298,558	4,957,153	—	—	—
Reinsurance ceded	760,781	760,781	951,354	—	—	—
Total, net	$ 3,537,777	3,537,777	4,005,799	—	—	—

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2019:

Life, accident and health Annual Statement:	
Annuities (excluding supplementary contracts with life contingencies), net	$ 1,873,188
Supplementary contracts with life contingencies, net	5,672
Deposit-type contracts	696,910
Subtotal	2,575,770
Separate Accounts Annual Statement:	
Annuities, net	19,132,695
Total annuity reserves and deposit liabilities, net	$ 21,708,465

(Dollars in thousands)

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2018:

	General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 1,411,371	—	1,411,371	5.6%
At book value less surrender charge	121,071	—	121,071	0.5%
At fair value*	—	18,679,987	18,679,987	74.4%
Total with adjustment or at market value	1,532,442	18,679,987	20,212,429	80.5%
At book value without adjustment	1,772,458	—	1,772,458	7.1%
Not subject to discretionary withdrawal	3,087,758	29,518	3,117,276	12.4%
Total, gross	6,392,658	18,709,505	25,102,163	100.0%
Reinsurance ceded	2,974,861	—	2,974,861	
Total, net	$ 3,417,797	18,709,505	22,127,302	

* Includes $18,679,987 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2018:

Life, accident and health Annual Statement:	
Annuities (excluding supplementary contracts with life contingencies), net	$ 2,712,021
Supplementary contracts with life contingencies, net	5,114
Deposit-type contracts	700,662
Subtotal	3,417,797
Separate Accounts Annual Statement:	
Annuities, net	18,709,505
Total annuity reserves and deposit liabilities, net	$ 22,127,302

(12) Unpaid Claim Reserves

The Company establishes unpaid claim reserves which provide an estimated cost of paying claims made under individual disability accident and health policies. These reserves include estimates for claims that have been reported and those that have been incurred but not reported. The amounts recorded for unpaid claim reserves are based on appropriate actuarial guidelines and techniques that represent the Company's best estimate based on current known facts and the actuarial guidelines. Accordingly, actual claim payouts may vary from present estimates.

(Dollars in thousands)

The following table summarizes the disabled life unpaid claims for the years ended December 31:

		2019	2018
Claim reserves, beginning of year	$	10,472	10,345
Less reinsurance recoverables		(899)	(635)
Net claim reserves, beginning of year		9,573	9,710
Claims paid related to:			
Current year		26	(30)
Prior years		(3,139)	(1,641)
Total claims paid		(3,113)	(1,671)
Incurred related to:			
Current year's incurred		445	945
Current year's interest		9	18
Prior years' incurred		(1,629)	170
Prior years' interest		404	401
Total incurred		(771)	1,534
Net claim reserves, end of year		5,689	9,573
Plus reinsurance recoverables		3,296	899
Claims reserves, end of year	$	8,985	10,472

The change in claim reserves and liabilities for claims incurred in prior years is the result of the general maturing process of claims, including the normal fluctuation resulting from the relatively small size of the block, and continuing claim analysis.

(13) Reinsurance

The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth. The Company routinely enters into reinsurance transactions with other insurance companies, third parties, affiliates and subsidiaries. This reinsurance involves either ceding certain risks to or assuming risks from other insurance companies. The Company's statutory financial statements reflect the effects of assumed and ceded reinsurance transactions.

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 42.8% and 30.9% of gross earned life and accident and health premiums during 2019 and 2018, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB, and GLWB.

For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $198,598 and $276,135 as of December 31, 2019 and 2018, respectively.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained inforce Bank Owned Life Insurance ("BOLI") and Single Premium Deferred Annuity ("SPDA") blocks of business with a third party reinsurer licensed as an authorized reinsurer in the State of Ohio. As a result of the transaction, bonds carried at the amount of $1,554,453 were transferred to the reinsurer, resulting in a pre-tax realized gain of $126,291 for the year ended December 31, 2019. This transaction resulted in IMR of $109,964 being transferred to the reinsurer by the Company and a deferred reinsurance gain of $52,844 which was recorded in surplus at the contract's inception. At December 31, 2019, the remaining unamortized deferred gain was $18,923. Ceded reserves related to this transaction decreased the aggregate reserve for life contracts at December 31, 2019 by $761,716.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for the Company, the Company cedes variable annuity-related risks, living and death benefits to SUNR for the GMAB, GMIB, GMDB, and GLWB riders, and from SUNR to SYRE for certain GMIB and GMDB riders. Additionally, to consolidate the management of such living benefit risks, the Company assumes GMAB, GMIB, GMDB, and GLWB riders issued by NSLAC, which are correspondingly retroceded to SYRE. The base variable annuity contracts are retained by the Company, however the excess death benefit rider risk on the base contract is ceded to SUNR. Effective January 2018, ONLIC cedes 100% of the exchange program fixed indexed annuities and associated GLWB riders to SYRE. The Company assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

As noted above, the Company cedes to SYRE variable annuity-related risks, living and death benefits consisting of GMAB, GMIB, GMDB and GLWB riders assumed from NSLAC and fixed indexed annuity exchange policies and associated GLWB riders. The base variable annuity contracts are retained by the Company. SYRE applies a permitted practice prescribed by CIMA that allows SYRE to carry the assumed reserves of $519,769 under the reinsurance arrangement utilizing a reserve methodology that is approved by CIMA. The approved reserve methodology is based upon U.S. generally accepted accounting principles. For all GMAB riders and some GLWB riders with net settlement provisions, the reserves are calculated using the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. Topic 815 is a fair value or mark-to-market calculation required if the liability is deemed to be an embedded derivative. For all GMIB and GMDB riders, and the remaining GLWB riders without net settlement provisions, the reserves are calculated in accordance with FASB ASC Topic 944, *Financial Services - Insurance*. Topic 944 provides guidance for calculating reserves for contracts that provide additional benefits in excess of the account values and is similar to other generally accepted accounting principles reserve accounting methodologies. Topic 944 is a stochastic method that determines the percentage of the future rider charges required to fund the projected benefits. This percentage is recalculated at each valuation period. Under both of these generally accepted accounting principles calculations, the reserve calculation is measuring the reserve liability associated with the rider cash flows.

(Dollars in thousands)

The following table is a summary of the reserves by product, rider type and valuation standard as of December 31:

	2019	2018
FASB ASC Topic 944:		
GMIB	$ 2,936	246,846
GMDB	1	86,575
GLWB	13,011	49,302
GMIB payout	—	3,805
Subtotal	15,948	386,528
FASB ASC Topic 815:		
GLWB embedded derivatives	—	20,032
GMAB embedded derivatives	(511)	1,997
Fixed indexed annuities	504,332	506,998
Subtotal	503,821	529,027
Total reserves	$ 519,769	915,555

As of December 31, 2019, the Company recorded a reserve credit of $1,039,125 related to the rider benefits and fixed indexed annuities ceded to SUNR and SYRE. As of December 31, 2018, the Company recorded a reserve credit of $1,526,208 related to the rider benefits and fixed indexed annuities ceded to SYRE. ONFS secured letters of credit totaling $110,000 for SYRE, with ONLIC as the beneficiary in order to recognize the reserve credit. The Company also established funds withheld accounts for the benefit of SYRE that have a total carrying value of $492,467 and are recorded in reinsurance funds withheld due to affiliate, net and other liabilities on the statutory statements of admitted assets, liabilities, and capital and surplus, and assets held in trust of $7,564.

MONT, KENW and CMGO retrocede certain term life policies through yearly renewable term agreements to the Company on a quota share basis, which the Company then cedes to external reinsurers based on certain retention levels.

The Company assumes GMIB, GMAB, and GMWB riders issued by NSLAC. As of 2015, the Company no longer assumes new business from NSLAC.

(Dollars in thousands)

Amounts in the accompanying statutory financial statements related to reinsurance agreements with ONLAC, NSLAC, MONT, SUNR and SYRE are as follows for the years ended as of December 31:

		2019	2018
Premiums assumed	$	105,476	96,857
Benefits incurred		100,154	90,661
Commission and expense allowance		4,441	4,426
Reserves for future policy benefits		943,738	965,524
Policy and contract claims payable		15,883	13,733

Variable Annuity Rider Reinsurance Agreements with SYRE and SUNR
The details of the Company's annuity rider reinsurance agreements with SYRE and SUNR are as follows:

GMIB and GMDB Riders Written After April 1, 2008

In December 2008, the Company entered into a reinsurance agreement with SYRE to reinsure Annual Reset Death Benefit Riders ("ARDBR") and GMIB riders associated with variable annuity products written between April, 2008 and August, 2012. The treaty was amended to include new products issued beginning April 1, 2009. Under the agreement for contracts issued between April 1, 2008 and March 31, 2009, the Company retained the first 15% and reinsured to SYRE on an excess of loss basis the remaining 85% of the risk under its GMIB rider and the related ARDBR rider. For the above contracts, the Company reinsured to SYRE 100% of the risk for all riders listed above up to $5 million per annuitant. Furthermore, SYRE was to pay a single adjusted GMIB claim amount when a GMIB policy annuitized.

Effective July 31, 2010, a treaty addendum was executed which effectively resulted in the extinguishment of the treaty above and the establishment of a new amended treaty. The new treaty resulted in the removal of the adjusted GMIB claim calculation that contains the one-time net settlement payment and in its place, a GMIB claim amount that covers the monthly GMIB benefit during the annuity payout. SYRE now accepts 100% of the risk for all GMIB and ARDBR riders up to $5 million per annuitant.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

GMIB and GMDB Riders Written Prior to April 1, 2008

Effective November 30, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the claims in excess of limits established in a non-affiliated reinsurance treaty ("cap coverage") related to the GMIB riders associated with variable annuity products written on or after April 1, 2002 through March 31, 2008. Under the agreement, the cap coverage will have a deductible of $100,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was October 31, 2011.

Effective December 31, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the cap coverage related to the GMDB riders associated with variable annuity products written on or after

July 1, 2005 but prior to April 1, 2008. Under the agreement, the cap coverage will have a deductible of \$35,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was November 30, 2011.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued cap coverage previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

GLWB Riders

Effective May 1, 2010, the Company replaced its GMIB rider with a GLWB rider (see Note 10) in connection with its variable annuity products for all new business written from this date. The Company reinsures 100% of all GLWB riders with SYRE.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business – a simultaneous transaction.

GMIB, GMDB, and GLWB Riders

During December 2011, amendments were made to the SYRE reinsurance treaties for pre April 1, 2008 GMIB riders, post April 1, 2008 GMIB riders, GLWB riders and pre April 1, 2008 GMDB riders. The amendments provided SYRE with the option to convert the reinsurance treaties into a funds withheld ("FWH") arrangement in which the Company would engage in a hedging program under SYRE's direction and for the benefit of SYRE. The hedging performed by the Company for SYRE's benefit would be done in segregated FWH accounts. At the end of each quarter, SYRE will reimburse the Company for any hedging losses and expenses for operating the hedging program and SYRE will receive credit for any gains realized under the hedging program. The FWH amendments also state the responsibilities of the Company and SYRE as it relates to the margin requirements on the open derivative positions held in the FWH accounts. SYRE is responsible for reimbursing the Company for any cash held in a margin account related to a derivative program operated for the benefit of SYRE. The derivatives held by the Company for the benefit of SYRE in each segregated FWH account as well as the cash held in a margin account related to the derivative program are considered the amounts withheld and are recorded as separate funds withheld liability (or asset if the derivative positions decrease) in other liabilities (assets) on the statutory statements of admitted assets, liabilities, and capital and surplus. The change in the value of the FWH related to the derivative positions were recorded within derivative instruments in the statutory statements of income. As of December 31, 2011, the FWH option was elected by SYRE for the post April 1, 2008 GMIB riders and GLWB riders reinsurance treaties. As part of the initial FWH election, open derivative futures were sold from SYRE to the Company using the December 29, 2011 closing value of these positions of \$16,095.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE. Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure this business. These simultaneous transactions settled the remaining balances from the original SYRE treaty and amendments. The treaty between the Company and SUNR continues to contain a FWH arrangement.

GLWB Riders

Effective May 1, 2013, the Company began selling a new 2013 Interest Sensitive GLWB rider (IS GLWB). An amendment was made to the SYRE GLWB reinsurance treaty to add these riders to the coverage. The Company cedes 30% of the benefit for this rider to SYRE for policies issued before January 1, 2018.

Effective April 1, 2019, a treaty amendment was executed to recapture all Company-issued business previously ceded to SYRE.

Effective April 1, 2019, the Company entered into a reinsurance agreement with SUNR to reinsure 30% of the benefit for policies issued before January 1, 2018 and 100% of the benefit for policies issued on or after January 1, 2018.

GMDB Riders

Effective April 1, 2019, the Company entered into an agreement with SUNR to reinsure all death benefit riders associated with variable annuity products, issued on or after January 1, 2001 that were not previously mentioned above. This excludes the Gain Enhancement Benefit (GEB and GEB Plus) riders.

GMAB/GPP Riders

Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

Effective April 1, 2019, the Company entered into an agreement with SUNR to reinsure all Guaranteed Principal Protection Riders (GPP) associated with variable annuity products.

(Dollars in thousands)

Amounts in the accompanying statutory financial statements related to ceded variable annuity business to SUNR were as follows for the years ended December 31:

		2019
Statements of Income:		
Premiums and other considerations	$	873,589
Death and other benefits		32,416
Statements of Admitted Assets, Liabilities, and Capital and Surplus:		
Other admitted assets:		
Reinsurance recoverable	$	1,307
Receivable from affiliate		56,788
Reserves for future policy benefits		461,515
Other liabilities:		
Premiums payable		12,464
FWH under reinsurance:		
Margin account		34,686
Unrealized losses derivative instrument		(2,045)
Capital and surplus:		
Unassigned surplus:		
Unrealized losses derivative instrument		58,800

(Dollars in thousands)

Amounts in the accompanying statutory financial statements related to ceded variable annuity business to SYRE were as follows for the years ended December 31:

	2019	2018
Statements of Income:		
Premiums and other considerations	$ (423,054)	162,386
Death and other benefits	2,294	8,040
Statements of Admitted Assets, Liabilities, and Capital and Surplus:		
Other admitted assets:		
Reinsurance recoverable	$ —	802
Receivable from affiliate	—	2
Reserves for future policy benefits	3,624	943,324
Other liabilities:		
Premiums payable	219	13,060
FWH under reinsurance:		
Margin account	—	122,906
Unrealized losses derivative instrument	—	4,942
Capital and surplus:		
Unassigned surplus:		
Unrealized losses derivative instrument	—	(59,770)

Fixed Indexed Annuity Reinsurance Agreements with SYRE

Effective January 2018, the Company entered into a 100% coinsurance funds withheld reinsurance agreement with SYRE to reinsure the exchange program fixed indexed annuities and associated GLWB riders offered to certain policyholders of variable annuities with the GMIB rider. This exchange program was available for the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California.

(Dollars in thousands)

Amounts in the accompanying statutory financial statements related to ceded fixed indexed annuity business to SYRE were as follows for the year ended December 31:

		2019	2018
Statements of Income:			
Premiums and other considerations	$	5,488	526,276
Death and other benefits		2,223	703
Statements of Admitted Assets, Liabilities, and Capital and Surplus:			
Reserves for future policy benefits	$	573,985	582,884
Other liabilities:			
Reinsurance payable		—	684
FWH under reinsurance:			
Assets Payable to Affiliate		492,467	484,274
Capital and surplus:			
Unassigned surplus:			
Unrealized (gains) losses derivative instrument		(12,101)	10,552

(14) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. In March, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

ONFS utilized $110,000 and $810,000 of this facility as of December 31, 2019 and 2018, respectively, to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $50,000, 364-Day letter of credit facility with a bank in order to finance and to support the reserve requirements of SYRE. The Company is the only beneficiary of the related letters of credit. ONFS utilized $50,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS terminated the facility during 2019.

In December 2018, ONFS entered into a $150,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE and the Company (related to NSLAC). The Company and NSLAC are the only beneficiaries of the related letters of credit. ONFS utilized $75,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS terminated the facility during 2019.

On December 31, 2019, ONFS entered into a $50,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE, ONLIC and SUNR. ONLIC and SUNR are the only beneficiaries of the related letters of credit. The company utilized $0 of this facility as of December 31, 2019 to secure a letter of credit for SYRE, with ONLI as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

There was no interest or fees paid by the Company on these lines of credit in 2019 and 2018.

(15) Income Taxes

On December 22, 2017, President Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, the effects of new legislation are recognized upon enactment, which (for federal legislation) is the date the President signs a bill into law. The Act reduced the corporate tax rate to 21 percent, effective January 1, 2018.

The Act revised the computation of life insurance tax reserves to be the greater of the net surrender value of a contract or 92.81% of statutory reserves, in general. The revised reserve computation is effective for taxable years beginning after December 31, 2017. A transition rule requires life insurers to spread the difference between the prior year end reserves computed on the old basis and those computed on the new basis over eight years as either income or a deduction.

The Company provides for deferred tax assets in accordance with the NAIC issued guidance. The components of the net admitted deferred tax asset, including those certain deferred tax assets and deferred tax liabilities, recognized in the Company's statutory statements of admitted assets, liabilities, and capital and surplus as of December 31 are as follows:

(Dollars in thousands)

	Ordinary	Capital	Total
2019			
Gross deferred tax assets	$ 226,851	3,386	230,237
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	226,851	3,386	230,237
Nonadmitted deferred tax assets	(54,528)	(100)	(54,628)
Admitted deferred tax assets	172,323	3,286	175,609
Deferred tax liabilities	(54,513)	—	(54,513)
Admitted deferred tax assets, net	$ 117,810	3,286	121,096
2018			
Gross deferred tax assets	$ 252,086	6,275	258,361
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	252,086	6,275	258,361
Nonadmitted deferred tax assets	(63,375)	(6,122)	(69,497)
Admitted deferred tax assets	188,711	153	188,864
Deferred tax liabilities	(56,235)	(153)	(56,388)
Admitted deferred tax assets, net	$ 132,476	—	132,476
Change			
Gross deferred tax assets	$ (25,235)	(2,889)	(28,124)
Statutory valuation allowance adjustments	—	—	—
Adjusted gross deferred tax assets	(25,235)	(2,889)	(28,124)
Nonadmitted deferred tax assets	8,847	6,022	14,869
Admitted deferred tax assets	(16,388)	3,133	(13,255)
Deferred tax liabilities	1,722	153	1,875
Admitted deferred tax assets, net	$ (14,666)	3,286	(11,380)

(Dollars in thousands)

The amount of gross deferred tax assets admitted under each component and the resulting increased amount by tax character as of December 31 are as follows:

		Ordinary	Capital	Total
2019				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	121,096
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	134,777
Lesser of (1) or (2)		117,810	3,286	121,096
Deferred tax liabilities		54,513	—	54,513
Admitted deferred tax assets	$	172,323	3,286	175,609
2018				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	133,939
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	132,476
Lesser of (1) or (2)		132,476	—	132,476
Deferred tax liabilities		56,235	153	56,388
Admitted deferred tax assets	$	188,711	153	188,864
Change				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	(12,843)
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	2,301
Lesser of (1) or (2)		(14,666)	3,286	(11,380)
Deferred tax liabilities		(1,722)	(153)	(1,875)
Admitted deferred tax assets	$	(16,388)	3,133	(13,255)

(Dollars in thousands)

The ratios used for threshold limitation (for SSAP 101 Paragraph 11b) as of December 31 are as follows:

	2019	2018	Change
Ratio percentage used to determine the recovery period and threshold limitation amount in above adjusted gross deferred tax assets	914.86%	815.12%	99.74%
Amount of adjusted capital and surplus used to determine the recovery period threshold limitation amount in above adjusted gross deferred tax assets	$ 1,016,133	969,648	46,485

The impact of tax-planning strategies as a percentage of adjusted gross and net admitted deferred tax assets as of December 31 are as follows:

	Ordinary	Capital	Total
2019			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	0.00%	1.87%	1.87%
2018			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	0.00%	0.08%	0.08%
Change			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	0.00%	1.79%	1.79%

(Dollars in thousands)

The Company's tax planning strategies do not include the use of reinsurance tax planning strategies.

There are no temporary differences for which deferred tax liabilities are not recognized.

The provisions for current tax expenses on earnings for years ended December 31 are as follows:

		2019	2018	Change
Current year federal tax (benefit) expense - ordinary income	$	(88,213)	(9,704)	(78,509)
Current year foreign tax (benefit) expense - ordinary income		—	—	—
Subtotal		(88,213)	(9,704)	(78,509)
Current year tax expense - net realized capital gains		25,920	910	25,010
Utilization of capital loss carry forwards		—	—	—
Other		—	—	—
Federal and foreign income taxes incurred	$	(62,293)	(8,794)	(53,499)

The tax effects of temporary differences that give rise to significant components of the net deferred tax assets as of December 31 are as follows:

Deferred tax assets:		2019	2018	Change
Ordinary:				
Policyholder reserves	$	69,151	82,865	(13,714)
Investments		3,611	—	3,611
Deferred acquisition costs		59,240	58,980	260
Policyholder dividends accrued		23,071	23,561	(490)
Compensation and benefit accruals		16,223	13,881	2,342
Tax credit carry-forward		38,815	39,146	(331)
Section 807(f) reserves		8,393	13,419	(5,026)
Net operating loss carryforward		—	11,382	(11,382)
Nonadmitted asset		4,674	4,713	(39)
Other		3,673	4,139	(466)
Ordinary deferred tax assets		226,851	252,086	(25,235)
Statutory valuation allowance adjustment		—	—	—
Nonadmitted ordinary deferred tax assets		(54,528)	(63,375)	8,847
Admitted ordinary deferred tax assets		172,323	188,711	(16,388)

(Dollars in thousands)

Deferred tax assets (continued):	2019	2018	Change
Capital:			
Investments	3,386	6,275	(2,889)
Net capital loss carryforward	—	—	—
Capital deferred tax assets	3,386	6,275	(2,889)
Statutory valuation allowance adjustment	—	—	—
Nonadmitted capital deferred tax assets	(100)	(6,122)	6,022
Admitted capital deferred tax assets	3,286	153	3,133
Admitted deferred tax assets	175,609	188,864	(13,255)

Deferred tax liabilities:	2019	2018	Change
Ordinary:			
Investments	9,662	3,164	6,498
Section 807(f) reserves	7,322	13,024	(5,702)
Deferred and uncollected premium	18,930	17,881	1,049
Policyholder reserves - tax reform transition	17,915	20,901	(2,986)
Other	684	1,265	(581)
Ordinary deferred tax liabilities	54,513	56,235	(1,722)
Capital:			
Investments	—	153	(153)
Subtotal	—	153	(153)
Deferred tax liabilities	54,513	56,388	(1,875)
Admitted deferred tax assets, net	121,096	132,476	(11,380)

There was no statutory valuation allowance adjustment to gross deferred tax assets and no net change in the total valuation allowance adjustments as of and for the periods ended December 31, 2019 and 2018.

The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for future operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of the remaining deferred tax assets.

(Dollars in thousands)

The change in the net deferred income taxes of December 31 is comprised of the following:

		2019	2018	Change
Total deferred tax assets	$	230,237	258,361	(28,124)
Total deferred tax liabilities		(54,513)	(56,388)	1,875
Net deferred tax assets		175,724	201,973	(26,249)
Statutory valuation allowance adjustment		—	—	—
Net deferred tax assets		175,724	201,973	(26,249)
Tax effect of unrealized losses		10,102	675	9,427
Statutory valuation allowance adjustment allocated to unrealized		—	—	—
Change in net deferred income taxes	$	185,826	202,648	(16,822)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant tax effects causing this difference for the years ended December 31 are as follows:

		2019	2018
Income before taxes	$	(36,217)	(13,283)
Dividends received deduction		(6,165)	(11,298)
Interest maintenance reserve		3,972	(1,121)
Change in equity of subsidiaries		(23,678)	(6,704)
Change in non-admitted deferred tax assets		391	6,760
Voluntary reserve		20,489	1,496
Tax exempt interest		(405)	—
Transfer pricing		(7,048)	(3,923)
Tax credits		(4,968)	(10,687)
Reinsurance surplus adjustment		8,260	—
Other		(102)	237
Total statutory taxes	$	(45,471)	(38,523)
Provision for federal income taxes	$	(88,213)	(9,704)
Tax on capital gains		25,920	910
Change in net deferred income tax		16,822	(29,729)
Total statutory taxes	$	(45,471)	(38,523)

The Company's policy for recording penalties associated with audits, claims, and adjustments is to record such amount as a component of income taxes.

Total federal income taxes received (including tax on capital gains) was $101,075 and $4,430 during the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, there are no net operating losses or capital loss carryforwards available for tax purposes. As of December 31, 2018, the Company had a net operating loss carryforward of $54,201. As of December 31, 2019 and 2018, the company has no capital loss carryforwards or valuation allowances recorded. As of December 31, 2019, the Company established $1,972 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2013 - 2017. As of December 31, 2019, the Company has tax credit carryforwards of $38,815 expiring in years 2023 - 2036. As of December 31, 2018, the Company established $2,242 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2017. As of December 31, 2018, the Company had tax credit carryforwards of $39,146 expiring in years 2023 through 2036. In addition, the Company has alternative minimum tax credit carryforwards of $8,049, which were reclassed to the current tax receivable after the tax reform bill (H.R. 1) was signed on December 22, 2017 and made them refundable.

There are no federal income taxes incurred that are available for recoupment in the event of future net losses.

The Company has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of reporting.

There are no aggregate federal income tax deposits under Internal Revenue Code Section 6603 and none are recorded as admitted assets.

The Company's federal income tax return is consolidated with the other life insurance companies ONLAC, NSLAC, KENW, MONT, SYRE, CMGO and SUNR and then with its common parent, ONMH.

The Company is not under current examination with the Internal Revenue Service. The statute of limitations remains open for tax years 2016, 2017 and 2018 for the consolidated tax group.

The allocation of taxes between members of the federal consolidated income tax return is subject to written agreement approved by the Board of Directors. Allocations are based on separate company calculations with current credit for losses. Intercompany balances are settled at least quarterly.

(16) Pensions and Other Post-Retirement Benefit Plans

(a) Home Office Pension Plan

The Company sponsors a funded qualified defined benefit pension plan covering all home office employees hired prior to January 1, 1998. This plan was amended effective December 31, 2019 to freeze the accrual of future benefits. The impact of the curtailment is included below. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The measurement dates were December 31, 2019 and 2018.

(b) Home Office Post-Retirement Benefit Plan

The Company currently offers eligible retirees the opportunity to participate in a post-retirement health and group life plan. This plan was amended effective July 1, 2013, to provide participants younger than age 65 a fixed portion of the health insurance contract premium and for participants age 65 and older, a fixed dollar amount which the participant must use to independently purchase their own insurance. Previously, this plan provided all participants a fixed portion of the health insurance contract premium. The portion the Company pays is periodically increased and is a function of participant service. Only home office employees hired prior to January 1, 1998 may become eligible for these benefits provided that the employee meets the retirement age and years of service requirements.

This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2019 and 2018.

(c) General Agents' Pension Plan

The Company sponsors an unfunded, nonqualified defined benefit pension plan covering its general agents hired prior to January 1, 2005. This plan provides benefits based on years of service and average compensation during the final five and ten years of service.

The measurement dates were December 31, 2019 and 2018.

(d) Agents' Post-Retirement Benefits Plan

The Company sponsors a post-retirement health and group life plan. Only agents with contracts effective prior to January 1, 1998 who meet the retirement age and service requirements are eligible for these benefits. The health and group life plan is contributory, with retirees contributing approximately 50% of premium for coverage. As with all plan participants, the Company reserves the right to change the retiree premium contribution at renewal.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2019 and 2018.

(Dollars in thousands)

(e) Obligations and Funded Status

Information regarding the funded status of the pension plans as a whole and other benefit plans as a whole as of December 31 is as follows:

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	78,067	99,168	6,306	6,764
Service cost		1,744	2,412	25	43
Interest cost		3,893	3,994	280	261
Actuarial (gain) loss		19,988	(13,714)	1,404	565
Benefits paid *		(4,869)	(13,793)	(457)	(1,327)
Settlement/curtailment		(11,090)	—	—	—
Projected benefit obligation at end of year	$	87,733	78,067	7,558	6,306

* Benefits paid include amounts paid from both funded and unfunded benefit plans.

Fair value of plan assets at beginning of year	$	50,703	66,944	—	—
Actual return on plan assets		10,365	(5,686)	—	—
Benefits and expenses paid		(4,459)	(10,555)	—	—
Fair value of plan assets at end of year	$	56,609	50,703	—	—
Funded status	$	(31,124)	(27,364)	(7,559)	(6,306)
Unrecognized net actuarial loss (gain)		28,103	29,015	2,652	1,364
Unrecognized prior service cost		—	41	(342)	(373)
Net prepaid (accrued) amount recognized	$	(3,021)	1,692	(5,249)	(5,315)

(Dollars in thousands)

		Pension benefits		Other benefits	
Funded Status:		2019	2018	2019	2018
Overfunded					
Assets (nonadmitted)					
Prepaid benefit costs	$	—	—	—	—
Overfunded plan assets		—	—	—	—
Total assets (nonadmitted)	$	—	—	—	—
Underfunded					
Liabilities recognized					
Net prepaid (accrued) amount recognized	$	(3,021)	1,692	(5,249)	(5,315)
Liabilities for benefits		(28,103)	(29,056)	(2,309)	(991)
Total liabilities recognized	$	(31,124)	(27,364)	(7,558)	(6,306)

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Amounts recognized in the statutory statements of admitted assets, liabilities, and capital and surplus consist of:					
Prepaid benefit costs	$	9,458	12,848	—	—
Accrued benefit costs		(12,479)	(11,159)	(5,249)	(5,315)
Surplus		(28,103)	(29,053)	(2,309)	(991)
Total liabilities recognized	$	(31,124)	(27,364)	(7,558)	(6,306)

(Dollars in thousands)

	Pension benefits	
	2019	**2018**
Components of net periodic benefit cost:		
Service cost	$ 1,744	2,412
Interest cost	3,893	3,994
Expected return on plan assets	(3,568)	(4,726)
Amortization of prior service cost	41	153
Amortization of net loss	3,010	3,274
Net periodic benefit cost	$ 5,120	5,107

	Other benefits	
	2019	**2018**
Components of net periodic benefit cost:		
Service cost	$ 25	43
Interest cost	280	261
Amortization of prior service cost	(31)	(13)
Amortization of net gain	117	57
Net periodic benefit cost	$ 391	348

The following is attributable to pension plans whose accumulated benefit obligation exceeds plan assets as of December 31:

	Pension benefits	
	2019	**2018**
Projected benefit obligation	$ 87,733	78,067
Accumulated benefit obligation	85,217	67,132
Prepaid pension cost	(3,021)	—

(Dollars in thousands)

(f) Assumptions

	Pension benefits		Other benefits	
	2019	**2018**	**2019**	**2018**
Weighted average assumptions used to determine net periodic cost at January 1:				
Discount rate	4.90%	4.15%	4.74%	4.04%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	4.12%	4.12%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	6.90%	7.80%
Age 65 and older	—	—	0.70%	0.70%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	6.80%	7.70%
Age 65 and older	—	—	0.60%	0.70%
Year that the rate reaches the ultimate trend rate	—	—	2023	2023
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	3.65%	4.90%	3.49%	4.74%
Rate of compensation increase	4.11%	3.50%	4.25%	3.50%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

		1 Percentage point increase	1 Percentage point decrease
Effect on total of 2019 service cost and interest cost	$	13	(11)
Effect on 2019 other post-retirement benefit obligation		314	(277)

(Dollars in thousands)

(g) Plan Assets

The following table presents the hierarchy of the Company's qualified pension plan assets at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2019				
Bond funds	$ 19,152	—	—	19,152
Stock funds	37,457	—	—	37,457
Total assets	$ 56,609	—	—	56,609
2018				
Bond funds	$ 17,640	—	—	17,640
Stock funds	33,063	—	—	33,063
Total assets	$ 50,703	—	—	50,703

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy as described in Note 5.

The assets of the Company’s Home Office Pension Plan (“Plan”) are invested in group variable annuity contracts issued by the Company offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2019 and 2018, $36,170 and $29,430, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of stocks, bonds and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan’s short-term liquidity needs and its long-term liabilities. The target allocations are currently 65% stocks and 35% bonds.

For diversification and risk control purposes, where applicable, each asset class is further divided into sub classes such as large cap, mid cap and small cap and growth, core and value for stocks and U.S. domestic, global and high yield for bonds. To the extent possible, each sub asset class utilizes multiple fund choices and no single fund contains more than 25% of the Plan assets (exclusive of any short-term increases in assets due to any Plan funding). The Plan performance is measured by a weighted benchmark consisting of stock and bond benchmarks in weights determined by the Pension Plan committee.

The overall expected long-term rate of return on assets is determined by a weighted average return of bond and stock indexes. Bond securities (including cash) make up 40% of the weighted average return and stocks make up 60% of the weighted average return.

(Dollars in thousands)

The following table shows the weighted average asset allocation by class of the Plan's assets as of December 31:

	2019	**2018**
Stocks	66%	65%
Bonds	34	35
Total	100%	100%

(h) Cash Flows

(i) Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2019 was $0. The Plan Sponsor contributed $0 and $0 to the qualified pension plan for the years ended December 31, 2019 and 2018, respectively. The contribution to the qualified pension plan is estimated to be $6,000 for the 2020 plan year.

(ii) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	**Other benefits**
2019	$ 8,177	537
2020	6,836	564
2021	8,250	587
2022	7,278	602
2023	7,073	574
2024-2028	28,745	2,455

(Dollars in thousands)

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Amounts in unassigned funds (surplus) recognized in the next fiscal year as components of periodic benefit cost:					
Items not yet recognized as a component of net periodic cost - prior year	$	29,056	35,783	991	470
Net prior service cost or credit recognized		(41)	(153)	31	13
Net gain and loss arising during the period		13,188	(3,301)	1,404	565
Net gain and loss recognized		(3,010)	(3,273)	(117)	(57)
Items not yet recognized as a component of net periodic cost - current year	$	39,193	29,056	2,309	991

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:					
Net prior service cost or credit	$	—	41	(49)	(31)
Net recognized gains and losses		2,494	2,756	286	138

		Pension benefits		Other benefits	
		2019	2018	2019	2018
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:					
Net prior service cost or credit	$	—	41	(342)	(373)
Net recognized gains and losses		28,102	29,015	2,652	1,364

(i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2019 and 2018 was $6,011 and $6,900, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,615 and $2,891 in 2019 and 2018, respectively.

(Dollars in thousands)

(j) ONFS Employees

The Company's qualified pension and post-retirement benefit plans include participants who are employees of ONFS. Participating ONFS employees are vice presidents and other executive officers of ONFS and devote substantially all of their time to service for the Company. Most of ONFS's employees were employees of the Company prior to January 1, 2001 and were participants in the benefit plan at that time.

(17) Capital and Surplus, Dividend Restrictions and Regulatory RBC

<u>Capital and Surplus</u>
The Company has 10,000,000 shares ($1 par value) authorized, issued and outstanding of Class A common stock as of December 31, 2019 and 2018. The Company has no preferred stock issued or outstanding.

The Company did not receive a capital contribution from its parent, ONFS, during 2019 and 2018, respectively.

Surplus notes outstanding are as follows as of December 31:

	2019	2018
Surplus notes		
6.875% fixed rate due 2042	$ 250,000	$ 250,000
5.000% fixed rate due 2031	4,019	3,979
5.800% fixed rate due 2027	5,897	5,883
8.500% fixed rate due 2026	49,859	49,836
Total	$ 309,775	$ 309,698

In June 2012, ONLIC issued a $250,000, 6.875% fixed rate surplus note due June 15, 2042. Interest on this surplus note is payable semi-annually on June 15 and December 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In December 2011, ONLIC issued a $4,500, 5% fixed rate surplus note to Security Mutual Life Insurance Company of New York ("SML"), as payment for the purchase of the additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.8% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

(Dollars in thousands)

In May 1996, ONLIC issued $50,000, 8.5% fixed rate surplus notes due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may not redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

Except as provided in Section 3901.72 of the Ohio Revised Code, the notes are not part of the legal liabilities of the Company and are not a liability or claim against the Company or any of its assets. Interest payments, scheduled semi-annually, must be approved for payment by the Department. The Company paid $22,011 in interest related to these notes in 2019 and 2018. Principal payments must also be approved by the Department. Interest expense for surplus notes is not recognized in the statutory statements of income until it has been approved by the Department.

Regulatory RBC

The NAIC has established RBC requirements to assist regulators in monitoring the financial strength and stability of life insurers and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The RBC requirements instruct every life insurer to calculate its total adjusted capital and RBC position. The formula includes components for asset risk, liability risk, interest rate exposure, and other factors. Under the NAIC requirements, each insurer must maintain its total adjusted capital and surplus above a calculated minimum threshold or take corrective measures to achieve that threshold. Based upon the December 31, 2019 and 2018 statutory financial statements, the Company exceeded all required RBC levels.

Dividend Restrictions

The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of the Company, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $102,000 may be paid by ONLIC to ONFS in 2020 without prior approval. Dividends of $55,000 and $60,000 were declared and paid by ONLIC to ONFS in 2019 and 2018, respectively.

Subsidiary Dividends

The following table details the dividends received from each of the subsidiaries and included in investment income for the years:

	2019	2018
ONLAC	$ 106,000	27,000
ONII	6,750	4,000
ONESCO	—	924
	$ 112,750	31,924

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of

ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of $63,000 may be paid by ONLAC to ONLIC in 2020 without prior approval. ONLAC declared and paid ordinary dividends to ONLIC of $30,857 and $27,000 in 2019 and 2018, respectively. Extraordinary dividends of $75,143 were paid by ONLAC to ONLIC during 2019. No extraordinary dividends were declared or paid during 2018.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to its stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter where CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2019 or 2018.

The payment of dividends by SUNR to ONLIC is limited by the SUNR plan of operations, which was approved by the Ohio Department of Insurance. SUNR is not permitted to pay dividends to its parent, ONLIC, until 2021.

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $2,000 may be paid by NSLAC to ONLIC in 2020 without prior approval. No dividends were declared or paid by NSLAC in 2019 or 2018.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2019 or 2018. No dividends were declared or paid by KENW to ONLIC in 2019 or 2018.

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans and bonds of $43,565 and $67,661 as of December 31, 2019 and 2018, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the statutory financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(Dollars in thousands)

(19) Contingencies

The Company and all other solvent life insurance companies are periodically assessed by certain state guaranty funds to cover losses to policyholders of insolvent or rehabilitated companies. Some of these assessments are partially recoverable through a reduction in future premium taxes in some states. In addition, the Company is subject to legal and regulatory proceedings in the ordinary course of its business. These include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which the Company operates. The outcomes of these proceedings cannot be predicted due to their complexity, scope and uncertainties. The Company believes, however, that based on currently known information, the ultimate outcome of all pending legal and regulatory proceedings as well as state guaranty fund assessments are not likely to have a material adverse effect on the Company's financial condition or results of operations.

The Company and several subsidiaries of the Company are a party to eleven federal court cases and eight FINRA arbitrations stemming from the strategic changes announced in September 2018, specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in all of the cases is a disputed interpretation of certain language in Ohio National Life's contracts with the broker dealers who sold Ohio National Life's annuities. One case purports to be on behalf of a class, but no motions for class certification have yet been filed and no class has been certified. The Company sought early dismissal in five of the court cases claiming that the contract meaning is clear on its face, but three of the courts have declined to dismiss without trial. One previously pending case has been resolved. The first case currently set for trial is in July, 2020. The Company expects to continue to vigorously defend itself against these allegations. However, litigation is inherently uncertain and the outcome thereof cannot be predicted. Accordingly, it is possible that the ultimate outcome in one or more of the proceedings may be material to the Company's results of operations for a particular period depending upon, among other factors, the size of the loss and the level of the Company's results of operations for the period.

The Company leases office equipment under various noncancelable operating lease agreements that expire through December 2023. Rental expense under these leases was $695 and $342 for the years ended December 31, 2019 and 2018, respectively. The Company also leases its home office from ONFS under a noncancelable operating lease agreement that expires in September 2026. Rental expense under this lease was $2,793 for the years ended December 31, 2019 and 2018. The minimum aggregate rental commitments under these leases are as follows:

2020	$	3,501
2021		3,446
2022		3,253
2023		3,145
2024		2,793
Total	$	16,138

(20) Related-Party Transactions

The Company made capital contributions of $140,654 to SUNR during the year ended December 31, 2019.

The Company made capital contributions of $5,000, $250, and $1,100 to CMGO, SUNR and ONEQ, respectively, during the year ended December 31, 2018.

The Company has a written agreement to provide services for personnel, data processing and supplies to ONLAC, which either party may terminate upon a thirty day notice. ONLIC primarily uses multiple bases (head counts, salaries, number of policies, field compensation, time, reserve account balances, transaction counts, etc.) and believes they are reasonable for determining the expense charges. This agreement was approved by the Department. Generally, the apportionment is based upon specifically identifying the expense to the incurring entity. Where this is not feasible, apportionment is based upon pertinent factors and ratios. The terms call for a cash settlement at least quarterly. There is no assurance that these costs would be similar if the Company had to obtain such services on its own. This agreement resulted in services charges totaling $38,124 and $59,927 in 2019 and 2018, respectively. These amounts include pension costs for the personnel furnished to the Company. At December 31, 2019 ONLAC owed ONLIC $5,974. At December 31, 2018 ONLIC owed ONLAC $6,999.

The Company paid $4,966 and $5,406 for rent and operating expenses on the home office to ONFS for the years ended December 31, 2019 and 2018, respectively.

ONFS provides services for executive management and data processing equipment placed in service after December 31, 2000, to ONLIC. For the years ended December 31, 2019 and 2018, ONLIC recorded expenses of $22,003 and $21,968, respectively, for these services.

The Company is a party to an agreement with ONMH and most of its direct and indirect subsidiaries whereby ONLIC maintains a common checking account. It is ONLIC's duty to maintain sufficient funds to meet the reasonable needs of each party on demand. ONLIC must account for the balances of each party daily. Such funds are deemed to be held in escrow by ONLIC for the other parties. Settlement is made daily for each party's needs from or to the common account. It is ONLIC's duty to invest excess funds in an interest bearing account and/or short-term highly liquid investments. ONLIC will credit interest monthly at the average interest earned for positive cash balances during the period or charge interest on any negative balances. Interest credited for the years ended December 31, 2019 and 2018 was $770 and $20, respectively. The parties agree to indemnify one another for any losses of any nature relating to a party's breach of its duties under the terms of the agreement. The Company held the following balances for the participating entities in payable to parent, subsidiaries and affiliates as of December 31:

(Dollars in thousands)

	2019	2018
ONMH	$ 998	747
ONFS	12,457	19,294
ONLAC	31,921	30,067
MONT	2,114	5,684
KENW	5,968	8,126
CMGO	8,097	10,465
SYRE	55,873	41,270
SUNR	(25,890)	—
ONII	6,141	7,384
ON Flight Inc.	(61)	569
ON Global Holdings Inc.	—	—
ONTech, LLC	591	6,139
ON Foreign Holdings, LLC	(9,697)	(19)
Fiduciary Capital Management, Inc.	302	1,436
Financial Way Realty, Inc.	441	552
Total	$ 89,255	131,714

(21) Accounting Changes and Corrections of Errors

The Company's December 31, 2019 financial statements reflect a prior period adjustment relating to the recording of guaranteed interest contract immediate annuity reserves. As of December 31, 2018, reserves were understated by $1,831. As a result, surplus was overstated by $1,446. The events contributing to the adjustment impact surplus as follows:

Increase in aggregate reserves for life accident and health contracts	$ (1,831)
Federal and foreign income taxes incurred (excluding taxes on capital gains)	385
Decrease in surplus	$ (1,446)

(Dollars in thousands)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of swap interest income. As of December 31, 2017, net investment income was overstated by $1,982. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	(1,982)
Benefit for federal income taxes		416
Correction of error, net of tax	$	(1,566)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of net investment income. As of December 31, 2017, net investment income was understated by $2,236. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	2,236
Benefit for federal income taxes		(469)
Correction of error, net of tax	$	1,767

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of assumed BOLI reserves. As of December 31, 2017, reserves were understated by $1,600. The events contributing to the adjustment impact surplus as follows:

Change in reserves for future policy benefits and other funds	$	(1,600)
Benefit for federal income taxes		336
Correction of error, net of tax	$	(1,264)

The cumulative prior period surplus impact of these errors is shown as a direct adjustment to surplus within the statutory statements of changes in capital and surplus. SSAP No. 3R, *Accounting Changes and Corrections of Errors*, prescribes that if a reporting entity becomes aware of a material accounting error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency, the entity shall file an amended financial statement unless otherwise directed by the domiciliary regulator. Correction of all immaterial accounting errors in previously issued financial statements, for which an amended financial statement was not filed, shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected.

(22) Reconciliation to 2019 Annual Statement

The Company's net cash provided by operations and net cash used in financing do not agree to the amounts reported in the Company's 2019 Statutory Annual Statement. The audited Statutory Statement of Cash Flows included herein differs from the Annual Statement Cash Flow statement because of a reclassification made with respect to buyout activity related to GMIB riders as discussed in Note 1. There is no difference between the audited Statutory financial statements and the Annual Statement filing with respect to cash, cash equivalents and short-term investments at December 31, 2019 as a result of this adjustment.

(Dollars in thousands)

The following table reconciles net cash from operations and net cash from financing and miscellaneous sources from the Annual Statement to the accompanying audited Statutory Statement of Cash Flows for the year ended December 31, 2019 (using classifications and titles from the audited statement and referencing Annual Statement page and line numbers):

		As filed in Annual Statement	**Adjustment**	**As presented in audited statements**
Less:				
Death and other benefits (P5, L5)	$	3,253,820	114,930	3,368,750
Net cash provided by operations (P5, L11)		949,222	(114,930)	834,292
Other, net (P5, L16.6)		(308,010)	114,930	(193,080)
Net cash used in financing (P5, L17)		(388,925)	114,930	(273,995)

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2019

(Dollars in thousands)

The following is a summary of certain financial data.

Investment income earned:		
Government bonds	$	4,041
Other bonds (unaffiliated)		260,179
Bonds of affiliates		—
Preferred stocks (unaffiliated)		766
Preferred stocks of affiliates		—
Common stocks (unaffiliated)		1,968
Common stocks of affiliates		112,750
Mortgage loans		44,104
Real estate		1,829
Contract loans		32,065
Cash, cash equivalents and short-term investments		2,496
Other invested assets		5,372
Derivative instruments		173
Amortization of interest maintenance reserve		3,902
Aggregate write-ins for investment income		2,786
Total investment income earned	$	472,431
Real estate owned – book value less encumbrances	$	25,758
Mortgage loans – book value:		
Farm mortgages	$	—
Residential mortgages		—
Commercial mortgages		930,632
Total mortgage loans – book value	$	930,632
Mortgage loans by standing – book value:		
Good standing	$	930,632
Good standing with restructured terms		—
Interest overdue more than three months, not in foreclosure		—
Foreclosure in process		—
Other long-term assets – statement value	$	251,659
Bonds and stocks of parents, subsidiaries, and affiliates – book value:		
Bonds	$	—
Preferred stocks		—
Common stocks		332,689
Due within one year or less	$	473,548
Over 1 year through 5 years		1,805,171
Over 5 years through 10 years		1,906,006
Over 10 years through 20 years		739,453
Over 20 years		496,552
Total bonds and short-term investments by maturity - statement value	$	5,420,730

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2019

(Dollars in thousands)

Bonds and short-term investments by class – statement value:		
Class 1	$	3,392,635
Class 2		1,882,851
Class 3		115,791
Class 4		14,442
Class 5		14,653
Class 6		358
Total bonds and short-term investments by class – statement value	$	5,420,730
Total bonds and short-term investments publicly traded	$	2,943,009
Total bonds and short-term investments privately placed	$	2,477,721
Preferred stocks – statement value	$	5,101
Common stocks – market value	$	374,410
Short-term investments – book value	$	38,050
Cash equivalents – book value	$	93,683
Financial options owned – statement value	$	—
Financial options written and in force – statement value	$	—
Financial futures contracts open – current price	$	—
Cash on deposit	$	256,649
Life insurance in force:		
Industrial	$	—
Ordinary		27,235,777
Credit life		—
Group life		4,829
Amount of accidental death insurance in force under ordinary policies	$	58,849
Life insurance policies with disability provisions in force:		
Industrial	$	—
Ordinary		27,719,462
Credit life		—
Group life		4,829
Supplementary contracts in force:		
Ordinary – not involving life contingencies:		
Amount on deposit	$	—
Income payable		4,132
Ordinary – involving life contingencies:		
Income payable		621
Group – not involving life contingencies:		
Amount on deposit		—
Income payable		—
Group – involving life contingencies:		
Income payable		—

(Continued)

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2019

(Dollars in thousands)

Annuities:		
Ordinary:		
Immediate – amount of income payable	$	66,515
Deferred – fully paid account balance		21,151,727
Deferred – not fully paid – account balance		—
Group:		
Amount of income payable	$	11,245
Fully paid account balance		904,401
Not fully paid – account balance		—
Accident and health insurance – premiums in force:		
Ordinary	$	11,646
Group		—
Credit		—
Deposit funds and dividend accumulations:		
Deposit funds – account balance	$	602,632
Dividend accumulations – account balance		32,964
Claim payments:		
Group accident and health:		
2019 (incurred)	$	—
2018 (incurred)		—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
Prior (incurred)		—
Other accident and health:		
2019 (incurred)	$	(26)
2018 (incurred)		25
2017 (incurred)		62
2016 (incurred)		41
2015 (incurred)		67
Prior (incurred)		546
Other coverages that use developmental methods to calculate claims reserves:		
2019 (incurred)	$	—
2018 (incurred)		—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
Prior (incurred)		—

See accompanying independent auditors’ report.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets excluding separate accounts as reported on page two of the Annual Statement: $8,968,987.

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of exposure	Amount	Percentage of total admitted assets
2.01	OHIO NATIONAL LIFE ASSURANCE	EQUITY	$ 257,443	2.870%
2.02	SUNRISE CAPTIVE RE, LLC	LLC	171,302	1.910
2.03	MONTGOMERY RE SURPLUS NOTE	SURPLUS NOTE	75,000	0.836
2.04	FEDERAL HOME LOAN BANK - CINTI	EQUITY	41,552	0.463
2.05	NATIONAL SECURITY LIFE & ANNUITY CO	EQUITY	40,947	0.457
2.06	SEQUOIA MORTGAGE TRUST	BOND	28,863	0.322
2.07	BOEING CO	BOND	26,476	0.295
2.08	CAMARGO RE INC	EQUITY	25,250	0.282
2.09	JP MORGAN MORTGAGE TRUST	BOND	24,472	0.273
2.10	CMWLTH FING AUTH PA	BOND	23,241	0.259

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds			Preferred stock		
3.01	NAIC-1	$ 3,392,635	37.826%	P/RP-1	$ —	—%
3.02	NAIC-2	1,882,851	20.993	P/RP-2	101	0.001
3.03	NAIC-3	115,791	1.291	P/RP-3	5,000	0.056
3.04	NAIC-4	14,442	0.161	P/RP-4	—	—
3.05	NAIC-5	14,654	0.163	P/RP-5	—	—
3.06	NAIC-6	358	0.004	P/RP-6	—	—

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

4.02	Total admitted assets held in foreign investments	$	920,538	10.264%
4.03	Foreign-currency-denominated investments		7,862	0.088
4.04	Insurance liabilities denominated in that same foreign currency		—	—

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

			1	**2**
5.01	Countries rated NAIC – 1	$	872,615	9.729%
5.02	Countries rated NAIC – 2		40,828	0.455
5.03	Countries rated NAIC – 3 or below		7,096	0.079

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

			1	**2**
	Countries rated NAIC – 1:			
6.01	Country 1: CAYMAN ISLANDS	$	213,007	2.375%
6.02	Country 2: AUSTRALIA		145,422	1.621
	Countries rated NAIC – 2:			
6.03	Country 1: MEXICO		40,828	0.455
6.04	Country 2:		—	—
	Countries rated NAIC – 3 or below:			
6.05	Country 1: BAHAMAS		5,950	0.066
6.06	Country 2: BARBADOS		1,146	0.013

7. Aggregate unhedged foreign currency exposure:

	1	**2**
$	—	—%

 (Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC – 1	$ —	—%
8.02	Countries rated NAIC – 2	—	—
8.03	Countries rated NAIC – 3 or below	—	—

9. Largest unhedged foreign currency exposures by country, categorized by NAIC sovereign rating:

		1	2
	Countries rated NAIC – 1:		
9.01	Country:	$ —	—%
9.02	Country:	—	—
	Countries rated NAIC – 2:		
9.03	Country:	—	—
9.04	Country:	—	—
	Countries rated NAIC – 3 or below:		
9.05	Country:	—	—
9.06	Country:	—	—

10. Ten largest nonsovereign (i.e. nongovernmental) foreign issues:

	1 Issuer	2 NAIC rating	1	2
10.01	AXA	2	$ 16,381	0.183%
10.02	STANDARD CHARTERED BANK	2	15,340	0.171
10.03	UPLAND CLO LTD	1	14,500	0.162
10.04	TRANSPOWER NEW ZEALAND LTD	1	10,000	0.111
10.05	SAP IRELAND US-FINANCIAL	1	10,000	0.111
10.06	SHACKLETON CLO LTD	1	10,000	0.111
10.07	PLACES FOR PEOPLE TREASURY PLC	2	10,000	0.111
10.08	MIGHTY RIVER POWER LIMITED	2	10,000	0.111
10.09	AKELIUS RESIDENTIAL PROPTY AB	2	10,000	0.111
10.10	HOFER FINANCIAL SERVICES GmbH	1	9,000	0.100

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 11.01 above is yes, detail is not required for remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 12.01 above is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02	OHIO NATIONAL LIFE ASSURANCE	$ 257,443	2.870%
13.03	SUNRISE CAPTIVE RE, LLC	171,302	1.910
13.04	FEDERAL HOME LOAN BANK - CINTI	41,552	0.463
13.05	NATIONAL SECURITY LIFE & ANNUITY CO	40,947	0.457
13.06	CAMARGO RE INC	25,250	0.282
13.07	THE ON EQUITY SALES CO	7,703	0.086
13.08	IRONWOOD	5,357	0.060
13.09	MORGAN STANLEY SSERIES I PFD	5,000	0.056
13.10	OHIO NATIONAL EQUITIES INC	1,346	0.015
13.11	QUAD GRAPHICS INC	138	0.002

THE OHIO NATIONAL LIFE INSURANCE COMPANY
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Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (residential, commercial, agricultural)		2	3
16.02	COMMERCIAL	$	22,482	0.251%
16.03	COMMERCIAL		20,821	0.232
16.04	COMMERCIAL		17,869	0.199
16.05	COMMERCIAL		17,000	0.190
16.06	COMMERCIAL		16,113	0.180
16.07	COMMERCIAL		10,465	0.117
16.08	COMMERCIAL		9,915	0.111
16.09	COMMERCIAL		9,668	0.108
16.10	COMMERCIAL		9,127	0.102
16.11	COMMERCIAL		8,220	0.092

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	$ —	—%
16.13	Mortgage loans over 90 days past due	—	—
16.14	Mortgage loans in the process of foreclosure	—	—
16.15	Mortgage loans foreclosed	—	—
16.16	Restructured mortgage loans	—	—

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-value	Residential		Commercial		Agricultural	
17.01	Above 95%	$ —	—%	$ 24,462	0.273%	$ —	—%
17.02	91% to 95%	—	—	—	—	—	—
17.03	81% to 90%	—	—	20,380	0.227	—	—
17.04	71% to 80%	—	—	52,849	0.589	—	—
17.05	Below 70%	—	—	832,941	9.287	—	—

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At year-end		At end of each quarter		
			1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 168,640	1.880%	244,475	295,770	167,127
20.02 Repurchase agreements	—	—	—	—	—
20.03 Reverse repurchase agreements	—	—	—	—	—
20.04 Dollar repurchase agreements	—	—	—	—	—
20.05 Dollar reverse repurchase agreements	—	—	—	—	—

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	1	2	3	4
21.01 Hedging	$ —	—%	$ —	—%
21.02 Income generation	—	—	—	—
21.03 Other	—	—	—	—

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At year-end		At end of each quarter		
			1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
22.01 Hedging	$ 100	0.001%	$ 108	107	103
22.02 Income generation	—	—	—	—	—
22.03 Replications	—	—	—	—	—
22.04 Other	—	—			

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2019

(Dollars in thousands)

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

	At year-end		At end of each quarter		
			1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
23.01 Hedging	$ —	—	$ —	—	—
23.02 Income generation	—	—	—	—	—
23.03 Replications	—	—	—	—	—
23.04 Other	5,819	0.065%	21,156	20,534	7,500

See accompanying independent auditors' report.

Schedule 3

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Summary of Investments

December 31, 2019

(Dollars in thousands)

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage	Admitted assets as reported in Annual Statement Amount	Admitted assets as reported in Annual Statement Percentage
Bonds				
U.S. Governments	$ 92,570	1.10 %	$ 92,570	1.10 %
All Other Governments	—	-	—	-
U.S. States, Territories, and Possessions, etc., Guaranteed	564,504	6.70	564,504	6.70
U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	7,605	0.09	7,605	0.09
U.S. Special Revenue and Special Assessment Obligations, etc., Non-Guaranteed	389,966	4.63	389,966	4.63
Industrial and Miscellaneous	4,325,036	51.35	4,325,036	51.35
Hybrid Securities	3,000	0.04	3,000	0.04
Parent, Subsidiaries and Affiliates	—	-	—	-
SVO Identified Funds	—	-	—	-
Unaffiliated Bank Loans	—	-	—	-
Preferred Stocks				
Industrial and Misc. (Unaffiliated)	5,101	0.06	5,101	0.06
Parent, Subsidiaries and Affiliates	—	-	—	
Common Stocks				
Industrial and Miscellaneous Publicly Traded (Unaffiliated)	41,721	0.50	41,721	0.50
Industrial and Miscellaneous Other (Unaffiliated)	—	-	—	-
Parent, Subsidiaries and Affiliates Publicly Traded	—	-	—	-
Parent, Subsidiaries and Affiliates Other	332,689	3.95	332,689	3.95
Mutual Funds	—	-	—	-
Unit Investment Trusts	—	-	—	-
Closed-End Funds	—	-	—	-
Mortgage loans:			—	-
Farm Mortgages	—	-	—	—
Residential Mortgages	—	-	—	—
Commercial Mortgages	930,632	11.05	930,632	11.05
Mezzanine Real Estate Loans	—	-	—	—
Real Estate				
Properties Occupied by Company	—	-	—	—
Properties Held for Production of Income	25,758	0.31	25,758	0.31
Properties Held for Sale	—	-	—	-
Cash, Cash Equivalents, and Short-Term Investments				
Cash	265,649	3.15	265,649	3.15
Cash Equivalents	93,683	1.11	93,683	1.11
Short-Term Investments	38,050	0.45	38,050	0.45
Contract loans	744,694	8.84	744,593	8.84
Derivatives	111,721	1.33	111,721	1.33
Other Invested Assets	251,659	2.99	251,659	2.99
Receivables for Securities	528	0.00	528	0.00
Securities Lending	172,498	2.05	172,498	2.05
Other Invested Assets	26,000	0.30	26,000	0.30
Total invested assets	$ 8,423,064	100.00 %	$ 8,422,963	100.00 %

* Gross investment holdings as valued in compliance with NAIC accounting practices and procedures.

See accompanying independent auditors' report.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Schedules

December 31, 2018, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors
Ohio National Mutual Holdings, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ohio National Mutual Holdings, Inc. and subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Columbus, OH
March 27, 2019

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Dollars in thousands)

Assets	**2018**	**2017**
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturity securities	$ 11,606,009	9,672,326
Fixed maturity securities on loan	303,757	9,419
Equity securities	—	49,189
Trading securities, at fair value:		
Fixed maturity securities	850	1,285
Equity securities	—	31,507
Fixed maturity held-to-maturity securities, at amortized cost	—	1,332,309
Equity securities, at fair value	68,361	—
Equity securities on loan, at fair value	274	—
Mortgage loans on real estate, net	1,335,742	1,274,965
Real estate, net	48,904	50,640
Policy loans	766,701	664,548
Other long-term investments	264,261	242,995
Short-term investments securities lending collateral	313,492	9,681
Short-term investments	170,146	117,007
Total investments	14,878,497	13,455,871
Cash and cash equivalents	247,261	431,079
Accrued investment income	100,630	94,330
Deferred policy acquisition costs	1,966,022	1,807,505
Reinsurance recoverable	2,111,698	2,013,391
Other assets	358,770	400,409
Federal and foreign income tax recoverable	26,600	27,967
Assets held in separate accounts	19,489,189	23,611,918
Total assets	$ 39,178,667	41,842,470
Liabilities and Equity		
Future policy benefits and claims	$ 15,140,939	13,871,761
Policyholders' dividend accumulations	34,266	36,110
Other policyholder funds	164,147	132,528
Short-term borrowings	91,586	91,439
Notes payable (net of unamortized discount and debt issuance costs of $6,996 in 2018 and $7,873 in 2017)	853,504	852,626
Deferred federal and foreign income taxes	106,315	153,364
Other liabilities	519,942	525,211
Payables for securities lending collateral	313,492	9,681
Liabilities related to separate accounts	19,489,189	23,611,918
Total liabilities	36,713,380	39,284,638
Equity:		
Accumulated other comprehensive income	13,523	184,076
Retained earnings	2,451,764	2,373,756
Total equity	2,465,287	2,557,832
Total liabilities and equity	$ 39,178,667	41,842,470

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

		2018	2017	2016
Revenues:				
Traditional life insurance premiums	$	847,496	772,534	617,770
Annuity premiums and charges		571,784	523,958	520,544
Universal life policy charges		146,529	153,689	156,735
Group life and health insurance premiums		100,632	89,399	62,952
Accident and health insurance premiums		21,284	17,994	16,953
Investment management fees		51,452	30,438	23,924
Change in value of trading securities		—	2,449	902
Change in value of trading fixed maturity securities		(45)	—	—
Change in value of equity securities		(7,208)	—	—
Net investment income		553,278	506,944	493,128
Net realized gains (losses):				
Investment gains (losses):				
Total other-than-temporary impairment losses on securities		2,312	(4,778)	(1,326)
Portion of impairment losses recognized in other comprehensive income (loss)		(4,539)	(11,349)	(7,167)
Net other-than-temporary impairment losses on securities recognized in earnings		(2,227)	(16,127)	(8,493)
Realized gains, excluding other-than-temporary impairment losses on securities		5,293	12,924	5,473
Total investment gains (losses)		3,066	(3,203)	(3,020)
Derivative instruments		(6,000)	(291,294)	(229,016)
Other income		106,448	104,053	101,127
		2,388,716	1,906,961	1,761,999
Benefits and expenses:				
Benefits and claims		1,491,281	1,332,550	596,437
Provision for policyholders' dividends on participating policies		108,640	97,540	85,725
Amortization of deferred policy acquisition costs		154,419	114,128	239,656
Commissions, net		235,802	216,711	174,820
Other operating costs and expenses		331,953	324,925	312,156
		2,322,095	2,085,854	1,408,794
Income (loss) before income taxes		66,621	(178,893)	353,205
Income taxes:				
Current benefit		(972)	(15,119)	(3,591)
Deferred (benefit) expense		(5,056)	(189,720)	66,456
		(6,028)	(204,839)	62,865
Net income		72,649	25,946	290,340
Less: Net income attributable to the non-controlling interest		—	—	29
Net income attributable to ONMH	$	72,649	25,946	290,311

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

	Before tax	Tax (expense) benefit	After tax
2018			
Net income	$		72,649
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustment	(17,497)	—	(17,497)
Unrecognized net periodic benefit cost	9,402	(1,975)	7,427
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	(285,061)	60,025	(225,036)
Deferred acquisition costs	81,269	(17,067)	64,202
Future policy benefits and claims	38,534	(9,645)	28,889
Other policyholder funds	(17,990)	3,778	(14,212)
Less:			
Net gains on securities available-for-sale realized during the period	15,464	(3,290)	12,174
Amortization of pension and other post-retirement benefits	(4,059)	852	(3,207)
Total other comprehensive loss	(202,748)	37,554	(165,194)
Total comprehensive loss			$ (92,545)
2017			
Net income	$		25,946
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	11,459	—	11,459
Unrecognized net periodic benefit cost	(437)	(6,946)	(7,383)
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	86,818	19,191	106,009
Deferred acquisition costs	(26,819)	(3,331)	(30,150)
Future policy benefits and claims	(13,508)	2,542	(10,966)
Other policyholder funds	8,863	(617)	8,246
Less:			
Net gains on securities available-for-sale realized during the period	21,420	(4,733)	16,687
Amortization of pension and other post-retirement benefits	(4,009)	842	(3,167)
Total other comprehensive income including tax reform adjustment	48,965	14,730	63,695
Stranded tax effects of the tax reform rate change, net [1]	—	(33,329)	(33,329)
Total other comprehensive income	48,965	(18,599)	30,366
Total comprehensive income			$ 56,312
2016			
Net income	$		290,340
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	6,939	—	6,939
Unrecognized net periodic benefit cost	(12,572)	4,400	(8,172)
Net unrealized gains (losses) on securities available-for-sale arising during the period:			
Securities available-for-sale	100,958	(31,164)	69,794
Deferred acquisition costs	(5,038)	1,763	(3,275)
Future policy benefits and claims	(6,945)	1,971	(4,974)
Other policyholder funds	8,885	(3,110)	5,775
Less:			
Net gains on securities available-for-sale realized during the period	6,546	(2,228)	4,318
Amortization of pension and other post-retirement benefits	(4,341)	1,519	(2,822)
Total other comprehensive income	90,022	(25,431)	64,591
Total comprehensive income			354,931
Less comprehensive income attributable to non-controlling interest			29
Total comprehensive income attributable to ONMH			$ 354,902

1. As a result of the Tax Cuts and Jobs Act (tax reform) and in conjunction with the adoption of Accounting Standards Update (ASU) 2018-02, Income Statement – Reporting Comprehensive Income, Reclassifications of Certain Tax Effects from Accumulated Other Comprehensive Income, the Company applied new tax rates to the components of Other Comprehensive Income driven by the change in Accumulated Other Comprehensive Income and identified the stranded tax effects of the tax reform rate change in a single line in this table. See Note 4.

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

	Accumulated other comprehensive income	Retained earnings	Total ONMH equity	Non-controlling interest	Total equity
Balance, December 31, 2015	$ 55,790	2,090,828	2,146,618	(367)	2,146,251
Change in non-controlling interest ownership	—	—	—	338	338
Comprehensive loss:					
Net income	—	290,311	290,311	29	290,340
Other comprehensive income	64,591	—	64,591	—	64,591
Total comprehensive income			354,902	29	354,931
Balance, December 31, 2016	120,381	2,381,139	2,501,520	—	2,501,520
Tax reform adjustment	33,329	(33,329)	—	—	—
Comprehensive income:					
Net income	—	25,946	25,946	—	25,946
Other comprehensive income	30,366	—	30,366	—	30,366
Total comprehensive income			56,312	—	56,312
Balance, December 31, 2017	184,076	2,373,756	2,557,832	—	2,557,832
Impact of adoption of ASU 2016-01*	(5,359)	5,359			
Comprehensive loss:					
Net income	—	72,649	72,649	—	72,649
Other comprehensive loss	(165,194)	—	(165,194)	—	(165,194)
Total comprehensive loss			(92,545)	—	(92,545)
Balance, December 31, 2018	$ 13,523	2,451,764	2,465,287	—	2,465,287

*See Note 3 for futher detail.

See accompanying notes to consolidated financial statements.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 72,649	25,946	290,340
Adjustments to reconcile net income to net cash provided by operating activities:			
Proceeds from sale and maturity of fixed maturity trading securities	391	172	934
Proceeds from sale of equity securities	5	—	—
Interest credited to policyholder account values	236,964	226,986	224,968
Universal life and investment-type product policy fees	(415,644)	(404,182)	(384,557)
Capitalization of deferred policy acquisition costs	(231,828)	(235,076)	(245,866)
Amortization of deferred policy acquisition costs	154,419	114,128	239,656
Amortization and depreciation	26,463	11,377	7,026
Net realized losses on investments and derivative instruments	2,934	294,497	232,036
Change in value of trading securities	—	(2,449)	(902)
Change in value of trading fixed maturity securities	45	—	—
Change in value of equity securities	7,208	—	—
Deferred income tax (benefit) expense	(5,056)	(189,720)	66,456
Increase in accrued investment income	(6,300)	(3,408)	(3,317)
(Increase) decrease in other assets and reinsurance recoverable	(67,377)	44,235	(722,533)
Increase in policyholder liabilities	787,915	524,368	781,332
Increase in policyholders’ dividend accumulations and other funds	25,613	13,836	5,542
Decrease (increase) in federal and foreign income tax recoverable	1,367	(6,727)	(19,453)
Increase in other liabilities	7,719	90,817	31,405
Other, net	(3,660)	(4,875)	3,467
Net cash provided by operating activities	593,827	499,925	506,534
Cash flows from investing activities:			
Proceeds from maturity of fixed maturity available-for-sale securities	368,308	249,676	203,124
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity available-for-sale securities	1,082,932	920,959	715,237
Proceeds from sale of equity securities	40,578	37,516	27,727
Proceeds from maturity of fixed maturity held-to-maturity securities	—	52,445	40,586
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity held-to-maturity securities	—	73,862	75,974
Proceeds from repayment of mortgage loans on real estate	203,250	218,756	208,967
Proceeds from sale of real estate	4,141	7,639	5,942
Cost of fixed maturity available-for-sale securities acquired	(2,770,215)	(1,685,123)	(1,668,992)
Cost of equity securities acquired	(33,377)	(26,556)	(25,176)
Cost of fixed maturity held-to-maturity securities acquired	—	(172,597)	(185,491)
Cost of mortgage loans on real estate acquired	(271,261)	(267,233)	(196,881)
Cost of real estate acquired	(3,116)	(2,201)	(236)
Cost of property, plant and equipment acquired	(11,896)	—	—
Derivative (payments) receipts, net	(60,355)	(239,061)	(200,543)
Change in payables for securities lending collateral, net	303,811	(264,799)	84,323
Net (increase) decrease in short-term investments	(60,723)	(18,014)	773
Change in policy loans, net	(102,873)	(84,593)	(74,225)
Change in payable for securities and mortgage loans on real estate	(17,842)	—	—
Company owned life insurance settlement proceeds	98	—	—
Change in other invested assets, net	(27,350)	(68,226)	(48,642)
Net cash used in investing activities	(1,355,890)	(1,267,550)	(1,037,533)

(Continued)

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

	2018	2017	2016
Cash flows from financing activities:			
Universal life and investment product account deposits	$ 1,826,006	1,870,514	2,310,844
Universal life and investment product account withdrawals	(953,230)	(1,370,612)	(1,807,282)
Distribution to non-controlling interest	—	—	(1,385)
Change in short-term borrowings	147	76,439	—
Change in other financing activities	10,687	15,856	—
Net cash provided by financing activities	883,610	592,197	502,177
Foreign currency translation adjustment	(1,554)	617	(207)
Net increase (decrease) in cash and cash equivalents	119,993	(174,811)	(29,029)
Cash and cash equivalents, beginning of period	440,760	615,571	644,600
Cash and cash equivalents, end of period	$ 560,753	440,760	615,571
Supplemental disclosures:			
Federal income tax paid	$ 2,239	9,863	14,682
Interest paid	62,318	58,423	57,957
Reinsurance funds withheld embedded derivative liability change	20	—	—

See accompanying notes to consolidated financial statements.

(1) Organization and Business Description

Organization

Ohio National Mutual Holdings, Inc. is a mutual holding company organized under Ohio insurance laws and owns 100% of Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS owns 100% of The Ohio National Life Insurance Company ("ONLIC"), a life insurance subsidiary and Sycamore Re, Ltd. ("SYRE"), a special purpose financial captive life insurance company.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual holding companies. ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary, National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary, Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company, Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company, Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company, Sunrise Captive Re, LLC ("SUNR"), a special purpose financial captive, approved as a captive reinsurer by the State of Ohio on January 9, 2019, Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934, and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

SYRE owns 100% of a Delaware holding company, ON Foreign Holdings, LLC ("ONFH"), which owns 100% of Ohio National International Holdings Cooperatief U.A. ("ONIH"), a Dutch holding company. ONIH owns 100% of ON Netherlands Holdings B.V. ("ONNH"), a Dutch holding company. ONNH owns Ohio National Seguros de Vida S.A. ("ONSP"), a Peruvian insurance company and ON Global Holdings, SMLLC ("ONGH"), a Delaware holding company. ONNH owned ONSV do Brasil Participacoes Ltda. ("ONSB"), a Brazilian holding company. ONSB owned 100% of O.N. International do Brasil Participacoes, Ltda. ("OHIO"), which was formed to hold the equity method investment made when the Company entered into a 50% joint venture agreement with a Brazilian insurance company. Effective July 2, 2018, ONSB was merged into OHIO, with OHIO being the surviving entity. As the transaction was between entities under common control, the operations of ONSB were transferred to OHIO at carrying value and, as such, there was no financial statement impact as a result of this transaction. ONGH owns 100% of Ohio National Sudamerica S.A. ("ONSA"), a Chilean holding company. ONSA owns 100% of Ohio National Seguros de Vida S.A. ("ONSV"), a Chilean insurance company.

Ohio National Mutual Holdings, Inc. and its subsidiaries are collectively referred to as "ONMH" or the "Company".

Business

ONLIC and ONLAC are life and health (disability) insurers licensed in 49 states, the District of Columbia and Puerto Rico. ONLIC and ONLAC offered a full range of life, disability, and annuity products through independent agents and other distribution channels and are subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018 that it will exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision follows a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective September 15, 2018, the Company is no longer accepting applications for annuities or new retirement plans, while continuing to service and support existing clients in both product lines.

In 2018, ONLIC offered certain variable annuity policyholders with the guaranteed minimum income benefit ("GMIB") rider the opportunity to exchange that policy and associated rider for a fixed indexed annuity policy with an enhanced guaranteed lifetime withdrawal benefit ("GLWB") rider. More than $500,000 in account value was exchanged under this program.

Additionally, in late 2018 and into 2019, ONLIC offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. Through December 31, 2018, the Company paid more than $50,000 related to the buy-back, which is included in benefits and claims on the corresponding statements of income.

NSLAC is licensed in 17 states and the District of Columbia and services an existing portfolio of variable annuity products. Effective March 16, 2018, NSLAC no longer actively markets or issues new individual variable annuity business, which currently represents the majority of NSLAC's inforce contracts and policies.

ONLIC, ONLAC and NSLAC are subject to regulation by the insurance departments of states in which they are licensed and undergo periodic examinations by those departments.

SYRE reinsures certain variable annuity-related risks for ONLIC. The variable annuity reinsurance agreement covers living benefits and death benefits sold only with or as a part of such living benefit riders.

MONT engages in the business of reinsuring term life insurance and certain death benefit guarantee universal life policies with affiliated companies. KENW and CMGO engage in the business of reinsuring term life insurance with affiliated companies. SUNR was capitalized in 2018 with the intent of reinsuring certain annuity contracts beginning in early 2019.

ONEQ earns revenue by retaining a sales load from the sale of variable life insurance contracts on behalf of ONLAC and add on payments made to variable annuity contracts on behalf of ONLIC. ONESCO earns commissions and fees from sales of variable life contracts under a distribution agreement with ONLAC and annuity contracts under a distribution agreement with ONLIC as well as commissions and fees related to sales of unaffiliated products.

In accordance with adoption of ASU 2014-09 (see note 3t (ASU 2014-09)), revenue included under Topic 606 earned by the broker dealer operations, which is based on agreed upon commission rates, is recognized when the respective broker dealer entity's performance obligation is satisfied. For fees paid up front, the performance obligation is the sale of the contract and as such, is fulfilled on the trade date. Certain variable commission revenue is considered constrained within Topic 606, as it is dependent on the account value at future points in time as well as the length of time and whether the policy remains in force, all of which are highly susceptible to factors outside the Company's influence. The constraint is overcome when the account value and investor activities are known, usually monthly, at which point the revenue is recognized. The broker dealer operations had no remaining performance obligations to satisfy related to revenue from contracts with customers as of December 31, 2018.

ONSV provides insurance and other retirement products to the Chilean market. ONSP provides death, survival and disability insurance in the Peruvian Social Security System. The Brazilian joint venture provides insurance and other retirement products to the Brazilian market.

(2) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany transactions and balances have been eliminated in consolidation.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Company that materially affect financial reporting are summarized below.

(a) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Actual results could differ from estimates.

The most significant estimates and assumptions include those used in determining the balance, amortization and recoverability of deferred policy acquisition costs, the liability for future policy benefits and claims, contingencies, provision for income taxes, deferred taxes, uncertain income tax positions and contingencies, allowance for loan losses for mortgage loans on real estate, valuation of and impairment losses on investments and valuation of embedded derivatives. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the consolidated balance sheet date. Management believes the amounts provided are appropriate.

(b) Fair Value

Certain assets and liabilities are measured at estimated fair value in the Company's consolidated balance sheets. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. Note 6 to the consolidated financial statements includes further disclosures of estimated fair values.

(c) Investments

Net Investment Income and Net Realized Gains (Losses)
Income on investments is reported within net investment income. Gains and losses on sales of investments, impairment losses and changes in the allowance for loan losses on mortgage loans are reported within net realized gains (losses).

Fixed Maturity and Equity Securities
Fixed maturity and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains and losses, net of adjustments to deferred policy acquisition costs, future policy benefits and claims, other policyholder funds and deferred federal income tax, are recorded as a separate component of accumulated other comprehensive income in equity. Effective January 1, 2018, the Company reclassified all equity securities available-for-sale to equity securities, at fair value as a result of the adoption of Accounting Standards Update ("ASU") 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). See Note 7 for further information.

Fixed maturity securities related to the Company's funds withheld reinsurance arrangements are classified as trading and are stated at estimated fair value. Changes in estimated fair value of these securities are included in change in value of trading securities in the consolidated statements of income.

Fixed maturity and equity securities classified as trading are reported at their estimated fair value. Changes in estimated fair value of these securities are included in change in value of trading securities in the consolidated statements of income. Effective January 1, 2018, the Company reclassified all equity securities classified as trading to equity securities, at fair value as a result of the adoption of ASU 2016-01. See Note 7 for further information.

Fixed maturity securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity and are stated at amortized cost. In 2018, the Company reclassified all fixed maturity held-to-maturity securities as available-for-sale. See Note 7 for further information.

Realized gains (losses) on the sale of investments are determined on the basis of specific security identification on the trade date. Any capital gains occurring in the Closed Block portfolio are offset by increases in the deferred policyholder obligation for that group of policies. See Note 16 for further information on the Closed Block.

For mortgage-backed securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions and the estimated economic life of the securities. When estimated prepayments differ significantly from actual prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Any resulting adjustment is included in net investment income. All other investment income is recorded using the interest method without anticipating the impact of prepayments.

Dividends are recorded on the ex-dividend date and interest is accrued as earned using an effective yield method giving effect to amortization of premiums and accretion of discounts.

Management regularly reviews its fixed maturity and equity securities portfolios in order to evaluate the necessity to record impairment losses for other-than-temporary declines in estimated fair value of investments. See Note 7 for management's description and analysis of the portfolio.

Mortgage Loans on Real Estate
Mortgage loans on real estate are carried at the unpaid principal balance less an allowance for loan losses. The allowance is comprised of a specific and general component. The specific component relates to loans that have been identified as impaired and is generally measured as the difference between the impaired principal balance less the fair value of the collateral, if collateral dependent, less cost to sell. The Company provides allowances for impairments of these mortgage loans based on a review by portfolio managers. For the general component, management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

Commercial mortgages can be restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case by case basis to evaluate whether a TDR has occurred and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral.

Changes in the allowance are recorded in net realized gains (losses). Loans in foreclosure and loans considered to be impaired as of the consolidated balance sheet date are placed on nonaccrual status. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

Real Estate
Real estate, net, which is comprised of buildings and improvements held for company investment and other real estate owned, is carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company occupied real estate is 30 to 39 years and the estimated useful life for building improvements is 5 to 20 years. The estimated useful life for real estate held for investment is 17 to 39 years and the estimated useful life for building improvements is 5 to 16 years. Real estate, net also includes land which is carried at cost.

The Company occupies less than 50% of buildings held for company investment.

The cost basis of the real estate and building improvements was $54,513 and $54,521 at December 31, 2018 and 2017, respectively. Accumulated depreciation was $11,296 and $9,568 at December 31, 2018 and 2017, respectively. Related depreciation expense was $1,922, $1,713 and $951 for the years ended December 31, 2018, 2017 and 2016, respectively, and is included in net investment income in the consolidated statements of income. The cost basis of land was $5,390 and $5,687 at December 31, 2018 and 2017, respectively.

The Company reviews the estimated useful lives of these long lived assets and assesses for impairment when certain events or changes in operations occur.

Policy Loans
Policy loans are stated at unpaid principal balances. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate and is included in net investment income on the consolidated statements of income. Generally, accrued interest is capitalized on the policy's anniversary date.

Other Long Term Investments
The Company's direct financing leases are capital leases and the lease operations consist principally of building and land purchase and lease arrangements. Direct financing leases are carried at minimum lease payments to be received less unearned income. Building leases generally have a 75% - 80% loan-to-value ("LTV") at inception and a 9 to 21 year repayment schedule. Land leases generally have a 60% - 70% LTV at inception, a five year repayment schedule and have several principal and interest cash flow structures.

Venture capital partnerships are carried on the equity method basis.

Securities Lending Program
The Company participates in an indemnified securities lending program administered by an unaffiliated agent in which certain portfolio holdings are loaned to third parties. The borrower must deliver to the Company's agent collateral having a market value equal to at least 102% and 105%, respectively, of the market value of the domestic and foreign securities loaned. The collateral received by the Company's agent from the borrower to secure loans on behalf of the Company must be in the form of cash, securities issued or guaranteed by the U.S. government or its agencies, or a bank letter of credit or equivalent obligation as may be pre-approved by the Company. The Company monitors the estimated fair value of the loaned securities on a daily basis and additional collateral is obtained as necessary. The asset, short-term investments securities lending collateral, and corresponding liability, payables for securities lending collateral, are recorded on the consolidated balance sheets. Income and expenses associated with securities lending transactions are reported within net investment income.

Short-term Investments
Short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at the time of purchase and are stated at estimated fair value.

(d) Derivatives

The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. The futures derivative instruments are carried at estimated fair value in other long-term investments or other liabilities, and the remaining derivative instruments are carried at estimated fair value in other long-term investments, with changes in estimated fair value recorded in net realized gains (losses) derivative instruments in the consolidated statements of income.

The Company enters into derivative transactions that meet the criteria for hedge accounting pursuant to FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). The Company purchased a foreign currency swap that meets the criteria for hedge accounting as a cash flow hedge. The swap instrument is carried at estimated fair value in other long-term investments or other liabilities. Changes in the estimated fair value of the swap are recorded in other comprehensive income in the consolidated balance sheets.

The Company sold variable annuities and fixed indexed annuities, issues certain insurance products and investment contracts, and is a party to certain reinsurance agreements that have embedded derivatives. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated. The embedded derivative is bifurcated from the host contract and accounted for as a freestanding derivative if:

- the combined instrument is not accounted for in its entirety at fair value with changes in fair value recorded in earnings;
- the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and
- a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument.

Such embedded derivatives are carried at estimated fair value with the reinsurance embedded derivatives reported in reinsurance recoverables in the consolidated balance sheets. The change in the estimated fair value is reported in benefits and claims in the consolidated statements of income.

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all short-term and highly liquid investments with original maturities of three months or less (including securities lending collateral, commercial paper and reverse repurchase agreements) to be cash equivalents.

(f) Deferred Policy Acquisition Costs and Capitalized Sales Inducements

The Company incurs costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisition costs ("DAC"). Such costs generally include:

- incremental direct costs of contract acquisitions;
- the portion of the employee's total compensation, excluding any compensation that is deferred as part of contract acquisitions, and payroll related fringe benefits for certain costs related directly to time spent performing underwriting, policy issuance, medical/inspection, and sales force contract selling acquisition activities of a successful contract;
- other costs related directly to the insurer's acquisition activities noted above that would not have been incurred had the issuance of the contract not occurred; and
- certain advertising costs that meet the deferral criteria.

All other acquisition costs such as general advertising, market research, training, administration and unsuccessful acquisition efforts are expensed as incurred.

DAC is subject to recoverability testing in the year of policy issuance and loss recognition testing at the end of each reporting period. For traditional nonparticipating life insurance products, DAC is amortized with interest over the premium paying period of the related policies in proportion to premium revenue. Such anticipated premium revenue is estimated using the same assumptions as were used for computing liabilities for future policy benefits.

For traditional participating life insurance products, DAC is amortized in proportion to gross margins of the related policies. Gross margins are determined for each issue year and are equal to premiums plus investment income less death claims, surrender benefits, administrative costs, expected policyholder dividends, and the increase in reserve for future policy benefits.

For investment and universal life products, DAC is amortized with interest over the lives of the policies in relation to the present value of the estimated future gross revenues (projected investment income, asset fees, cost of insurance charges, policy administration fees, surrender charges, and net realized gains and losses) or estimated future gross profits (gross revenues less interest credits, policy benefits and policy maintenance expenses).

DAC for participating life products, investment products and universal life business is adjusted to reflect the impact of unrealized gains and losses on the related fixed maturity securities available-for-sale.

The most significant assumptions that are involved in the estimation of future gross profits include future gross separate account performance, surrender/lapse rates, withdrawal/partial withdrawal, interest margins and mortality. The Company's long-term assumption for gross separate account performance, net of investment fees, is 7.3%, a blend of expected returns from stock, money market and bond funds representative of the in-force block of contracts before a deduction for policy charges. The Company assumes that the level of separate account assets resulting from market performance will revert, over a three year period, to the level expected if the long-term assumed trend rate had applied. This assumption is commonly referred to as a reversion to the mean. The Company's policy regarding the reversion to the mean process does not permit projected returns to be below 0.0% or in excess of 15.0% during the three-year reversion period.

Changes in assumptions can have a significant impact on the amount of DAC reported for investment products and universal life insurance products and their related amortization patterns. In the event actual experience differs from assumptions or assumptions are revised, the Company is required to record an increase or decrease in DAC amortization expense ("DAC unlocking"), which could be significant. In general, increases in the estimated general and net separate account returns result in increased expected future profitability and may lower the rate of DAC amortization, while increases in lapse/surrender and mortality assumptions reduce the expected future profitability of the underlying business and may increase the rate of DAC amortization. Any resulting DAC unlocking adjustments are reflected currently in the amortization of DAC in the consolidated statements of income.

The Company offers certain sales inducements to contract holders. Sales inducements are product features that enhance the investment yield on a contract. The Company utilizes the following sales inducements:

- day-one bonuses which increase the account value at inception; and
- enhanced yield options which credit interest for a specified period in excess of rates currently being offered for other similar contracts.

Sales inducements are deferred and amortized using the same methodology and assumptions used to amortize DAC.

(g) Reinsurance

Reinsurance is an agreement by which a reporting entity transfers all or part of its risk under a contract to another reporting entity. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, including those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. To the extent there are loss limiting features that preclude the reinsurer from assuming the risk of significant loss, the Company accounts for such agreements using deposit accounting. See Note 11 for additional reinsurance disclosures.

Accounting for reinsurance requires the use of significant management estimates and assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the strength of counterparties to its reinsurance agreements. Reinsurance does not discharge the Company from its primary liability to policyholders and to the extent that a reinsurer should be unable to meet its obligations, the Company would be liable to policyholders.

Amounts recoverable under reinsurance agreements, which totaled $2,111,698 and $2,013,391 as of December 31, 2018 and 2017, respectively, include ceded reserves, paid and unpaid claims, and certain other amounts.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts on the consolidated statements of income. Assets and liabilities related to reinsurance ceded are reported on a gross basis.

The Company enters into reinsurance agreements with various insurance subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

(h) Equipment, Computer Software and Hardware and Properties Occupied by the Company

Equipment, which is included in other assets, is stated at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated life is generally 2 to 15 years for equipment. The cost basis of the equipment was $61,613 and $60,829 at December 31, 2018 and 2017, respectively. Accumulated depreciation of equipment was $44,701 and $41,214 at December 31, 2018 and 2017, respectively. Related depreciation expense was $5,742, $6,167 and $4,289 for the years ended December 31, 2018, 2017 and 2016, respectively.

Computer software and hardware, which is included in other assets, is stated at cost, less accumulated amortization. Purchased software costs, as well as certain internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized. Such costs are amortized generally over a 2 to 10 year period using the straight-line method based upon the estimated useful life of the assets. The cost basis of computer software was $107,718 and $108,225 at December 31, 2018 and 2017, respectively. Accumulated amortization of computer software and hardware was $59,589 and $55,647 at December 31, 2018 and 2017, respectively. Related amortization expense was $9,908, $7,463 and $6,954 for the years ended December 31, 2018, 2017 and 2016, respectively.

Properties occupied by the Company, which are included in other assets, are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful life of the assets. The estimated useful life for company occupied real estate is 30 to 32 years and the estimated useful life for building improvements is 9 to 30 years. The cost basis of the buildings, improvements and land was $45,637 and $45,608 at December 31, 2018 and 2017, respectively. Accumulated depreciation of buildings and improvements was $18,437 and $16,785 at December 31, 2018 and 2017, respectively. Related depreciation expense was $1,623, $1,562 and $1,808 for the years ended December 31, 2018, 2017, and 2016, respectively. Properties occupied by the Company also include related land which is carried at cost.

The Company reviews the estimated useful lives of these long lived assets and assesses for impairment when certain events or changes in operations occur.

The Company has $12,712 and $11,759 of capital projects in process recorded in other assets at December 31, 2018 and 2017, respectively.

(i) Goodwill and Intangible Assets

Goodwill and intangible assets are included in other assets. In a business combination, goodwill is the result of the excess of cost over the estimated fair value of the net assets acquired. Intangible assets are non-financial assets that lack physical substance resulting from a business combination.

Goodwill and intangible assets are assets acquired by the Company as a result of acquisitions in prior years of the NSLAC and ONSV entities. The Company has $1,314 of goodwill recorded in other assets at December 31, 2018 and 2017.

Goodwill is not amortized, but is evaluated for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, require an interim evaluation. The evaluation includes the use of management assumptions which may be inherently uncertain. During the 2018 annual impairment tests, the Company concluded that the estimated fair value of the goodwill was in excess of its carrying value and, therefore, not impaired.

The Company has $191 and $195 of intangible assets recorded in other assets on the balance sheets at December 31, 2018 and 2017, respectively, related to insurance licenses acquired with the purchase of NSLAC by ONLIC in 2002. The value of the intangible is primarily dependent upon the maintenance of the New York license. License fees are paid annually in order to maintain the license in good standing. Each license remains intact and in good standing as there have been no events that would impact NSLAC's ability to do business in the New York or New Jersey markets. In 2018, the Company evaluated and concluded that its intangible assets had a useful life that was determinable and began amortizing the assets over that life. The Company amortized $4 for the year ended December 31, 2018.

(j) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. The activity of the separate accounts is not reflected in the consolidated statements of income and cash flows except for the fees the Company receives for administrative services and risks assumed and the activity related to guaranteed contracts, which are riders to existing variable annuity contracts. These are recorded in either annuity premiums and charges or benefits and claims in the consolidated statements of income. Separate account seed money is recorded as a trading security.

(k) Revenues and Benefits

<u>*Traditional Life Insurance Products*</u>
Traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of whole life, limited-payment life, term life, and certain annuities with life contingencies.

Premiums for traditional life insurance products are recognized as revenue when due. Benefits and expenses are associated with earned premiums; therefore, profits are recognized over the life of the contract. This association is accomplished through the provision for future policy benefits and the deferral and amortization of policy acquisition costs.

Investment Products and Universal Life Insurance Products
Investment products consist primarily of individual and group variable and fixed deferred annuities, annuities without life contingencies, guaranteed investment contracts and fixed indexed annuities. Universal life insurance products include universal life, variable universal life, indexed universal life and other interest-sensitive life insurance policies.

Revenues for investment products and universal life insurance products consist of net investment income, cost of insurance charges, asset fees, policy administration fees, and surrender charges that have been earned and assessed against policy account balances during the period. The timing of revenue recognition as it relates to fees assessed on investment contracts and universal life contracts is determined based upon the nature of such fees. Cost of insurance charges and policy administrative fees are assessed on a daily, monthly or annual basis, and recognized as revenue when assessed and earned. Certain amounts assessed that represent compensation for services to be provided in future periods such as unearned front end loads are reported as unearned revenue and recognized in income over the periods benefited. Surrender charges are recognized upon surrender of a contract in accordance with contractual terms. Policy benefits and claims that are charged to expense include benefits and claims incurred in the period in excess of related policy account balances, maintenance costs, and interest credited to policy account balances.

Accident and Health Insurance Products
Accident and health insurance premiums including group life (burial and survivorship) and health (disability) are recognized as revenue in accordance with the terms of the policies. Policy claims are charged to expense in the period that the claims are incurred.

(l) Investment Management Fees

Investment management fees are earned by various subsidiaries in conjunction with money management activities. The fees are based on a percentage of assets at the end of each quarter and are recognized in income as earned.

The following table illustrates the revenue recognized from contracts with customers reported in investment management fees, net investment income and other income on the consolidated statements of income, and the timing of revenue recognition, for the year ending December 31, 2018:

(Dollars in thousands)

December 31, 2018		**Registered investment and variable contracts**	**General securities**	**Fee based and other**	**Total**
Revenues from contracts with customers					
Other income	$	61,298	2,334	13,503	77,135
Net investment income		-	-	29	29
Investment management fees		-	-	51,450	51,450
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	61,298	2,334	64,982	128,614
Total revenue from contracts with customers	$	61,298	2,334	64,982	128,614

(m) Other Income

The Company earns sales load fees on the sale of ONLAC variable universal life contracts by unrelated third party brokers through various subsidiaries. The Company also earned sales load fees on ONLIC variable, fixed and fixed indexed annuity contracts. Sales load fees are recognized as revenue when earned. Additionally, the various subsidiaries of the Company sold registered investment products and variable contracts sponsored by unaffiliated parties.

(n) Future Policy Benefits and Claims

The Company establishes liabilities for amounts payable under insurance policies. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. The process of calculating reserve amounts for a life insurance organization involves the use of a number of assumptions, including those related to persistency (how long a contract stays with a company), mortality (the relative incidence of death in a given time), morbidity (the relative incidence of disability resulting from disease or physical ailment) and interest rates (the rates expected to be paid or received on financial instruments, including insurance or investment contracts). The methods used in determining the liability for unpaid losses and future policy benefits are standard actuarial methods recognized by the American Academy of Actuaries.

Liabilities for traditional life insurance policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals which were used or which were being experienced at the time the policies were issued.

Liabilities for investment products in the accumulation phase, fixed deferred annuities, fixed indexed annuities, group annuities, universal life insurance products and variable universal life insurance products are calculated based on participants' contributions plus interest credited less applicable contract charges.

Liabilities for payout annuities are calculated using the present value of future benefits discounted using varying interest rates. Liabilities for variable payout annuities also include maintenance costs in the present value calculation.

Liabilities for disability income policies are calculated using a net level premium method based on estimates of mortality, morbidity, investment yields, and withdrawals which were used or which were being experienced at the time the policies were issued. Liabilities for disability income policies on claims are calculated using the present value of future benefits and maintenance costs discounted using varying interest rates, depending on the year the claim was incurred.

The Company regularly reviews its estimates of future policy benefits and claims liabilities and compares them with its actual experience. Differences result in changes to the liability balances with related charges or credits to benefit expenses in the period in which the change occurs.

The Company issued traditional variable annuity contracts through its separate accounts, for which investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

The Company also issued nontraditional variable annuity contracts through its separate accounts in which the Company provides various forms of guarantees/riders to benefit the related contract holders. These guarantees are accounted for as insurance liabilities or as embedded derivatives depending on how and when the benefit is paid. Specifically, a guarantee is accounted for as an embedded derivative if a guarantee is paid out without requiring the occurrence of a specific insurable event or the policyholder to annuitize. Alternatively, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either the occurrence of a specific insurable event, or annuitization. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative and in such cases the guarantee is split and accounted for under both models.

The Company has five main types of rider benefits offered with individual variable annuity contracts:

- guaranteed minimum death benefit ("GMDB");
- guaranteed minimum income benefit ("GMIB");
- guaranteed minimum accumulation benefit ("GMAB");
- guaranteed minimum withdrawal benefit ("GMWB"); and
- guaranteed lifetime withdrawal benefit ("GLWB").

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

The Company refers to the total of the five types issued with variable annuity contracts and fixed indexed annuity contracts, collectively, as the "G reserves."

Guarantees accounted for as insurance liabilities in future policy benefits and claims include GMDBs, GMIBs and certain GLWBs that require annuitization.

Guarantees accounted for as embedded derivatives include GMWBs, GMABs and certain GLWBs that do not require annuitization. At inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. The embedded derivatives are carried at estimated fair value and reported in future policy benefits and claims.

(o) Participating Business/Policyholder Dividends

Participating business, which refers to policies that participate in profits through policyholder dividends, represents 13.1%, 12.3% and 11.3% of the Company's ordinary life insurance in force as of December 31, 2018, 2017 and 2016, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholder funds in the accompanying consolidated balance sheets. Policyholder dividends incurred are recorded in the provision for policyholders' dividends on participating policies in the accompanying consolidated statements of income.

Policyholder dividends are approved annually by ONLIC's board of directors based upon the amount of distributable statutory surplus. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity, and expense experience for the year, as well as management's judgment as to the appropriate level of statutory surplus to be retained by ONLIC.

(p) Income Taxes

The Company files a life/non-life consolidated federal income tax return which includes its U.S. domestic subsidiaries. United States Department of the Treasury ("Treasury") regulations generally require a five year waiting period as to when a life insurance company can be included in the consolidated federal income tax return. A subsidiary life insurance company may obtain approval sooner, if the provisions of the Treasury regulations are met. KENW and NSLAC joined the consolidated return in 2013. CMGO met the Treasury regulations and received approval to join the consolidated return in 2015.

SYRE was formed in Bermuda in 2008 as a life insurance company and elected to be treated as a U.S. taxpayer. In 2013, SYRE was redomesticated to the United States. In 2015, SYRE was re-domiciled from the U.S. to the Cayman Islands and elected to be a U.S. taxpayer. SYRE joined the consolidated return on January 1, 2014.

The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocations are based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled quarterly.

The Company's policy for recording interest and penalties associated with audits, claims and adjustments is to record such amounts as a component of current income tax (benefit) expense.

The foreign life insurance subsidiaries owned by the Company file tax returns in accordance with applicable foreign laws in their respective countries of domestication. U.S. taxation of foreign affiliates may differ in timing and amount from taxation under foreign laws. The impact of the returns filed subject to foreign tax law has been reflected in the provision for income tax expense and related liabilities.

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. Current income taxes are charged to operations based upon amounts estimated to be payable as a result of taxable operations for the current year.

In determining the need for a valuation allowance, the Company considers the carryback capacity to absorb capital losses, reversal of existing temporary differences, estimated future taxable income and prudent and feasible tax planning strategies. The determination of the valuation allowance for the Company's deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on historical experience and expectations of future performance. Management's judgments are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such factors as policyholder behavior, competitive pricing, and specific industry and market conditions.

Related to Global intangible low-taxed income ("GILTI") tax rules, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the 'period cost method') or (2) factoring such amounts into a company's measurement of its deferred taxes (the 'deferred method'). The Company has elected the period cost method, which will be determined annually if the Company's GILTI inclusion arises to a material amount from a U.S. tax compliance perspective.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act. See Note 4 for a description of the new tax law.

(q) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred.

On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's consolidated financial statements.

(r) Foreign Currency

Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. The determination of the functional currency is made based on the appropriate economic and management indicators. The local currencies of foreign operations are the functional currencies. Assets and liabilities of foreign subsidiaries are translated from the functional currency to U.S. dollars at the exchange rates in effect at each year end and income and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are charged or credited directly to other comprehensive income, net of applicable taxes.

(s) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans. The Company recognizes an expense for differences between actual experience and estimates over the average future service period of participants. The actuarial gains (losses) and prior service costs (credit) not yet included in net periodic benefit costs are charged to accumulated other comprehensive income ("AOCI"), net of income tax.

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality. Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's consolidated financial statements.

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsors a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions are based on the net earnings of the Company. Accordingly, the Company recognizes compensation cost for current contributions.

(t) Adoption and Future Adoption of New Accounting Pronouncements

Due to affiliated public company subsidiaries, the Company applies the public entity requirements when adopting new accounting standards.

Adoption of New Accounting Pronouncements

In February 2018, the Company early adopted ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance gives financial statement preparers an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The guidance also requires disclosure of (1) a description of the accounting policy for releasing income tax effects from AOCI, (2) whether the company elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act, and (3) information about the other income tax effects that are reclassified. The Company chose to early adopt this standard effective for the year ended December 31, 2017. As a result of adoption, ($33,329) was reclassified from AOCI to retained earnings.

In January 2018, the Company adopted ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. This guidance defines in substance nonfinancial assets, and clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The adoption of this guidance did not impact the Company's consolidated financial statements.

In January 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows, (Topic 230): Restricted Cash*. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements, except for expanded disclosures.

In January 2018, the Company adopted ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This guidance requires entities to immediately recognize the income tax consequences of intercompany asset transfers. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The guidance addresses how certain specific cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this guidance did not impact the Company's consolidated financial statements.

In January 2018, the Company adopted ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This guidance requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This guidance requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). This guidance eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company adopted the standard using a modified retrospective approach. The adoption of the standard resulted in a reclassification of approximately $6,783, pre-tax, $5,359, net of tax as of December 31, 2018, from accumulated other comprehensive income to retained earnings.

(Dollars in thousands)

Financial assets identified in other assets		**Carrying amount**	
Accounts receivable due from external parties	$	8,882	Carrying value approximates fair value
Annuity Rider Charges Receivable (1)		122,657	Carrying value approximates fair value
Goodwill (1)		1,505	See Note 3
Property and fixed assets (1)		105,566	See Note 3
Due and uncollected premium (1)		61,526	Carrying value approximates fair value
Other (2)		58,634	Carrying value approximates fair value
Total other assets	$	358,770	

Financial assets identified in other long-term investments		**Carrying amount**	
Direct financing leases (1)	$	88,419	Carrying value approximates fair value
Derivative instruments		106,904	Carrying value approximates fair value
Receivable for securities		1,939	Carrying value approximates fair value
Joint venture		22,103	Carrying value approximates fair value
Other invested assets		1,570	Carrying value approximates fair value
FHLB common stock (1)		43,326	Amortized cost
Total other long-term investments	$	264,261	

Financial liabilities identified in other liabilities		**Carrying amount**	
Interest payable	$	7,305	Carrying value approximates fair value
Derivative liabilities		2,866	Carrying value approximates fair value
Collateral liabilities		106,880	Carrying value approximates fair value
Capital leases obligations (1)		28,646	Carrying value approximates fair value
Investments in transit and payable for securities		4,982	Carrying value approximates fair value
Reinsurance payable (1)		91,315	Carrying value approximates fair value
Accrued commissions and expenses (1)		70,767	Carrying value approximates fair value
Pension liability (1)		128,066	Carrying value approximates fair value
Other (2)		79,115	Carrying value approximates fair value
Total other liabilities	$	519,945	

(1) This classification is not in the scope of ASU 2016-01, but is presented for reconciliation purposes to agree to the balance sheet caption.

(2) Some items in these categories are not in the scope of ASU 2016-01, but are presented for reconciliation purposes to agree to the balance sheet caption.

Effective January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers and applies primarily to commissions, advisory fees and sales loads earned by the Company's broker dealer operations, as Topic 606 specifically excludes insurance contracts from its scope. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. In adopting the standard, the Company recognized approximately $17,000 in sub-advisory fees as a portion of other operating costs and expenses for the year ended December 31, 2018 (gross basis), where in previous years they were reported as part of investment management fees (net basis).

In January 2017, the Company adopted ASU 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*. The guidance does not change the characteristics of a primary beneficiary under current GAAP. It changes how a reporting entity evaluates whether it is the primary beneficiary of a variable interest entity ("VIE") by changing how a reporting entity that is the controlling decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The adoption of this guidance did not impact the Company's consolidated financial statements.

In January 2017, the Company adopted ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of this guidance did not significantly impact the Company's consolidated financial statements.

In January 2016, the Company adopted ASU 2015-09, *Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts*. This guidance requires insurance entities to provide users of financial statements with additional information, in the form of comparative disclosures, regarding initial claim estimates and subsequent adjustments to those estimates, including the reconciliation of the claim development table to the balance sheet liability, the methodologies used in estimating claims, and the timing and frequency of claims. The adoption of this guidance did not significantly impact the Company's consolidated financial statements, or financial statement disclosures.

In January 2016, the Company adopted ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient within the fair value hierarchy. The guidance also removes the requirement to provide certain disclosures for those investments eligible to be measured using the net asset value per share practical expedient. The adoption of this guidance did not significantly impact the Company's consolidated financial statements, or financial statement disclosures.

In January 2016, the Company adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs be presented in the balance sheet as a direct deduction to the related debt liability rather than as an asset, similar to debt discounts. The current recognition and measurement guidance for debt issuance costs were not affected by this guidance. The adoption of this guidance changed the presentation of the Company's debt issuance costs from other assets to notes payable in the Company's consolidated financial statements.

In January 2016, the Company adopted ASU 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis*. This guidance modifies and improves a legal entity's evaluation process of determining whether limited partnerships, limited liability corporations, or securitization structures should be consolidated. The adoption of this guidance did not impact the Company's consolidated financial statements, or financial statement disclosures.

In January 2016, the Company adopted ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This guidance updated the accounting standard related to an entity's assessment of its ability to continue as a going concern. This guidance requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. In situations where there is substantial doubt about an entity's ability to continue as a going concern, disclosure should be made so that a reader can understand the conditions that raise substantial doubt, management's assessment of those conditions and any plan management has to mitigate those conditions. Management completed its assessment and concluded that there is no doubt about the entity's ability to continue as a going concern.

Future Adoption of New Accounting Pronouncements
In October 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance of Variable Interest Entities*, effective for fiscal years beginning after December 15, 2019 for public business entities. The guidance amends previous issued guidance for determining whether an indirect interest held through a related party is a VIE. It is anticipated this guidance will result in more decision makers not consolidating VIEs. Early adoption is permitted. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting*, effective for fiscal years beginning after December 15, 2018 for public business entities. The guidance adds the OIS rate based on the SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition required under ASU 2017-12. Early adoption is permitted if a company has already adopted ASU 2017-12. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, effective for fiscal years ending after December 15, 2019 for public business entities. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This guidance requires a customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Early adoption is permitted. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans,* effective for fiscal years ending after December 15, 2020 for public business entities. This guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. Early adoption is permitted. Management does not expect that this guidance will have a material impact on the consolidated financial statements except for changes to disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, effective for fiscal years beginning after December 15, 2019 for public business entities. This guidance modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement,* by removing, modifying and adding certain disclosures associated with fair value measurements. Early adoption is permitted. Management does not expect this guidance will have a material impact on the consolidated financial statements except for changes to disclosures.

In August 2018, the FASB issued ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts.* The new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. This new guidance impacts existing recognition, measurement, presentation, and disclosure requirements for long-duration insurance contracts issued by an insurance entity. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

The FASB has issued the following guidance associated with Leases: ASU 2019-01, *Leases (Topic 842): Codification Improvements* (March 2019), ASU 2018-20, *Leases (Topic 842): Narrow Scope Improvements for Lessors* (December 2018), ASU 2018-11, *Leases (Topic 842): Targeted Improvements* (July 2018), and ASU 2016-02, *Leases, (Topic 842)* (February 2016), effective for public companies for fiscal years beginning after December 15, 2018. This guidance requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for the lease term. Under this guidance, lessor accounting is largely unchanged except to align lessor accounting with the lease accounting model and Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and thus the accounting for sale and leaseback transactions have been simplified. Management is in the process of assessing the impact that this guidance may have on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. This new guidance refines, expands and simplifies hedge accounting for financial and nonfinancial risk. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. The new guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. This new guidance requires premium on callable debt securities to be amortized to the earliest call date. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* effective for annual periods beginning after January 1, 2020 which eliminates some portions of the goodwill impairment test to simplify the test. The guidance also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Management does not expect that this guidance will have a material impact on the consolidated financial statements.

The FASB has issued guidance on measurement of credit losses on financial instruments: ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* (November 2018) and ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (June 2016). The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. ASU 2016-13 replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses will be based on historical loss information, current conditions, and reasonable and supportable forecasts after implementation of this guidance. The guidance also requires enhanced disclosures. Management has not yet assessed the impact that this guidance may have on the consolidated financial statements.

(u) Subsequent Events

The Company has evaluated subsequent events through March 27, 2019, the date that the consolidated financial statements were available to be issued.

The buy-back program mentioned in Note 1 produced over $100,000 of expense for the year 2019 through March 27, 2019.

(4) Risks

The Company participates in an industry where there are risk factors that could have material adverse effects on the business and operating results. The following is a description of the various risk factors:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company’s products, or additional unanticipated expenses in the pricing of its products.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under FASB ASC Topic 740, *Income Taxes*, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the President signs a bill into law.

The Act reduces the corporate income tax rate to 21 percent (previously 35 percent), effective January 1, 2018, for all corporations. The effects of the new legislation were recognized by adjusting the Company's deferred tax assets ("DTAs") and/or deferred tax liabilities ("DTLs") as of December 31, 2017. The effects of changes in tax laws or rates on DTAs or DTLs are allocated to continuing operations and are reflected in the tax rate reconciliation in Note 14.

The Company made an election to reclassify the income tax effects of the Act from AOCI to retained earnings in its 2017 consolidated financial statements. The reclassification only includes impacts of the tax rate change from 35% to 21%. The Company's policy was to reclassify the full impact in the first year. There was no valuation allowance associated with these AOCI balances.

See Note 14 for disclosures relating to taxes in the consolidated financial statements.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies, their products, and how those products may be sold. Changes in these laws and regulations may affect the Company's operating results.

Changes in the tax treatment for corporate owned life insurance ("COLI") and bank owned life insurance ("BOLI") could impact the Company's ability to sell those products in the future or existing policies may be surrendered or allowed to lapse.

Increased assessments from guaranty associations may occur if there is an increase of impaired, insolvent or failed insurers in the jurisdictions in which the Company operates.

Changes in the regulatory environment and changes in laws in the countries of our international insurance operations could have a material adverse effect on our results of operations. Our international insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are located or operate.

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 13% of total individual annuity reserves as of December 31, 2018 and 2017. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

Mortality Risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation may occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company attempts to reduce this risk through geographical diversification and the purchase of reinsurance.

Reinsurance Risk is the risk that the reinsurance companies, where the Company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into reinsurance contracts to cede a portion of its general account life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies it chooses to cede risk to and follows up on any outstanding balances with reinsurance companies.

Ratings Risk is the risk that rating agencies change their outlook or rating of the Company or a subsidiary of the Company. If such ratings were lowered significantly relative to our competitors, our ability to market products to new customers could be harmed as well as the potential loss of existing customers. The Company monitors its Risk-Based Capital ("RBC") and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Information Technology Risk is the risk that the computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, or other events beyond the Company's control. The failure of the computer systems for any reason could disrupt operations, result in the loss of customer business, materially affect profitability as well as negatively impact the Company's reputation. The Company attempts to mitigate this risk through several layers of firewall and system access protocols as well as off-site data warehouse facilities.

Credit Risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivative counterparties, default on their contractual obligations or experience adverse changes that would affect the Company. The Company attempts to minimize the adverse impact of this risk by monitoring the portfolio diversification, the Company's exposure to impairment, collectability of the loans and the credit quality of reinsurers and derivative counterparties as well as, in many cases, requiring collateral, lines of credit or assets in trust to manage credit exposure.

Interest Rate Risk is the risk that interest rates will change and impact the valuation of the fixed maturity securities. A change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. To the extent that liabilities come due more quickly than assets mature, an insurer would have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Equity Market Risk is the risk of loss due to declines in the equity markets in which the Company participates. A decline in the stock market will affect the value of equity securities and the contract value of the Company's individual variable annuity contracts which offer guaranteed benefit riders as well as fixed indexed annuity and indexed universal life contracts. Losses in the equity market could result in declines in separate account assets and assets under management thus affecting investment management fees revenue and may require the Company to accelerate the amortization of DAC.

The Company attempts to minimize the adverse impact of equity market risk by monitoring the diversification of the Company's investment portfolio and through reinsurance arrangements with third-parties. The Company uses equity index put options, equity index call options, equity swaps and interest rate swaptions to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities.

(Dollars in thousands)

Liquidity Risk is the risk that the Company may not have the ability to sell certain investments to meet obligations of the Company.

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, the Company manages the BOLI growth to not exceed a specified percentage of general account assets to minimize the risk of liquidity strain.

Foreign Currency Risk is the risk that the Company's consolidated financial statements could be adversely impacted by fluctuations in exchange rates as the Company's financial statements are presented in U.S. dollars and the financial statements of our subsidiaries outside of the U.S. are translated into U.S. dollars. Additionally, the Company could be impacted by significant changes in global economic conditions.

Investment Risk – see Note 7 for additional risks specific to the investment portfolio.

(5) Changes in Accumulated Other Comprehensive Income

The following table shows the changes in accumulated other comprehensive income, net of taxes, by component for the years ended December 31:

		Pensions and other post-retirement benefits	Foreign currency translation adjustment	Adjustment to: Future policy benefits and claims	Adjustment to: Other policyholder funds	Adjustment to: Deferred acquisition costs	Unrealized gains (losses)	Total
December 31, 2016	$	(32,676)	(33,371)	(23,716)	5,775	(41,613)	245,982	120,381
Other comprehensive (loss) income before reclassifications		(7,383)	11,459	(10,966)	8,246	(30,150)	106,009	77,215
Amounts reclassified from accumulated other comprehensive income		3,167	-	-	-	-	(16,687)	(13,520)
Change		(4,216)	11,459	(10,966)	8,246	(30,150)	89,322	63,695
December 31, 2017	$	(36,892)	(21,912)	(34,682)	14,021	(71,763)	335,304	184,076
Other comprehensive income (loss) before reclassifications		7,427	(17,497)	28,889	(14,212)	64,202	(230,395) *	(161,586)
Amounts reclassified from accumulated other comprehensive income		3,207	-	-	-	-	(12,174)	(8,967)
Change		10,634	(17,497)	28,889	(14,212)	64,202	(242,569)	(170,553)
December 31, 2018	$	(26,258)	(39,409)	(5,793)	(191)	(7,561)	92,735	13,523

(Dollars in thousands)

*The impact of adoption of ASU 2016-01 results in a difference of $5,359, net of tax, between other comprehensive (loss) income before reclassifications in this table and the securities available-for-sale on the statement of consolidated statement of comprehensive income (loss).

The following table shows the reclassifications out of accumulated other comprehensive (loss) income, net of taxes, for the years ended December 31:

Details about accumulated other comprehensive income (loss) components		2018	2017	Consolidated statements of income location
Amortization of pensions and other post-retirement benefits:				
Prior service costs	$	128	128	Other operating costs and expenses
Actuarial losses		(4,187)	(4,137)	Other operating costs and expenses
		(4,059)	(4,009)	Loss before income taxes
		852	842	Income tax current benefit
		(3,207)	(3,167)	Net loss
Unrealized gains/(losses) on securities available-for-sale:				
		15,464	21,420	Realized gains, excluding other-than-temporary impairment losses on securities
		(3,290)	(4,733)	Income tax current expense
		12,174	16,687	Net gain
Total reclassification for the year	$	8,967	13,520	Total net gain

(6) Fair Value Measurements

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in circumstances.

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the consolidated balance sheets into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1** – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include U.S. government securities, actively traded equity securities, cash and cash equivalents, separate account assets, and exchange traded derivatives.
- **Level 2** – Fair value is based on significant inputs, other than quoted prices included in Level 1 that are observable in active markets or that are derived principally from or corroborated by observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, private placement, equity, derivative, securities lending collateral and cash equivalent securities.
- **Level 3** – Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management’s best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain corporate debt, asset-backed or mortgage-backed securities, embedded derivatives associated with fixed indexed annuity contracts, and reinsurance contracts and embedded derivatives associated with living benefit contracts.

The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2018:

(Dollars in thousands)

Assets	Level 1	Level 2	Level 3	Total
Investments:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government	$ 41,423	69,821	—	111,244
Obligations of states and political subdivisions	—	1,088,329	—	1,088,329
Debt securities issued by foreign governments	—	33,194	—	33,194
Corporate	—	7,755,210	16,295	7,771,505
Asset-backed	—	1,568,918	54,634	1,623,552
Mortgage-backed	—	1,268,879	13,063	1,281,942
Trading securities:				
Fixed maturity securities:				
Corporate	—	808	—	808
Asset-backed	—	42	—	42
Equity securities	45,314	23,321	—	68,635
Other long-term investments:				
Derivative assets:				
Equity futures	5,679	—	—	5,679
Currency futures	1,227	—	—	1,227
Equity put options	—	57,604	—	57,604
Equity index call options	—	9,221	—	9,221
Swap	—	736	—	736
Swaptions	—	32,437	—	32,437
Short-term investments securities lending collateral	—	313,492	—	313,492
Short-term investments	125,277	44,869	—	170,146
Cash and cash equivalents	226,525	19,990	—	246,515
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	1,280,905	1,280,905
Other assets:				
GMAB/GMWB embedded derivatives[1]	—	—	603	603
Assets held in separate accounts	19,489,189	—	—	19,489,189
Total assets	$ 19,934,634	12,286,871	1,365,500	33,587,005
Liabilities				
Future policy benefits and claims:				
GMAB/GMWB embedded derivatives	—	—	2,566	2,566
GLWB embedded derivatives[2]	$ —	—	20,032	20,032
Fixed indexed annuity embedded derivatives[3]	—	—	124,953	124,953
Derivative liabilities:				
Currency futures	2,866	—	—	2,866
Total liabilities	$ 2,866	—	147,551	150,417

1 All GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassifed as an asset.

2 Relates to variable annuity GLWB riders only.

3 Represents embedded derivative portion of fixed indexed annuity base contracts only.

(Dollars in thousands)

The following table presents the Company's hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31, 2017:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government	$ 25,135	56,531	—	81,666
Obligations of states and political subdivisions	—	1,032,267	—	1,032,267
Debt securities issued by foreign governments	—	17,870	—	17,870
Corporate	—	6,051,462	4,962	6,056,424
Asset-backed	—	1,307,400	14,924	1,322,324
Mortgage-backed	—	1,163,662	7,532	1,171,194
Equity securities	18,519	30,670	—	49,189
Trading securities:				
Fixed maturity securities:				
Corporate	—	1,201	—	1,201
Asset-backed	—	81	—	81
Mortgage-backed	—	3	—	3
Equity securities	31,507	—	—	31,507
Other long-term investments:				
Derivative assets:				
Equity futures	2,632	—	—	2,632
Equity put options	—	770	—	770
Equity index call options	—	12,911	—	12,911
Swap	—	435	—	435
Swaptions	—	47,099	—	47,099
Short-term investments securities lending collateral	—	9,681	—	9,681
Short-term investments	43,884	73,123	—	117,007
Cash and cash equivalents	370,117	60,962	—	431,079
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	1,187,888	1,187,888
Other assets:				
GMAB/GMWB embedded derivatives[1]	—	—	31,727	31,727
Assets held in separate accounts	23,611,918	—	—	23,611,918
Total assets	$ 24,103,712	9,866,128	1,247,033	35,216,873
Liabilities				
Future policy benefits and claims:				
GLWB embedded derivatives	$ —	—	16,550	16,550
Derivative liabilities:				
Equity futures	8,798	—	—	8,798
Currency futures	3,914	—	—	3,914
Equity put options	—	1,614	—	1,614
Swap	—	21,490	—	21,490
Total liabilities	$ 12,712	23,104	16,550	52,366

[1] All GMAB riders. Ther reserve balance for these GMAB riders was negative and thus reclassified as an asset.

Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

The Company has policies and guidelines that establish valuation methodologies and consistent application of such methodologies. These policies and guidelines provide controls around the valuation process. These controls include appropriate review and analysis of investment prices against market activity or price variances, review of secondary pricing sources, review of price source changes, and review of methodology changes.

The following is a discussion of the methodologies used to determine estimated fair values for the financial instruments listed in the above tables:

Fixed maturity and equity securities – The estimated fair value of fixed maturity and equity securities is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities.

When there are no recent reported trades, the Company uses third party pricing services that use matrix or model processes to develop a security price using future cash flow expectations and collateral performance discounted at an estimated market rate. For the pricing of asset-backed and mortgage-backed securities, the models include estimates for future principal prepayments based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Since these securities have been priced using market observable inputs that are obtained by the independent pricing services, the Company has classified these fixed maturity securities as Level 2 assets.

Fixed maturity securities not priced by independent services are generally priced using an internal pricing matrix. The internal pricing matrix is developed by obtaining spreads for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular fixed maturity security to be priced using the internal matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that bond. The estimated market yield is then used to estimate the fair value of the particular fixed maturity security. Since the inputs used for the internal pricing matrix are based on observable market data, the Company has classified these fair values within Level 2.

In some instances the independent pricing service will price securities using independent broker quotations from market makers and other broker/dealers recognized to be market participants, which utilize inputs that may be difficult to corroborate with observable market data. These fixed maturity securities are classified as Level 3 assets.

For certain asset-backed and mortgage-backed fixed maturity securities with complex cash flows that are not priced by independent pricing services, management determines the fair value using other modeling techniques, primarily commercial software applications utilized for valuing securitized investments with variable cash flows. These fixed maturity securities are classified as Level 3 assets.

At December 31, 2018, 84.1% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 15.3% from the Company's internal pricing matrices and 0.6% from other sources. At December 31, 2017, 84.6% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 14.9% from the Company's internal pricing matrices and 0.5% from other sources.

Derivative instruments - The Company enters into derivative transactions comprised of equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity and indexed universal life products. The equity and currency futures are exchange traded derivatives and the estimated fair value is based on an active market quotation. The Company has classified the estimated fair values of the exchange traded derivatives as Level 1 assets and liabilities. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. These derivative assets are classified as Level 2 assets.

Short-term investments - Short-term investments include fixed maturity securities that mature in less than one year and are valued in the same manner as the fixed maturity securities. A portion of short-term investments are bank deposits that are classified as Level 1 assets since these investments are very liquid and not subject to valuation fluctuations.

Cash and cash equivalents - Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash equivalents are comprised of publicly traded money market accounts, commercial paper and reverse repurchase agreements. The publicly traded money market accounts are considered to be Level 1 assets and commercial paper is considered to be a Level 2 asset.

Reverse repurchase agreements - The Company has entered into reverse repurchase agreements with a third-party custodian whereby the Company purchases securities or other highly liquid assets and simultaneously agrees to resell the same or substantially the same securities. Because control of the assets is not relinquished, reverse repurchase agreements are accounted for as collateralized borrowings with the cash paid for the securities continued to be recorded in the consolidated financial statements as cash and considered to be Level 2 assets. The underlying securities are not recorded as investments owned by the Company. The difference between the amount paid and the amount at which the securities will be subsequently resold is reported as interest income.

At purchase, the Company requires collateral in the form of securities having a fair value of a minimum of 102% of the securities' purchase price. If at any time the fair value of the collateral declines to less than 100% of the securities' purchase price, the counterparty is obligated to provide additional collateral to bring the total collateral held by the Company to at least 102% of the securities' purchase price. As of December 31, 2017, the Company had reverse repurchase agreements outstanding with a total carrying value of $2,000 recorded as cash and cash equivalents on the consolidated balance sheets. The Company classifies the estimated fair values of assets held in reverse repurchase agreements as Level 2 assets. The Company did not have any reverse repurchase agreements as of December 31, 2018.

Non-cash collateral on deposit with the third-party custodian on the Company's behalf was $0 and $2,040 at December 31, 2018 and 2017, respectively, which has not been recorded on our consolidated balance sheets.

Assets held in separate accounts - Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the consolidated balance sheets. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified the estimated separate account assets as Level 1 assets.

GMIB reinsurance contracts and GMAB/GMWB/GLWB embedded derivatives – Certain of the Company's individual variable annuity contracts that include guaranteed benefit riders accounted for as embedded derivatives are measured at estimated fair value separately from the host variable annuity contract. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuity products.

The fair value of these assets and liabilities is estimated using the present value of future benefits minus the present value of future premiums over the expected lives of the contracts using various capital market and actuarial assumptions. The Company uses a risk neutral valuation methodology in which cash flows are projected under multiple capital market scenarios using observable risk free rates.

As discussed in Notes 10 and 11, the Company cedes certain guaranteed benefits to an affiliate, SYRE. The valuation of the reinsurance contract derivatives includes a credit adjustment for counterparty nonperformance risk and risk margins. Nonperformance risk is based on the counterparty's debt and cash flows obtained from publicly available information. Risk margins capture the non-capital market risk of the instrument which represents the additional risks assumed due to the uncertainties of the actuarial assumptions.

The valuation of the embedded derivatives also includes a credit adjustment using the Company's nonperformance risk to the present value of the future cash flows.

Other significant inputs to the valuation models for the derivatives associated with the guaranteed benefit riders include capital market assumptions, such as interest rate, equity indices, foreign currency rates, counterparty credit, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of the reinsurance contracts and embedded derivatives are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 assets and liabilities.

Fixed indexed annuity embedded derivatives - The Company's fixed indexed annuity contracts include embedded derivatives which are measured at estimated fair value separate from the host fixed indexed annuity contract. These embedded derivatives are estimated using the option budget method. The option budget rate is used as the best estimate of the future values of the index credits. The embedded derivative incorporates the excess cash flows, or those cash flows that represent the value of the indexes in excess of guarantee values. These cash flows are then discounted using the risk free rates plus a nonperformance risk spread, adjusted for margins.

Nonperformance risk is based on the counterparty's debt and cash flows obtained from publicly available information. Risk margins capture the non-capital market risk of the instrument which represents the additional risks assumed due to the uncertainties of the actuarial assumptions.

Other significant inputs to the valuation model for these derivatives include capital market assumptions, such as interest rate, equity indices, and volatility surface values, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates, and withdrawal rates.

Since many of the assumptions utilized in the valuation of these reserves are unobservable and are considered to be significant inputs to the valuations, these are classified as Level 3 liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following tables summarize the reconciliation of the beginning and ending balances and related changes in fair value measurements for which significant unobservable inputs were used in determining the estimated fair value for the years ended December 31:

(Dollars in thousands)

	Investments			Reinsurance recoverable	Other assets	
Assets	**Corporate**	**Asset - backed**	**Mortgage - backed**	**GMIB reinsurance**	**GMAB/ GMWB embedded derivatives**	**Total assets**
December 31, 2016	$ 1,974	62,049	5,776	1,309,900	1,367	1,381,066
Net investment gains (losses):						
In earnings (realized and unrealized)[1]	(8)	(353)	(7)	(122,012)	30,360	(92,020)
Unrealized in OCI[2]	113	(533)	52	—	—	(368)
Purchases	—	—	7,511	—	—	7,511
Settlements	—	(2,608)	(24)	—	—	(2,632)
Transfers into Level 3	4,857	13,871	—	—	—	18,728
Transfers out of Level 3	(1,974)	(57,502)	(5,776)	—	—	(65,252)
December 31, 2017	4,962	14,924	7,532	1,187,888	31,727	1,247,033
Net investment gains (losses):						
In earnings (realized and unrealized)[1]	(1,721)	(255)	(23)	93,017	(31,124)	59,894
Unrealized in OCI[2]	(731)	(279)	(100)	—	—	(1,110)
Purchases	4,264	11,000	7,406	—	—	22,670
Settlements	(524)	(2,673)	(1,752)	—	—	(4,949)
Transfers into Level 3	15,007	41,126	—	—	—	56,133
Transfers out of Level 3	(4,962)	(9,209)	—	—	—	(14,171)
December 31, 2018	$ 16,295	54,634	13,063	1,280,905	603	1,365,500
Change in unrealized gains (losses):						
Still held at December 31:						
2017	$ (8)	(353)	(7)	(122,012)	30,360	(92,020)
2018	$ 2	(247)	(23)	93,017	(31,124)	61,625

(Dollars in thousands)

Liabilities		Future policy benefits and claims: GMAB/ GMWB embedded derivatives[3]	Future policy benefits and claims: GLWB embedded derivatives	Future policy benefits and claims: Fixed indexed annuity embedded derivatives	Total liabilities
December 31, 2016	$	(5,831)	(19,129)	—	(24,960)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		5,831	2,579	—	8,410
December 31, 2017		—	(16,550)	—	(16,550)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		(2,566)	(3,482)	(124,953)	(131,001)
December 31, 2018	$	(2,566)	(20,032)	(124,953)	(147,551)
Change in unrealized gains/(losses):					
Still held at December 31:					
2017	$	5,831	2,579	—	8,410
2018	$	(2,566)	(3,482)	(124,953)	(131,001)

1 Net realized investment gains and losses included in earnings reflect gains/(losses) on sales of financial instruments, changes in fair value of other assets and liabilities, other-than-temporary impairments, amortization and accretion of premiums or discounts and derivative settlements activity.

2 Unrealized investment gains and losses recorded in other comprehensive (loss) income include changes in market value of certain instruments.

3 The GMAB "W" reserve balance was negative and reclassified as an asset.

The following tables present certain quantitative information about the significant unobservable inputs used in the fair value measurement for asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31. Certain securities classified as Level 3 excluded from the table below are obtained from non-binding broker quotes where observable inputs are not reasonably obtainable by the Company.

(Dollars in thousands)

		Assets/ liabilities measured at fair value	Valuation technique(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2018							
Assets:							
Securities available-for-sale:							
Fixed maturity securities:							
Corporate	$	6,290	Market pricing	Market prices	6 - 79%	74	Increase
Reinsurance recoverable:							
GMIB reinsurance contracts		1,280,905	Stochastic actuarial model	Mortality rates			
				ages 0-59	0 - 0.5%	*	Decrease
				ages 60+	0.4% - 100%	*	Decrease
				Base Lapse Rates			
				duration 1-10	0.3% - 7.6%	*	Decrease
				duration 11+	3.6% - 6.6%	*	Decrease
				Non-Sys with rates (%AV)	1.0% - 4.5%	*	Increase
				Sys with rates (%Rollup)	90% - 100%	*	Increase
				Sys with utilization	0% - 16%	*	Increase
				IB utilization	0.5% - 75%	*	Increase
				Non-performance risk (Credit Spread)	0.67% - 1.09%	*	Decrease
				Equity market volatility	14.3% - 21.7%	*	Increase
GMAB/GMWB embedded derivatives[1]		603	Stochastic actuarial model	Mortality rates			
				ages 0-59	0 - 0.5%	*	Decrease
				ages 60+	0.3% - 100%	*	Decrease
				Base Lapse Rates			
				dur 1-10	0.7% - 18.6%	*	Decrease
				dur 11+	6.2% - 11.0%	*	Decrease
				Non-Sys with rates (%AV)	1.0% - 4.5%	*	Decrease
				Sys with rates (%Rollup)	N/A	*	N/A
				Sys with utilization	0%	*	Decrease
				Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
				Equity market volatility	14.3% - 21.7%	*	Increase

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation techniques(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2018						
Liabilities						
GMAB/GMWB embedded derivatives	2,566	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.7% - 18.6%	*	Decrease
			duration 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase
GLWB embedded derivatives	20,032	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.2% - 16.8%	*	Decrease
			duration 11+	7.0% - 8.6%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90% - 100%	*	Increase
			Sys with utilization	0% - 30%	*	Increase
			Non-performance risk (Credit Spread)	0.68% - 2.84%	*	Decrease
			Equity market volatility	14.3% - 21.7%	*	Increase
Fixed indexed annuity embedded derivatives	124,953	Option budget method	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.5% - 12.0%	*	Decrease
			duration 11+	4.0% - 12.0%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90%	*	N/A
			Sys with utilization	0% - 30%	*	Decrease
			Non-performance risk (Credit Spread)	0.86% - 2.60%	*	Decrease
			Equity market volatility surface rates	5.0% - 20.2%	*	Increase

1 All GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.

2 Sys = Systematic

(Dollars in thousands)

	Assets/ liabilities measured at fair value	Valuation technique(s)	Unobservable input description[2]	Input/range of inputs	Weighted average	Impact of increase in input on fair value
2017						
Assets:						
Reinsurance recoverable:						
GMIB reinsurance contracts	1,187,888	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.4% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.3% - 7.6%	*	Decrease
			duration 11+	3.6% - 6.6%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Increase
			Sys with rates (%Rollup)	90% - 100%	*	Increase
			Sys with utilization	0% - 16%	*	Increase
			IB utilization	0.5% - 75%	*	Increase
			Non-performance risk (Credit Spread)	0.13% - 0.30%	*	Decrease
			Equity market volatility	13.6% - 20.8%	*	Increase
GMAB/GMWB embedded derivatives[1]	31,727	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			dur 1-10	0.7% - 18.6%	*	Decrease
			dur 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 4.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	0.86% - 1.27%	*	Decrease
			Equity market volatility	13.6% - 20.8%	*	Increase
Liabilities:						
GLWB embedded derivatives	16,550	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.2% - 16.8%	*	Decrease
			duration 11+	7.0% - 8.6%	*	Decrease
			Non-Sys with rates (%AV)	0%	*	Decrease
			Sys with rates (%MAW)	90% - 100%	*	Increase
			Sys with utilization	0% - 30%	*	Increase
			Non-performance risk (Credit Spread)	0.86% - 1.27%	*	Decrease
			Equity market volatility	13.6% - 20.8%	*	Increase

1 All GMAB riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.
2 Sys = Systematic

* The stochastic actuarial models are generated using one thousand scenarios. Weighted average values are not meaningful for these valuations.

(Dollars in thousands)

Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the Company's conclusion that pricing information received from a third party pricing service is not reflective of market activity.

		Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 2
2018			
Assets:			
Securities available-for-sale:			
Fixed maturity securities:			
Corporate	$	15,007	4,962
Asset-backed		41,126	9,209
2017			
Assets:			
Securities available-for-sale:			
Fixed maturity securities:			
Corporate	$	4,857	1,974
Asset-backed		13,871	57,502
Mortgage-backed		—	5,776

During the years ended December 31, 2018 and 2017, the Company transferred investments totaling $56,133 and $18,728, respectively, into Level 3 from Level 2 as a result of lack of visibility to observe significant inputs to price. During the years ended December 31, 2018 and 2017, the Company transferred investments totaling $14,171 and $65,252, respectively, out of Level 3 into Level 2 as a result of the availability of observable pricing inputs for these securities. There were no transfers from Level 2 or Level 3 into Level 1 in 2018 or 2017.

During 2018, the Company had $36,029 of transfers into level 3 from level 2 due to lack of observable inputs. The valuation of these securities was based on unobservable inputs using management's best estimate about the assumptions market participants would use to price these assets.

Fair Value Measurement on a Nonrecurring Basis

In 2018 and 2017, the Company impaired zero and three fixed maturity held-to-maturity securities, respectively, resulting in a nonrecurring fair value measurement of those securities. The Company uses the same valuation methodologies for its fair value measurements on a nonrecurring basis. The valuation techniques involved significant unobservable market inputs such as non-binding broker quotes, internal liquidation analysis and the use of models. For mortgage loans, the valuation techniques were primarily based on the estimated fair value of the underlying collateral. These values were determined using third-party appraisals.

(Dollars in thousands)

The following tables present the Company's hierarchy for its assets measured at fair value on a nonrecurring basis for the year ended December 31, 2017. There were no assets measured at fair value on a nonrecurring basis for the year ended December 31, 2018.

	Level 1	Level 2	Level 3	Total	Total realized losses
2017					
Assets:					
Investments:					
Fixed maturity held-to-maturity securities, at amortized cost	$ —	—	750	750	13,050
Total assets	$ —	—	750	750	13,050

Financial Instruments Not Carried at Fair Value

FASB ASC Topic 825, *Financial Instruments*, requires additional disclosure of the fair value information about existing on and off balance sheet financial instruments. ASC Topic 825 excludes certain assets and liabilities, including insurance contracts, other than policies such as annuities that are classified as investment contracts, from its disclosure requirements. The Company's assets and liabilities subject to ASC Topic 825 disclosure that have not been presented at fair value in the ASC Topic 820 tables above are presented in the table below:

(Dollars in thousands)

	Carrying value	Estimated fair value	Fair value hierarchy Level 1	Level 2	Level 3
2018					
Assets:					
Mortgage loans on real estate	$ 1,335,742	1,332,540	—	101,953	1,230,587
Policy loans	766,701	827,495	—	—	827,495
Liabilities:					
Investment contracts	4,138,046	4,415,553	—	4,415,553	—
Policyholders' dividend accumulations and other policyholder funds	198,413	198,413	198,413	—	—
Short-term borrowings	91,586	91,586	—	91,586	—
Notes payable	853,504	990,510	—	990,510	—
2017					
Assets:					
Fixed maturity held-to-maturity securities	$ 1,332,309	1,373,746	—	1,364,133	9,613
Mortgage loans on real estate	1,274,965	1,278,502	—	81,068	1,197,434
Policy loans	664,548	727,638	—	—	727,638
Liabilities:					
Investment contracts	4,129,831	4,489,406	—	4,489,406	—
Policyholders' dividend accumulations and other policyholder funds	168,638	168,638	168,638	—	—
Notes payable	852,626	1,036,250	—	1,036,250	—

In estimating the fair value of financial instruments, the Company used the following methods and assumptions:

Fixed maturity held-to-maturity securities – The fair value of fixed maturity held-to-maturity securities, primarily private placements, is generally estimated from an internal pricing matrix using credit spreads over Treasury yields. The Company classifies these estimated fair values as Level 2 assets and Level 3 assets using the same valuation methodologies for fixed maturity securities that are recorded at estimated fair value on a recurring basis.

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has mortgage loans that are valued based on market observable quotes and are classified as Level 2. The Company has mortgage loans that are valued using internally obtained credit ratings and are classified as Level 3.

Policy loans – The fair value of policy loans is estimated using discounted cash flow calculations. The expected life of the loan is based on internal assumptions; therefore, the Company classifies these as Level 3 assets.

Investment contracts – The fair value of the Company's liabilities under investment contracts is estimated using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Cash flows are discounted at a rate that reflects the nonperformance risk of the Company. The amounts shown in the above table are net of reinsurance. The inputs are market observable; therefore, the Company classifies these as Level 2 liabilities.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the consolidated balance sheets for these instruments approximates their estimated fair value. The amounts can be converted to cash by the policyholder; therefore, the Company classifies these amounts as Level 1.

Short-term borrowings – The carrying amount of short-term borrowings related to revolving credit facilities is a reasonable estimate of its fair value because the interest rates are variable based on current market rates.

Notes payable – The fair value of notes payable is estimated by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments. The valuation inputs are based on market observable information; therefore, the Company classifies these as Level 2 liabilities.

(7) Investments

Investment Risks and Uncertainties

Investments are exposed to various risks and uncertainties that affect the determination of estimated fair values, the ability to sell certain investments during strained market conditions, the recognition of impairments, and the recognition of income on certain investments. These risks and uncertainties include:

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- the risk that foreign currency exchange rates could negatively impact the valuation of certain investments that are not denominated in U.S. dollars;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other than temporary impairments; and

(Dollars in thousands)

- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

Any of these situations are reasonably possible and could result in a charge to income in a future period.

The determination of impairments is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with each asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

The recognition of income on certain investments, including asset-backed and mortgage-backed securities, is dependent upon certain factors such as prepayments and defaults, and changes in factors could result in changes in amounts to be earned.

Fixed Maturity and Equity Securities

Fixed Maturity and Equity Securities by Sector
The amortized cost and estimated fair value of available-for-sale, trading, and held-to-maturity securities for both fixed maturity and equity securities (for 2017 only, per ASU 2016-01) by sector as of December 31 is as follows:

	2018				
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**	**Non-credit OTTI**
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government	$ 107,340	4,567	(663)	111,244	—
Obligations of states and political subdivisions	1,067,998	28,262	(7,931)	1,088,329	—
Debt securities issued by foreign governments	34,772	18	(1,596)	33,194	—
Corporate	7,671,938	267,650	(168,083)	7,771,505	—
Asset-backed	1,608,408	25,732	(10,588)	1,623,552	(2,828)
Mortgage-backed	1,287,060	16,381	(21,499)	1,281,942	(21,542)
Total fixed maturity securities	$ 11,777,516	342,610	(210,360)	11,909,766	(24,370)
Trading securities:					
Fixed maturity securities:					
Corporate	$ 798	10	—	808	—
Asset-backed	42	—	—	42	—
Total fixed maturity securities	$ 840	10	—	850	—

(Dollars in thousands)

	2017					
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Non-credit OTTI
Securities available-for-sale:						
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government	$	75,597	6,161	(92)	81,666	—
Obligations of states and political subdivisions		992,877	42,661	(3,271)	1,032,267	—
Debt securities issued by foreign governments		17,838	126	(94)	17,870	—
Corporate		5,684,452	391,958	(19,986)	6,056,424	—
Asset-backed		1,305,911	21,992	(5,579)	1,322,324	(4,968)
Mortgage-backed		1,155,835	26,418	(11,059)	1,171,194	(24,880)
Total fixed maturity securities	$	9,232,510	489,316	(40,081)	9,681,745	(29,848)
Equity securities	$	44,641	5,193	(645)	49,189	—
Trading securities:						
Fixed maturity securities:						
Corporate	$	1,149	52	—	1,201	—
Asset-backed		79	2	—	81	—
Mortgage-backed		3	—	—	3	—
Total fixed maturity securities	$	1,231	54	—	1,285	—
Equity securities	$	31,507	—	—	31,507	—
Fixed maturity held-to-maturity securities:						
U.S. Treasury securities and obligations of U.S. government	$	6,778	597	—	7,375	—
Obligations of states and political subdivisions		1,395	270	—	1,665	—
Debt securities issued by foreign governments		1,000	45	—	1,045	—
Corporate		1,308,214	47,346	(7,684)	1,347,876	—
Asset-backed		14,922	863	—	15,785	—
Total held-to-maturity	$	1,332,309	49,121	(7,684)	1,373,746	—

As reflected in the tables above, during the third quarter of 2018, the Company changed the classification of its entire portfolio of held-to-maturity securities to available-for-sale. The Company's intent previously was to hold these securities to maturity; however, upcoming changes to the impairment accounting treatment for held-to-maturity securities has caused the Company to re-evaluate its intent, which necessitated the reclassification. During 2018, securities with an amortized cost of $1,500,440 and a fair value of $1,498,212 were reclassified to available-for-sale. This resulted in an unrealized loss of $2,228 being recognized in other comprehensive income during the year.

(Dollars in thousands)

Non-credit other than temporary impairment ("OTTI") represents the amount of cumulative non-credit OTTI losses recognized in other comprehensive income on securities as of the date of OTTI that also had credit impairments.

The Company's fixed maturities portfolio is comprised primarily of investment grade securities. Based upon designations by the NAIC, investment grade securities comprised 97.7% and 96.4% of the Company's total available-for-sale, trading, and held-to-maturity fixed maturity securities portfolio as of December 31, 2018 and 2017, respectively.

Investments with a fair value of $14,518 and $15,592 as of December 31, 2018 and 2017, respectively, were on deposit with various regulatory agencies as required by law and are included in securities available-for-sale.

Maturities of Fixed Maturity Securities

The amortized cost and estimated fair value of fixed maturity securities available-for-sale, trading and held-to-maturity as of December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration as of December 31, 2018.

	Fixed maturity securities			
	Available-for-sale		Trading	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$ 228,745	230,669	649	656
Due after one year through five years	2,232,696	2,260,927	149	152
Due after five years through ten years	4,218,535	4,169,044	—	—
Due after ten years	5,097,540	5,249,126	42	42
Total	$ 11,777,516	11,909,766	840	850

Continuous Gross Unrealized Losses for Fixed Maturity and Equity Securities

The following tables present the estimated fair value and gross unrealized losses of the Company's fixed maturity (aggregated by sector) and equity securities (for 2017 only, per ASU 2016-01) in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

(Dollars in thousands)

	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
2018						
U.S. Treasury securities and obligations of U.S. government	$ 32,688	(335)	18,514	(328)	51,202	(663)
Obligations of states and political subdivisions	150,014	(2,436)	165,376	(5,495)	315,390	(7,931)
Debt securities issued by foreign governments	18,098	(812)	14,078	(784)	32,176	(1,596)
Corporate	2,766,901	(98,818)	982,708	(69,265)	3,749,609	(168,083)
Asset-backed	362,053	(2,978)	302,948	(7,610)	665,001	(10,588)
Mortgage-backed	273,491	(3,503)	459,336	(17,996)	732,827	(21,499)
Total fixed maturity securities	$ 3,603,245	(108,882)	1,942,960	(101,478)	5,546,205	(210,360)
2017						
U.S. Treasury securities and obligations of U.S. government	$ 20,848	(92)	—	—	20,848	(92)
Obligations of states and political subdivisions	104,823	(1,218)	86,586	(2,053)	191,409	(3,271)
Debt securities issued by foreign governments	12,282	(94)	—	—	12,282	(94)
Corporate	771,313	(8,870)	424,225	(18,800)	1,195,538	(27,670)
Asset-backed	354,674	(2,753)	98,600	(2,826)	453,274	(5,579)
Mortgage-backed	231,644	(1,725)	277,866	(9,334)	509,510	(11,059)
Total fixed maturity securities	1,495,584	(14,752)	887,277	(33,013)	2,382,861	(47,765)
Equity securities	5,863	(149)	438	(496)	6,301	(645)
Total	$ 1,501,447	(14,901)	887,715	(33,509)	2,389,162	(48,410)

Concentrations related to fixed maturity securities in an unrealized loss position are included in the tables below. The tables summarize the fixed maturity securities by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

(Dollars in thousands)

Unrealized losses		Less than 12 months	12 months or longer	Total	Number of securities
2018					
99.9%-80%					
U.S. Treasury securities and obligations of U.S. government	$	(177)	(328)	(505)	17
Obligations of states and political subdivisions		(2,436)	(5,495)	(7,931)	140
Debt securities issued by foreign governments		(812)	(784)	(1,596)	7
Corporate		(95,971)	(63,877)	(159,848)	1,916
Asset-backed		(2,978)	(7,610)	(10,588)	296
Mortgage-backed		(3,503)	(17,996)	(21,499)	262
Below 80%					
U.S. Treasury securities and obligations of U.S. government		(158)	—	(158)	11
Corporate		(2,847)	(5,388)	(8,235)	79
Total	$	(108,882)	(101,478)	(210,360)	2,728
2017					
99.9%-80%					
U.S. Treasury securities and obligations of U.S. government	$	(90)	—	(90)	7
Obligations of states and political subdivisions		(1,218)	(2,053)	(3,271)	88
Debt securities issued by foreign governments		(94)	—	(94)	2
Corporate		(8,870)	(18,690)	(27,560)	595
Asset-backed		(2,753)	(2,826)	(5,579)	197
Mortgage-backed		(1,725)	(9,334)	(11,059)	145
Below 80%					
U.S. Treasury securities and obligations of U.S. government		(2)	—	(2)	11
Corporate		—	(110)	(110)	2
Total	$	(14,752)	(33,013)	(47,765)	1,047

Evaluation of Other Than Temporarily Impaired Investments

Management regularly reviews its fixed maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in fair value of investments.

An analysis is prepared which focuses on the issuer's ability to service its debts and the extent and length of time the security has been valued below cost. This review process includes an assessment of the credit quality and an assessment of the present value of future cash flows of the identified investment in the securities portfolio and for equity securities, an assessment of near-term recovery and whether the security will recover its amortized cost basis in a reasonable period of time.

For corporate securities, the Company evaluates the present value of cash flows using the financial performance of the issuer based upon credit performance and investment ratings. Residential mortgage-backed securities and asset-backed securities are assessed for impairment using default estimates based on the underlying collateral performance including default rates, recovery rates and prepayment speeds. Cash flows generated by the collateral are then utilized, along with consideration for the issue's position in the overall structure, to determine cash flows associated with the security.

For any securities identified in the review of the portfolio, the Company considers additional relevant facts and circumstances in evaluating whether the security is other than temporarily impaired. Relevant facts and circumstances that may be considered include:

- comparison of current estimated fair value of the security as compared to cost;
- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer's key financial ratios based upon the issuer's financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;
- the Company's intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity securities, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

For each security deemed by management that meets the criteria for additional analysis, the Company prepares an analysis of the present value of the expected cash flows, using the interest rate implicit in the investment at the date of acquisition. To the extent that the present value of cash flows generated by a debt security is less than the amortized cost, an OTTI is recognized in the consolidated statements of income.

For those debt securities for which the Company has the intent to sell the security, or if it is more likely than not that it will be required to sell the security before recovery of the amortized cost, the entire unrealized loss (the amount that the amortized cost basis exceeds the estimated fair value) is recognized in the consolidated statements of income. For those debt securities for which the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security, but the security has suffered a credit loss (the amortized cost basis exceeds the present value of the expected cash flows), the impairment charge (excess of amortized cost over estimated fair value) is bifurcated with the credit loss portion recorded in the consolidated statements of income, and the remainder, or non-credit loss portion, is recorded in other comprehensive income (loss). The Company prospectively accretes the value of the investment through interest income to the extent the future cash flows of the security are expected to be in excess of the new cost basis.

(Dollars in thousands)

The Company discloses as part of the separate component of AOCI the non-credit portion of any OTTI. Subsequent changes in estimated fair value that are not considered OTTI are not included in the separate component of AOCI.

Current Year Evaluation

The Company has concluded securities in an unrealized loss position as of December 31, 2018 and 2017 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold the fixed maturity security investments until recovery of estimated fair value or amortized cost and for equity securities, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2017 to December 31, 2018 due to wider credit spreads and higher U.S. Treasury yields. Additionally, unrealized losses increased in certain industry sectors (i.e. energy, oil) due to overall sector declines in value and not issuer-specific credit deterioration. Accordingly no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans consist of both 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. The carrying amounts of our mortgage loan portfolio as of December 31 were as follows:

		2018	2017
Mortgage loans			
Commercial mortgage loans	$	1,240,492	1,191,687
Residential mortgage loans		99,255	87,296
Total amortized cost		1,339,747	1,278,983
Valuation allowance		4,005	4,018
Net carrying value	$	1,335,742	1,274,965

(Dollars in thousands)

Concentration of Credit Risk
The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. 92.6% of the Company's portfolio is collateralized by properties located in the United States, with the remaining 7.4% located in Chile. Total loans in any state did not exceed 16.6% as of December 31, 2018 and 2017.

As of December 31, 2018, loans in the states of Texas and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $157,754 and $152,103, respectively. As of December 31, 2017, loans in the states of California and Texas exceeded 10.0% of the total loan portfolio and had carrying values of $197,480 and $159,940, respectively.

Furthermore, the Company manages risk by underwriting relatively nominal individual commercial loans. The average loan, at origination, was approximately $2,529 and $2,462 in 2018 and 2017, respectively.

Commercial Mortgage Loans
The Company performs an annual performance review of the commercial mortgage loan portfolio and assigns a rating based on the property's loan to value ("LTV"), age, mortgage debt service coverage ("DSC") and occupancy. This analysis helps identify loans that may experience difficulty. If a loan is not paying in accordance with contractual terms, it is placed on a watch list and monitored through inspections and contact with the property's local representative. In addition, as part of portfolio monitoring, the Company physically inspected nearly 100% of the properties in the portfolio. The LTV and DSC ratios are applied consistently across the entire commercial mortgage loan portfolio.

The following table summarizes our commercial mortgage loan portfolio, net of allowance, LTV ratios and DSC ratios using available data as of December 31. The ratios are updated as information becomes available.

		DSC						
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2018								
0% - 50%	$	252,291	84,480	148,965	140,564	39,084	10,882	676,266
50% - 60%		11,851	27,190	71,427	91,783	51,540	6,463	260,254
60% - 70%		-	23,587	46,620	63,310	45,474	10,660	189,651
70% - 80%		-	-	978	33,244	24,159	19,241	77,622
80% and greater		-	-	2,043	7,801	11,714	11,661	33,219
Total	$	264,142	135,257	270,033	336,702	171,971	58,907	1,237,012
2017								
0% - 50%	$	256,254	95,425	182,904	128,190	43,759	5,012	711,544
50% - 60%		4,671	34,001	67,548	69,723	32,013	1,884	209,840
60% - 70%		274	4,390	67,681	64,441	45,053	1,815	183,654
70% - 80%		-	-	-	25,209	27,134	7,609	59,952
80% and greater		-	-	-	3,394	7,953	11,937	23,284
Total	$	261,199	133,816	318,133	290,957	155,912	28,257	1,188,274

(Dollars in thousands)

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. Our corporate policy directs that our LTV on new mortgages not exceed 75% for standard mortgages.

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the debt service coverage ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher debt service coverage ratio could indicate a better quality loan.

Residential Mortgage Loans
The Company considers performing mortgages to be those loans that are either current on payments or delinquent by four payments or less. Upon missing the fifth payment, the Company considers these loans nonperforming. In accordance with the mortgage agreement, performing mortgages continue to record principal, interest and monetary correction. Monetary correction is defined as an economic adjustment to functional currency amounts arising from changes in inflation. The principal, interest and monetary correction values of those missed payments are 100% provisioned for. All loans classified as nonperforming are considered to be impaired.

Management continually monitors residential mortgages to determine their status. Residential mortgages that are nonperforming are required to have an appraisal every two years. Based on the appraised value, management determines if an adjustment to the carrying value is necessary. All loans classified as nonperforming have been placed on nonaccrual status.

The following table summarizes our residential mortgage loan portfolio, net of allowance, performing and nonperforming positions which was last updated as of December 31:

		2018	2017
Residential mortgage loans			
Performing	$	96,420	83,474
Nonperforming		2,310	3,217
Total	$	98,730	86,691

Allowance for Loan Losses
The allowance for loan losses is comprised of two components, specific and general, based on amounts collectively and individually evaluated for impairment. The Company's commercial mortgage loan portfolio has experienced minimal historical losses throughout the years, including the last three years. The residential mortgage loans are individually evaluated for impairment once a residential mortgage goes past due. The Company has not had any TDRs in 2018 or 2017.

(Dollars in thousands)

The general component of the allowance for loan losses is maintained at a level believed adequate by management and reflects management's best estimate of probable credit losses, including losses incurred at the balance sheet date but not yet identified by specific loan.

A rollforward of the allowance for loan losses is as follows:

		Commercial	Residential	Total
Balance, December 31, 2016	$	6,891	559	7,450
Provision		104	(41)	63
Charge-offs		(3,531)	100	(3,431)
Recoveries		(51)	(70)	(121)
Effect of exchange rates		-	57	57
Balance, December 31, 2017		3,413	605	4,018
Provision		120	18	138
Charge-offs		-	(73)	(73)
Recoveries		(53)	(86)	(139)
Effect of exchange rates		-	61	61
Balance, December 31, 2018	$	3,480	525	4,005

The Company has other financing receivables with contractual maturities of one year or less such as reinsurance recoverables and premiums receivables. The Company does not record an allowance for these items since the Company has not had any significant collection issues related to these types of receivables. The Company writes off the receivable if it is deemed to be uncollectible.

Mortgage Loan Aging

The table below depicts the loan portfolio exposure, net of allowance, of the remaining principal balances (which equal the Company's recorded investment), by type, as of December 31:

		30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2018								
Commercial mortgage loans	$	2,138	—	—	2,138	1,234,874	1,237,012	—
Residential mortgage loans		5,460	3,704	2,496	11,660	87,070	98,730	69
Total	$	7,598	3,704	2,496	13,798	1,321,944	1,335,742	69
2017								
Commercial mortgage loans	$	2,413	—	—	2,413	1,185,861	1,188,274	—
Residential mortgage loans		6,456	1,069	2,758	10,283	76,408	86,691	35
Total	$	8,869	1,069	2,758	12,696	1,262,269	1,274,965	35

(Dollars in thousands)

Performance, Impairment and Foreclosures
At December 31, 2018 and 2017, the Company had no mortgage loans in the process of foreclosure. Mortgage loan write-downs were $0, $0 and $775 in 2018, 2017 and 2016, respectively. There were eight foreclosures of residential mortgage loans during 2018.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the balance sheet date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

Residential mortgages are placed on nonaccrual status once management believes the collection of accrued interest is doubtful. Once residential mortgages are classified as nonaccrual loans, interest income is recognized under the cash basis.

The carrying value of mortgage loans on nonaccrual status as of December 31:

		2018	2017
Mortgage loans			
Residential mortgage loans	$	2,310	3,217
Total	$	2,310	3,217

The recorded investment in and unpaid principal balance of impaired loans along with the related specific allowance for loan losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired as of December 31 were as follows:

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
2018						
With an allowance recorded:						
Commercial mortgages	$	1,666	2,060	(394)	1,721	143
Residential mortgages		2,310	2,890	(580)	2,763	-
Total	$	3,976	4,950	(974)	4,484	143
2017						
With an allowance recorded:						
Commercial mortgages	$	1,775	2,222	(447)	4,505	332
Residential mortgages		2,913	3,509	(596)	3,070	-
Total	$	4,688	5,731	(1,043)	7,575	332

(Dollars in thousands)

Other Long Term Investments

The components of other long-term investments were as follows as of December 31:

		2018	2017
Direct financing leases	$	88,419	96,376
FHLB common stock		43,326	43,301
Derivative instruments		106,904	63,847
Receivable for securities		1,939	16,831
Joint venture		22,103	22,640
Other invested assets		1,570	—
Total	$	264,261	242,995

In 2017, the Company sold 2017-2018 New Market Tax Credits associated with venture capital partnerships for proceeds of $2,367. There was a net loss realized on the sale of $723.

The Company is a member of the Federal Home Loan Bank ("FHLB") of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts.

The following table lists the components of the net investment in direct financing leases as of December 31:

		2018	2017
Total minimum lease payments to be received	$	132,990	147,146
Less unearned income		(44,571)	(50,770)
Net investment in direct financing leases	$	88,419	96,376

The minimum lease payments did not include executory costs, allowance for uncollectibles, or unguaranteed residual values of leased property for 2018 and 2017. Past favorable payment experience, a minimum required LTV ratio of 75% - 80% at lease inception as well as the Company's right to repossess the property after two missed payments have resulted in not holding an allowance for uncollectibles by the Company and no leases are on nonaccrual status. Credit quality is monitored based on past payment history.

The table below depicts the direct financing leasing exposure of remaining principal balances (which equal the Company's recorded investment) by type as of December 31:

(Dollars in thousands)

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2018	$ 1,845	—	—	1,845	86,574	88,419	—
2017	$ 244	—	—	244	96,132	96,376	—

Securities Lending

As of December 31, 2018 and 2017, the Company received $313,492 and $9,681, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in the consolidated balance sheets in short-term investments securities lending collateral with a corresponding liability recorded in payables for securities lending collateral to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2018 and 2017. As of December 31, 2018 and 2017, the Company had loaned securities with a fair value of $304,031 and $9,419, respectively, which are recognized in the consolidated balance sheets in securities available-for-sale and equity securities.

Variable Interest Entities

In the normal course of business, the Company invests in fixed maturity securities structured through trusts, joint ventures, limited partnerships, or limited liability companies that could qualify as VIE. A VIE is a legal entity that lacks sufficient equity to finance their activities, or the equity investors of the entities as a group lack any of the characteristics of a controlling interest. The primary beneficiary of a VIE is generally the enterprise that has both the power to direct the activities most significant to the VIE, and is the enterprise that will absorb a majority of the fund's expected losses or receive a majority of the fund's expected residual returns. The Company evaluates its interest in certain fixed maturity securities, joint ventures, limited partnerships, and limited liability companies to determine if the entities meet the definition of a VIE and whether the Company is the primary beneficiary and should consolidate the entity based upon the variable interests it held both at inception and where there is a change in circumstances that requires a reconsideration.

The Company has determined that it is not the primary beneficiary of these investments as the Company does not have the power to direct the activities that most significantly impact the entities' performance. The Company's maximum exposure to loss is limited to the carrying values of these securities. There are no liquidity arrangements, guarantees or other commitments by third parties that affect the fair value of the Company's interest in these assets.

(Dollars in thousands)

Net Investment Income

Analysis of investment income by investment type follows for the years ended December 31:

	Investment income		
	2018	**2017**	**2016**
Gross investment income:			
Securities available-for-sale:			
Fixed maturity securities	$ 507,723	408,653	394,807
Equity securities	—	2,557	4,338
Fixed maturity trading securities	68	88	105
Fixed maturity held-to-maturity securities	3,080	60,581	64,169
Equity securities	4,173	—	—
Mortgage loans on real estate	67,643	67,682	70,979
Real estate	5,865	6,558	7,741
Policy loans	35,166	28,913	26,106
Short-term investments	11,304	6,663	2,551
Other long-term investments	7,941	7,506	7,726
Total gross investment income	642,963	589,201	578,522
Interest expense	(63,196)	(58,533)	(58,493)
Other investment expenses	(26,489)	(23,724)	(26,901)
Net investment income	$ 553,278	506,944	493,128

Net Realized Gains (Losses)

Analysis of net realized gains (losses) by investment type follows for the years ended December 31:

(Dollars in thousands)

	Realized (losses) gains on investments		
	2018	**2017**	**2016**
Securities available-for-sale:			
Fixed maturity securities	$ 2,356	3,493	4,703
Equity securities	—	1,566	391
Trading securities:			
Fixed maturity securities	1	5	16
Equity securities	—	755	96
Fixed maturity held-to-maturity securities	—	(12,190)	(6,525)
Equity securities, at fair value	783	—	—
Mortgage loans on real estate**	(92)	(3,906)	(210)
Derivative instruments	(6,000)	(291,294)	(229,016)
Real estate	(72)	(493)	(65)
Loss on sale of affiliate	—	—	(1,275)
Other long-term investments	157	4,089	102
Total realized losses on investments	(2,867)	(297,975)	(231,783)
Change in allowances for mortgage loans on real estate*	(67)	3,478	(253)
Net realized losses on investments***	$ (2,934)	(294,497)	(232,036)

* Commercial mortgage loans

** Includes the changes in the allowance for residential mortgages

*** Includes realized losses on derivatives which are presented separately on the statements of income

Realized gains (losses) on investments, as shown in the table above, include write-downs for OTTI of $2,227, $16,127 and $8,493 for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, fixed maturity securities with a carrying value of $84,582, which had a cumulative write-down of $22,288 due to OTTI, remained in the Company's investment portfolio.

The following tables summarize total OTTI losses on securities by asset type for the years ended December 31:

(Dollars in thousands)

	Total OTTI	Recognized in OCI	Recognized in earnings
2018			
Fixed maturity securities:			
Obligations of states and political subdivisions	$ 878	878	—
Corporate	1,722	—	1,722
Asset-backed	(1,703)	(1,835)	132
Mortgage-backed	(3,209)	(3,582)	373
Total other-than-temporary impairment losses	$ (2,312)	(4,539)	2,227
2017			
Fixed maturity securities:			
Obligations of states and political subdivisions	$ 1,272	443	829
Corporate	15,298	—	15,298
Asset-backed	(11,126)	(11,126)	—
Mortgage-backed	(666)	(666)	—
Total other-than-temporary impairment losses	$ 4,778	(11,349)	16,127
2016			
Corporate	$ 7,060	—	7,060
Asset-backed	(4,867)	(4,917)	50
Mortgage-backed	(867)	(2,250)	1,383
Total other-than-temporary impairment losses	$ 1,326	(7,167)	8,493

Credit Loss Rollforward

The following table summarizes the cumulative amounts related to the Company's credit loss portion of the OTTI losses on fixed maturity securities held as of December 31, that the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the security prior to recovery of the amortized cost basis and for which the non-credit portion of the loss is included in other comprehensive income:

(Dollars in thousands)

		2018	2017	2016
Cumulative credit loss, beginning of year	$	32,069	63,083	59,207
New credit losses		1,172	12,248	7,303
Change in credit losses on securities included in the beginning balance		1,055	3,879	1,190
Subtotal		34,296	79,210	67,700
Less:				
Losses related to securities included in the current year beginning balance sold or paid down during the period		12,008	47,141	4,617
Cumulative credit loss, end of year	$	22,288	32,069	63,083

Sales of Fixed Maturity Securities, Available-for-Sale

The following table summarizes fixed maturity securities available-for-sale activity:

		2018	2017	2016
Proceeds	$	1,013,556	804,473	633,031
Gross realized gains	$	7,657	13,420	7,253
Gross realized losses	$	(4,640)	(10,247)	(2,234)

Prior to the reclassification of all fixed maturity held-to-maturity securities during 2018, the Company could sell securities classified as held-to-maturity if the Company became aware of evidence of significant deterioration in an issuer's creditworthiness and/or a significant increase in the risk weights of debt securities for regulatory RBC purposes. The Company sold zero, one and one held-to-maturity securities in 2018, 2017 and 2016, respectively. Proceeds from the sale of those securities were $0, $6,000 and $4,150 in 2018, 2017 and 2016, respectively. There were net losses realized on the sale of those securities of $0, $0 and $850 in 2018, 2017 and 2016, respectively.

Net Unrealized Gains (Losses) on Available-for-Sale Securities

An analysis by investment type of the change in unrealized gains (losses), before taxes, on securities available-for-sale is as follows for the years ended December 31:

		2018	2017	2016
Securities available-for-sale:				
Fixed maturity securities	$	(316,985)	71,448	93,382
Equity securities		—	400	(802)
Change in net unrealized gains	$	(316,985)	71,848	92,580

The following table summarizes the unrealized gains and losses recognized during the year ended December 31, 2018 on equity securities still held at December 31, 2018:

(Dollars in thousands)

		2018
Net gains and losses recognized during the period on equity securities	$	(3,828)
Less: Net gains and losses recognized during the period on equity securities sold during the period		(3,380)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$	(7,208)

The components of net unrealized gains (losses) on securities available-for-sale in AOCI arising during the period were as follows as of December 31:

		2018	2017	Change
Securities available-for-sale	$	132,250	449,235	(316,985)
Impact of adoption of ASU 2016-01		—	4,548	(4,548)
Unrealized losses related to closed block		(8,124)	(26,086)	17,962
Unrealized (losses)/gains on derivatives		(373)	(295)	(78)
Unrealized (losses)/gains on other invested assets		—	2,236	(2,236)
Future policy benefits and claims		(8,194)	(46,728)	38,534
Deferred policy acquisition costs		(9,572)	(90,841)	81,269
Other policyholder funds		(242)	17,748	(17,990)
Deferred federal income tax provision		(29,803)	(68,760)	38,957
Net unrealized gains	$	75,942	241,057	(165,115)

		2017	2016	Change
Securities available-for-sale	$	453,783	381,935	71,848
Unrealized losses related to closed block		(26,086)	(20,995)	(5,091)
Unrealized (losses)/gains on derivatives		(295)	(335)	40
Unrealized (losses)/gains on other invested assets		2,236	—	2,236
Future policy benefits and claims		(46,728)	(33,220)	(13,508)
Deferred policy acquisition costs		(90,841)	(64,022)	(26,819)
Other policyholder funds		17,748	8,885	8,863
Prior year AOCI adjustment		—	3,635	(3,635)
Deferred federal income tax provision		(68,760)	(91,278)	22,518
Net unrealized gains	$	241,057	184,605	56,452

		2016	2015	Change
Securities available-for-sale	$	381,935	289,355	92,580
Unrealized losses related to closed block		(20,995)	(19,611)	(1,384)
Unrealized (losses)/gains on derivatives		(335)	84	(419)
Future policy benefits and claims		(33,220)	(26,275)	(6,945)
Deferred policy acquisition costs		(64,022)	(58,984)	(5,038)
Other policyholder funds		8,885	—	8,885
Prior year AOCI adjustment		3,635	—	3,635
Deferred federal income tax provision		(91,278)	(62,966)	(28,312)
Net unrealized gains	$	184,605	121,603	63,002

(8) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company pursuant to ASC Topic 815, *Derivatives and Hedging*, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, interest rate swaptions and equity swaps to economically hedge liabilities embedded in certain variable annuity products such as the GMAB, GMWB, GMIB and GLWB and in fixed indexed annuity and indexed universal life products.

In December 2018, the Company replaced the interest rate swaptions used in its interest rate hedging program. Each swaption consists of a 5 year option to enter into an interest rate swap on the 10 year swap rate. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2018, the Company purchased equity index put options to replace existing futures used to hedge the equity risk embedded in the variable annuity guarantees. One year S&P 500, Russell 2000, and NASDAQ 100 options were purchased. The Company continues to hold futures to hedge the foreign indices and currency exposure in the variable annuity guarantees. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In April 2018, the Company entered into S&P 500, Russell 2000, and Nasdaq 100 total return swap agreements. The swap was terminated in July 2018 and resulted in a loss of $32,000. In July of 2018, the company entered into S&P 500, Russell 2000, and Nasdaq 100 total return swap agreements that were terminated in October 2018 and resulted in a gain of $19,600. Since the transactions above do not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In October 2016, the Company entered into an equity index call option agreement. Under this agreement, three equity index call options will be purchased monthly. The S&P 500 and Russell 2000 options are one year call spread options. The custom Barclays instrument is a three year call. Starting in May 2018, the Company began purchasing one year calls for the custom Barclay instrument as well. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

In November 2014, the Company entered into a cross currency swap agreement which qualified for hedge accounting as a cash flow hedge. The Company purchased a 10 year bond in the amount of €7 million with an annual foreign currency coupon of 1.93%. The Company concurrently entered into a matching cross currency swap effectively converting the cash flows of the Euro denominated bond into a U.S. denominated cash flows. The investment receives a fixed rate of 3.78% on the converted U.S. investment of $9,038. Interest on the bond is paid annually.

The Company has entered into a reinsurance arrangement with a nonaffiliated reinsurer to offset a portion of its risk exposure to the GMIB rider in certain variable annuity contracts. This reinsurance contract is accounted for as a freestanding derivative.

(Dollars in thousands)

Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. These host contracts include variable annuities with GMAB, GMWB and GLWB riders, and fixed indexed annuities which include index features in excess of their guaranteed minimum values.

The following tables present a summary of the estimated fair value of derivatives held by the Company along with the amounts recognized in the consolidated balance sheets:

Derivatives not designated as hedging instruments under ASC 815	Balance sheet location	December 31 2018 Fair value	2018 Notional Amount	2017 Fair value	2017 Notional Amount
Asset derivatives:					
Equity futures	Other long-term investments	$ 5,679	244,536	2,632	110,563
Currency futures	Other long-term investments	1,227	30,689	—	—
Equity put options	Other long-term investments	57,604	870,360	770	90,949
Equity index call options	Other long-term investments	9,221	1,841,661	12,911	550,919
Cross currency swaps	Other long-term investments	736	9,038	435	9,038
Swaptions	Other long-term investments	32,437	2,600,000	47,099	4,870,000
GMIB reinsurance contracts	Reinsurance	1,280,905	n/a	1,187,888	n/a
GMAB/GMWB embedded derivatives[1]	Other assets	603	n/a	31,727	n/a
Total		$ 1,388,412	5,596,284	1,283,462	5,631,469
Liability derivatives:					
GLWB embedded derivatives (variable annuity)	Future policy benefits and claims	$ 20,032	n/a	16,550	n/a
GMAB/GMWB embedded derivatives	Future policy benefits and claims	2,566	n/a	—	n/a
Fixed indexed annuity embedded derivatives[2]	Future policy benefits and claims	124,953	n/a	—	n/a
Equity futures	Other liabilities	—	—	8,798	691,976
Currency futures	Other liabilities	2,866	265,613	3,914	328,277
Equity put options	Other liabilities	—	—	1,614	1,326,558
Equity swaps	Other liabilities	—	—	21,490	509,883
Total		$ 150,417	265,613	52,366	2,856,694

1 GMAB "W" riders. The reserve balance for these GMAB riders was negative and thus reclassified as an asset.

2 Represents embedded derivative portion of the fixed indexed annuity base contracts only. There are no embedded derivatives in fixed indexed GLWB riders.

(Dollars in thousands)

The following table presents the effect of derivative instruments on the consolidated statements of income for the years ended December 31:

Derivatives not designated as hedging instruments under ASC 815	Location of gain (loss) recognized in income on derivatives	Amount of (loss) gain recognized in income on derivatives 2018	2017	2016
Equity futures	Net realized gains (losses): derivative instruments	$ (24,244)	(224,527)	(230,299)
Currency futures	Net realized gains (losses): derivative instruments	16,163	(29,713)	35,964
Equity put options	Net realized gains (losses): derivative instruments	55,955	(17,133)	(27,487)
Equity index call options	Net realized gains (losses): derivative instruments	(20,742)	4,764	21
Equity swaps	Net realized gains (losses): derivative instruments	(18,452)	(19,315)	233
Swaptions	Net realized gains (losses): derivative instruments	(14,661)	(5,370)	(7,448)
External reinsurance embedded derivative	Net realized gains (losses): derivative instruments	(19)	—	—
GMIB reinsurance contracts	Benefits and claims	93,017	(122,012)	625,953
GMAB/GMWB embedded derivatives	Benefits and claims	(33,690)	36,191	8,336
GLWB embedded derivatives	Benefits and claims	(3,482)	2,579	55,243
Fixed indexed annuity embedded derivatives[1]	Benefits and claims	(124,953)	—	—
Total		$ (75,108)	(374,536)	460,516

[1] The amounts recorded in benefits and claims reflect the change in the excess of fair value over account value. The reserve held as of December 31, 2017 was account value and therefore there was no income impact.

Credit Risk

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments.

Because exchange traded futures are affected through regulated exchanges and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records and requiring collateral for all derivatives in accordance with the International Swaps and Derivatives Association and Credit Support Annex ("ISDA"/"CSA") agreements in place with all of our counterparties. The Company manages its credit risk related to the freestanding reinsurance derivative by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2018 and 2017, a non-affiliated reinsurer held assets in trust with an estimated fair value of $891,834 and $838,861, respectively, and a letter of credit of $299,602 and $169,757, respectively.

(Dollars in thousands)

(9) Deferred Policy Acquisition Costs

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2018 and 2017 were as follows:

		2018	2017
Balance - beginning of year	$	1,807,505	1,714,438
Acquisition costs deferred		231,828	235,076
Amortization		(154,006)	(115,637)
Unrealized investment (losses) gains		81,269	(26,819)
Effect of foreign currency translation and other		(574)	447
Balance - end of year	$	1,966,022	1,807,505

(10) Future Policy Benefits and Claims

The liability for future policy benefits and claims is comprised of basic and benefit reserves for traditional life products, group life and health policies, universal life policies, and investment contracts, including riders.

The liability for future policy benefits for traditional life products has been established based upon the net level premium method using interest rates varying from 2.0% to 6.0%.

The liability for future policy benefits and claims for ONSP's group life and health insurance policies is comprised of claims and expense reserves and incurred but not reported ("IBNR"). The claims and expense reserves have been calculated using the present values of expected future cash flows of known claims using discount rates that vary by currency ranging from 2.7% to 5.6%. IBNR reserves have been estimated using historical claim reporting information.

The liability for future policy benefits for universal life policies and investment contracts represents approximately 66.3% and 66.9% of the total liability for future policy benefits as of December 31, 2018 and 2017, respectively. The liability has been established based on accumulated contract values without reduction for surrender penalty provisions. The average interest rate credited on investment product policies was 3.3%, 3.3% and 3.4% for the years ended December 31, 2018, 2017 and 2016, respectively. Approximately 33.7% and 39.0%, as of December 31, 2018 and 2017, respectively, of the universal life policies and investment contracts were at their guaranteed minimum interest rate.

The Company has established a reserve for three universal life plans with lifetime secondary guarantees, which the Company discontinued. At December 31, 2018 and 2017, this reserve balance was $50,590 and $35,694, respectively.

The liability for future policy benefits for ONSV's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 4.6% and 4.4% for the years ended December 31, 2018 and 2017, respectively.

The liability for future policy benefits for ONSP's universal life policies has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate on these policies was 3.5% and 4.4% for the years ended December 31, 2018 and 2017, respectively.

Reserves are calculated using withdrawal, mortality, and morbidity rates. Withdrawal rates vary by issue age, type of coverage and policy duration and are based on Company experience. Mortality and morbidity rates which are guaranteed within insurance contracts are based on published tables and Company experience.

As discussed in Note 3, the Company has five main types of rider benefits offered with individual variable annuity contracts: GMDBs, GMIBs, GLWBs, GMABs, and GMWBs. The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Variable Annuity Riders

GMDB Riders
Certain variable annuity contracts include GMDB riders with the base contract and offer additional death and income benefits through riders that can be added to the base contract. These GMDB riders typically provide that upon the death of the annuitant, the beneficiaries could receive an amount in excess of the contract value. The GMDB rider benefit could be equal to the premiums paid into the contract, the highest contract value as of a particular time, e.g., every contract anniversary, or the premiums paid into the contract times an annual interest factor. The Company assesses a charge for the GMDB riders and prices the base contracts to allow the Company to recover a charge for any built-in death benefits.

The Company's GMDB claim reserves are determined by estimating the expected value of death benefits and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation if actual experience or other evidence suggests that earlier assumptions should be revised. Additionally, a decline in the stock market, causing the contract value to fall below the amount defined in each contract, could result in additional claims.

GMIB Riders
Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company's current annuitization rates, the annuitant will automatically receive the higher monthly income. The Company discontinued offering the GMIB rider in virtually all states in May 2010. NSLAC continued to sell the GMIB rider in the state of New York until August 2012.

GMIB claim reserves are determined each period by estimating the expected value of annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

GLWB Riders

The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. Such guaranteed withdrawals may start any time after the annuitant reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant attains a higher age band before the owner starts taking withdrawals. In some versions of GLWB riders sold in 2013 and later, there is a guaranteed minimum percentage withdrawal amount for the first 15 years of the contract; if the policyholder's account value goes to zero subsequent to the 15 year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the 10 year treasury rate from the preceding 90 calendar days, with the calculated treasury linked rate subject to a specified cap and floor.

At policy inception, the GLWB base is set at the amount of the purchase payments and it is increased by the amount of future purchase payments. It increases (roll-up) by up to eight percent simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to two hundred percent of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

The GLWB may also contain a step-up feature which preserves potential market gain by ratcheting up to the contract value, if higher, on each anniversary. If the contract has both a roll-up and step-up feature, the GLWB base will be the greater of: 1) the GLWB base on the previous anniversary plus any additional purchase payments; 2) the step-up base; or 3) the roll-up base.

The initial GLWB riders (issued May 1, 2010 through December 31, 2010) had a built-in death benefit. This death benefit is reduced dollar for dollar for withdrawals. It differs from most of the other death benefits that decline pro rata for withdrawals. Thus, when the contract value is less than the death benefit, withdrawals will reduce the death benefit under the GLWB rider by a smaller amount than the reduction for other death benefits.

The Company also offers single life and joint life versions of the GLWB rider. Under the joint life version, if the annuitant dies after the owner has started taking withdrawals the surviving spouse may elect a spousal continuation under the rider and continue to receive the same payment. Under the single life version, the guaranteed amount that may be withdrawn could decline either because 1) the contract value is less than the GLWB base and under the single life GLWB rider the contract value then becomes the new GLWB base and/or 2) the surviving spouse is in a different age band.

The initial GLWB riders, which are a closed block, represent an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims. The estimated fair value of the GLWB embedded derivative was calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

For GLWB riders issued beginning January 1, 2011, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period and recognizing the excess ratably over the accumulation period based on total assessments as the later generation riders do not meet the definition of a derivative. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate, with a related charge or credit to benefits and claims in the period of evaluation, if actual experience or other evidence suggests that earlier assumptions should be revised.

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder’s account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit. A GMAB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of the GMAB embedded derivative is calculated based on actuarial assumptions related to the projected benefit cash flows, incorporating numerous assumptions, including but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility.

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. A GMWB rider represents an embedded derivative in the variable annuity contract that is required to be separated from, and valued apart from, the host variable annuity contract. The embedded derivative is carried at estimated fair value and reported in future policy benefits and claims.

The estimated fair value of a GMWB embedded derivative is calculated based on actuarial assumptions related to projected benefit cash flows, incorporating numerous assumptions including, but not limited to, expectations of contract holder persistency, market returns, correlations of market returns and market return volatility. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled “GMAB.”

(Dollars in thousands)

The following tables summarize the account values and net amount at risk, net of reinsurance, for variable annuity contracts with guarantees invested in both general and separate accounts as of December 31 (note that most contracts contain multiple guarantees):

		2018			
		Death benefits	**Living benefits**		
		GMDB	**GMIB**	**GLWB**	**GMAB**
Return of net deposit					
Total account value	$	6,304,533	-	-	3,189,635
Separate account value	$	5,948,929	-	-	3,186,119
Net amount at risk [1]	$	124,807	-	-	8,758
Weighted average attained age of contract holders		68	-	-	66
Return of net deposits accrued at a stated rate					
Total account value	$	845,451	-	-	8,489
Separate account value	$	832,660	-	-	6,819
Net amount at risk [1]	$	229,320	-	-	149
Weighted average attained age of contract holders		73	-	-	73
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Total account value	$	2,549,366	6,891,179	8,452,408	-
Separate account value	$	2,535,941	6,782,520	8,443,673	-
Net amount at risk [1]	$	828,741	448,715	92,534	-
Weighted average attained age of contract holders		69	68	67	-
Return of highest anniversary value					
Total account value	$	9,192,906	-	-	-
Separate account value	$	8,972,703	-	-	-
Net amount at risk [1]	$	462,894	-	-	-
Weighted average attained age of contract holders		67	-	-	-
Total					
Total account value	$	18,892,256	6,891,179	8,452,408	3,198,124
Separate account value	$	18,290,233	6,782,520	8,443,673	3,192,938
Net amount at risk [1]	$	1,645,762	448,715	92,534	8,907
Weighted average attained age of contract holders		68	68	67	66

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

(Dollars in thousands)

	2017			
	Death benefits	Living benefits		
	GMDB	GMIB	GLWB	GMAB
Return of net deposit				
Total account value	$ 7,643,732	-	-	3,815,603
Separate account value	$ 7,243,415	-	-	3,810,456
Net amount at risk [1]	$ 20,712	-	-	36
Weighted average attained age of contract holders	67	-	-	65
Return of net deposits accrued at a stated rate				
Total account value	$ 1,057,359	-	-	11,670
Separate account value	$ 1,042,084	-	-	10,658
Net amount at risk [1]	$ 161,863	-	-	22
Weighted average attained age of contract holders	72	-	-	73
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value				
Total account value	$ 3,292,975	9,235,705	9,676,154	-
Separate account value	$ 3,278,408	9,118,959	9,650,000	-
Net amount at risk [1]	$ 492,638	157,768	11,825	-
Weighted average attained age of contract holders	69	67	66	-
Return of highest anniversary value				
Total account value	$ 10,933,569	-	-	-
Separate account value	$ 10,679,974	-	-	-
Net amount at risk [1]	$ 10,639	-	-	-
Weighted average attained age of contract holders	67	-	-	-
Total				
Total account value	$ 22,927,635	9,235,705	9,676,154	3,827,273
Separate account value	$ 22,243,881	9,118,959	9,650,000	3,821,114
Net amount at risk [1]	$ 685,852	157,768	11,825	58
Weighted average attained age of contract holders	67	67	66	65

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

(Dollars in thousands)

For guarantees of benefits that are payable in the event of death (GMDB), the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable at annuitization (GMIB), the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable upon withdrawal (GLWB), the net amount at risk is generally defined as the present value of the current maximum guaranteed withdrawal available to or taken by the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the balance sheet date.

The assets supporting the variable portion of all variable annuities are carried at fair value and reported as assets held in separate accounts, with an equivalent amount reported as liabilities related to separate accounts. All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models and/or have other investment restrictions. The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2018 and 2017.

The following table summarizes account balances of variable annuity contracts with guarantees that were invested in separate accounts as of December 31:

		2018	**2017**
Mutual funds:			
Bond	$	5,164,084	6,166,729
Equity		12,308,626	15,140,251
Money market		817,523	936,901
Total	$	18,290,233	22,243,881

The following table summarizes the reserve balances, net of reinsurance, for variable annuity contracts with guarantees as of December 31:

(Dollars in thousands)

		GMDB	GMIB	GLWB	GMAB
Balance at December 31, 2016	$	98,585	(669,653)	56,284	4,464
Incurred claims		14,713	5,091	-	137
Paid claims		(14,713)	(5,091)	-	(137)
Other [1]		18,856	154,526	4,083	(36,191)
Balance at December 31, 2017	$	117,441	(515,127)	60,367	(31,727)
Incurred claims		16,506	6,237	25	42
Paid claims		(16,506)	(6,237)	(25)	(42)
Other [1]		16,267	47,025	20,262	33,689
Balance at December 31, 2018	$	133,708	(468,102)	80,629	1,962

[1] The components that make up the Other line item above include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings and market factors.

The reserve balances in the above table include reserves for both direct and reinsurance ceded balances. As of December 31, 2018, direct G reserves were $1,075,689, ceded G reserves were $1,327,492 and net G reserves were $(251,803). The reserve balances in the above table include reserves for both direct and reinsurance ceded balances. As of December 31, 2017, direct G reserves were $862,581, ceded G reserves were $1,231,627 and net G reserves were $(369,046). The direct reserves were calculated in accordance with FASB ASC Topic 944, *Financial Services* and the reinsurance ceded reserves were calculated in accordance with FASB ASC Topic 815, *Derivatives*. See Note 6 for a reconciliation of the change in the reinsurance ceded reserve.

Fixed Indexed Annuity Riders

GLWB Riders

Certain fixed indexed annuity contracts include a GLWB rider. The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. There are two versions of GLWB rider offered: a single life GLWB with the annuitant as the covered person, and a joint life GLWB with the annuitant and the annuitant’s spouse as the covered persons.

The rider provides for a guaranteed payment of the maximum allowable withdrawal (“MAW”) each index year during the lifetime withdrawal period. Such guaranteed withdrawals may start any time after the annuitant/youngest covered spouse reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant/youngest covered spouse attains a higher age band before the guarantee is elected.

At the policy’s initial sweep date, the GLWB base is set at the amount of the purchase payments. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base. On each anniversary of the initial sweep date, except under excess withdrawal, the step-up GLWB base is equal to the greater of the GLWB base on the prior day, and the then current contract value, after deducting any applicable charges for the contract and credited interest. The annual credit base is the

GLWB base just prior to the index year processing, plus the annual credit calculation base just prior to index processing, multiplied by an index or bonus credit rate. Upon a step-up, the annual credit calculation base will reset to the contract value at the time of step-up.

For the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California, the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to AV at the time of exchange. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base.

For these GLWB riders, claim reserves are determined each period by estimating the expected value of withdrawal benefits in excess of the projected account balance at the date of the rider entering the lifetime annuity period, and comparing this to the expected value of assessments for the contract, where assessments are contract fees and interest margins. Liabilities are accrued as a proportion to the accumulated assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance as appropriate.

The reserve balances, net of reinsurance, for fixed indexed annuity contracts with guarantees were $6,360 and $0 as of December 31, 2018 and 2017, respectively. The components that make up the reserve include items affecting reserve balances outside of paid and incurred claims. This includes, but is not limited to, interest, accrual, true-up, unlockings, and market factors.

The total account value of the fixed indexed annuities was over $1,000,000. The account value specific to the GLWB riders was over $500,000 as of December 31, 2018.

As of December 31, 2018, direct G reserves were $6,360, ceded G reserves were $0 and net G reserves were $6,360.

(11) Reinsurance

The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth. The Company routinely enters into reinsurance transactions with other insurance companies, third parties and subsidiaries. This reinsurance involves either ceding certain risks to or assuming risks from other insurance companies. The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions.

External Reinsurance

For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 16%, 17%

and 19% of gross earned life and accident and health premiums during 2018, 2017 and 2016, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB and GLWB.

For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $276,138 and $311,234 as of December 31, 2018 and 2017, respectively.

Reinsurance agreements that do not transfer significant insurance risk are recorded using deposit accounting. The Company enters into such agreements with unaffiliated reinsurers. Effective April 1, 2016, the Company entered into an agreement to cede certain whole life blocks of business written between January 1, 2016 and December 31, 2016. Effective January 1, 2017, the Company entered into an additional agreement to cede certain whole life blocks of business written between January 1, 2017 and December 31, 2017. Effective October 1, 2017, these agreements were amended and restated to combine the previous treaties from 2014 through 2016, and add 2017 as well as 2018 prospectively. This combined treaty is accounted for using deposit accounting.

At the inception of each of these deposit accounting agreements, a risk charge liability was recorded in other liabilities on the consolidated balance sheets, with a corresponding risk charge expense recorded in other operating expenses on the consolidated statements of income. The risk charge liabilities and expenses related to these agreements were $2,022, $1,405 and $275 at and as of December 31, 2018, 2017 and 2016, respectively.

Effective December 31, 2018, the Company entered into an agreement to cede its quota share of the net liability on certain term life policies issued between June 4, 2007 through December 31, 2017, and in force as of the effective date. This treaty is accounted for using deposit accounting. The risk charge liabilities and expenses related to this agreement will settle quarterly, beginning March 31, 2019.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for ONLIC, ONLIC cedes variable annuity-related risks, living and death benefits to SYRE for the GMIB, GMDB, and GLWB riders. Additionally, to consolidate the management of such living benefit risks, ONLIC assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC ceded 100% of the fixed indexed annuities exchange program business and associated GLWB riders to SYRE. ONLIC assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

ONLAC writes a significant amount of term and universal life insurance that requires statutory reserves in excess of the Company's best estimate economic reserves (i.e. redundant reserves). To efficiently manage the statutory surplus impact to ONLAC and improve capacity to write new business, the

(Dollars in thousands)

Company established two affiliated Vermont captive insurers, MONT and KENW, and an Ohio captive, CMGO. ONLAC cedes certain term life policies and certain death benefit guarantee universal life policies to MONT. ONLAC cedes certain term life policies to KENW and CMGO. MONT, KENW and CMGO entered into external reinsurance covering certain of the assumed blocks of business. Additionally, MONT, KENW and CMGO retrocede term life policies on a yearly renewable term basis to ONLIC, which ONLIC cedes to external reinsurers.

ONSV entered into a proportional quota share agreement with ONSP whereby the Company assumes 50% of the premiums and claims related to ONSP's participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to premiums and claims incurred between January 1, 2015 and December 31, 2016.

All of the affiliated reinsurance transactions eliminate in consolidation at the ONFS and ONMH levels.

The reconciliation of traditional life and individual health total premiums to net premiums for the years ended December 31, were as follows:

	2018	2017	2016
Direct premiums	$ 1,050,888	977,421	854,674
Reinsurance assumed - external	1,219	1,363	1,593
Reinsurance assumed - intercompany	238,704	234,812	311,233
Reinsurance ceded - external	(183,327)	(188,256)	(221,544)
Reinsurance ceded - intercompany	(238,704)	(234,812)	(311,233)
Net premiums earned	$ 868,780	790,528	634,723

(12) Notes Payable

Notes payable outstanding were as follows as of December 31:

	2018	2017
Surplus notes		
6.875% fixed rate due 2042	$ 247,393	247,282
5.000% fixed rate due 2031	3,979	3,939
5.800% fixed rate due 2027	5,883	5,869
8.500% fixed rate due 2026	49,767	49,735
Senior notes		
6.625% fixed rate due 2031	247,264	247,126
6.375% fixed rate due 2020	299,218	298,675
Total notes payable	$ 853,504	852,626

Surplus Notes

In June 2012, ONLIC issued a $250,000, 6.875% fixed rate surplus note due June 15, 2042. Interest on this surplus note is payable semi-annually on June 15 and December 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In December 2011, ONLIC issued a $4,500, 5.000% fixed rate surplus note to Security Mutual Life Insurance Company of New York ("SML"), as payment for the purchase of additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.800% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued $50,000, 8.500% fixed rate surplus note, due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

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 $250,000, 6.625% fixed rate senior note due May 1, 2031. Interest is payable semi-annually on May 1 and November 1. ONFS may redeem this senior note at its option.

In April 2010, ONFS issued a $300,000, 6.375% fixed rate senior note due April 30, 2020. Interest is payable semi-annually on April 30 and October 30. ONFS may redeem this senior note at its option.

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.

Interest Expense

Total interest expense, including amortization of debt discounts and issuance costs, on all obligations was $58,576, $58,533 and $58,493 during the years ended December 31, 2018, 2017, and 2016, respectively. Total interest expense is included in investment expenses as a component of net investment income.

(Dollars in thousands)

(13) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. In March, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

ONFS utilized $810,000 and $400,000 of this facility as of December 31, 2018 and 2017, respectively, to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles. ONFS borrowed $75,000 against the facility in December 2017 for the benefit of SYRE, which is recorded in short-term borrowings in the consolidated balance sheets. The $15,000 ONFS borrowed to fund the 2014 intercompany sale transaction of ONSP to the Dutch holding company from ONSA was transferred to the facility and remains outstanding. This amount is recorded in short-term borrowings in the consolidated balance sheets.

In December 2018, ONFS entered into a $50,000, 364-Day letter of credit facility with a bank in order to finance and to support the reserve requirements of SYRE. ONLIC is the only beneficiary of the related letters of credit. ONFS utilized $50,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $150,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE and ONLIC (related to NSLAC). ONLIC and NSLAC are the only beneficiaries of the related letters of credit. ONFS utilized $75,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with ONLIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

Total interest and fees paid on these credit facilities were $11,565, $3,978 and $1,589 in 2018, 2017 and 2016, respectively.

(14) Income Taxes

The provision for income taxes is as follows:

		2018	2017	2016
Current (benefit) expense	$	(972)	(15,119)	(3,591)
Deferred (benefit) expense		(5,056)	(189,720)	66,456
Provision for income taxes	$	(6,028)	(204,839)	62,865

(Dollars in thousands)

The following table is the reconciliation of the provision for income taxes based on enacted U.S. federal income tax rates to the provision for income taxes reported in the consolidated financial statements for the years ended December 31:

		2018	2017	2016
Pre-tax income times U.S. enacted tax rate	$	13,990	(62,613)	123,622
Tax-preferred investment income		(22,579)	(43,093)	(62,064)
Foreign subsidiaries statutory tax differential		(590)	(2,208)	(2,424)
Deemed income from foreign operations		(3,314)	8,369	—
U.S. Tax reform rate change - Non-equity		4,137	(77,549)	—
U.S. Tax reform rate change - Equity		—	(33,329)	—
Tax contingencies		126	(51)	2,298
Other, net		2,202	5,635	1,433
Provision for income taxes	$	(6,028)	(204,839)	62,865
Effective tax rate		(9.0)%	114.5%	17.8%

The Company files income tax returns in the U.S. federal jurisdiction, foreign countries and various state jurisdictions.

As discussed in Note 4, the United States enacted new tax legislation effective January 1, 2018. The effects of the tax rate change on deferred taxes are reflected in the tax rate reconciliation above. The primary impact on our 2017 financial results was associated with the effect of reducing the U.S. income tax rate from 35% to 21% on our deferred tax balances as of December 31, 2017, and a one-time deemed repatriation tax on certain unremitted earnings of foreign subsidiaries. Other material provisions of the U.S. tax reform impacting the Company and not effective until January 1, 2018 include, but are not limited to provisions: 1) reducing the dividends received deduction; 2) increasing the tax deferred acquisition cost rates (Tax DAC); 3) modifying the tax reserve calculation; and 4) eliminating the corporate alternative minimum tax (AMT).

The largest component of tax-preferred investment income in the rate reconciliation above is the Dividends Received Deduction ("SA DRD") on separate account assets held in connection with variable annuity and life contracts. For 2018, 2017 and 2016 tax returns, the Company recognized an income tax benefit of $10,169, $35,950 and $28,136, respectively.

The Company has made the decision to permanently re-invest the foreign subsidiaries' earnings, thus local foreign country tax rules and tax rates govern the reporting of taxes rather than the U.S. tax rules and tax rate. In 2014, the Chilean government passed legislation increasing the enacted tax rate each year and is currently 27% in 2018 and thereafter. The impact of this legislation is reflected in the above rate reconciliation table.

(Dollars in thousands)

The tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities that give rise to significant components of the net deferred tax liability relate to the following as of December 31:

		2018	2017
Deferred tax assets:			
Pension and benefit obligations	$	23,647	31,058
Future policy benefits		871,286	755,718
Derivatives		34,590	71,511
Net operating loss carryforwards		164,989	110,435
Tax credits		40,203	38,585
Fixed Asset Capitalization and Depreciation		21,090	—
Other		3,590	1,489
Total gross deferred tax assets		1,159,395	1,008,796
Valuation allowance on deferred tax assets		—	—
Net deferred tax assets		1,159,395	1,008,796
Deferred tax liabilities:			
Investments		19,001	90,635
Deferred policy acquisition costs		311,272	288,835
Section 481(a) adjustment		16,673	27,792
Reinsurance recoverable		911,781	754,808
Other		6,983	90
Total gross deferred tax liabilities		1,265,710	1,162,160
Net deferred tax liability	$	106,315	153,364

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future income, and prudent and feasible tax planning strategies in making this assessment. Based upon the level of historical taxable income, projections for future income over the periods in which the deferred tax assets are deductible and available tax planning strategies, the Company believes it is more likely than not that it will realize the benefits of these deductible differences.

As of December 31, 2018, the Company has non-life net operating loss carryforwards of $486,170 expiring in years 2027 through 2037. As of December 31, 2017, the Company had non-life net operating loss carryforwards of $530,089 expiring in years 2027 through 2037. As of December 31, 2018, SYRE has a net operating loss of $202,628 expiring in 2033, to be carried forward and used only to offset future taxable income of SYRE. As of December 31, 2017, SYRE had a net operating loss of $35,532 expiring in 2031, to be carried forward and used only to offset future taxable income of SYRE. All loss carryforwards are expected to be fully utilized before expiring.

As of December 31, 2018 and 2017, the Company had no valuation allowances recorded. As of December 31, 2018, the Company has no net capital loss carryforwards. As of December 31, 2018, the

Company established $2,344 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2018. As of December 31, 2018, the Company has tax credit carryforwards of $40,203 expiring in years 2019 through 2038. As of December 31, 2017, the Company had tax credit carryforwards of $34,174 expiring in years 2019 through 2037. As of December 31, 2018, the Company has alternative minimum tax credits of $16,098 that now reside in the current tax receivable as a result of tax reform.

The U.S. tax reform imposed a one-time deemed repatriation tax in 2017 on the greater of unremitted earnings and profits from foreign operations of our subsidiaries determined as of November 2, 2017 or December 31, 2017, which amounted to $5,055. Deferred tax liabilities are recognized for taxes payable on the unremitted earnings from foreign operations of our subsidiaries, except where it is our intention to indefinitely reinvest a portion or all of these undistributed earnings. We currently do not intend to repatriate these unremitted earnings. As of December 31, 2018 and 2017, it was not practicable to determine the amount of the unrecognized deferred tax liability that would arise if foreign earnings were remitted.

(15) Pensions and Other Post-Retirement Benefits

a) Home Office Pension Plan

The Company sponsors a funded qualified pension plan covering all home office employees hired prior to January 1, 1998. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The Company also sponsors unfunded pension plans covering certain home office employees where benefits exceed Code 401(a)(17) and Code 415 limits.

The Company also has other deferred compensation and supplementary plans.

The measurement dates were December 31, 2018 and 2017.

b) Home Office Post-Retirement Benefit Plans

The Company currently offers eligible retirees the opportunity to participate in a post-retirement health and group life plan. This plan was amended effective July 1, 2013, to provide participants younger than age 65, a fixed portion of the health insurance contract premium and for participants age 65 and older, a fixed dollar amount which the participant must use to independently purchase their own insurance. Previously, this plan provided all participants a fixed portion of the health insurance contract premium. The portion the Company pays is periodically increased and is a function of participant service. Only home office employees hired prior to January 1, 1998 may become eligible for these benefits provided that the employee meets the retirement age and years of service requirements.

This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

c) General Agents' Pension Plan

The Company sponsors an unfunded, nonqualified defined benefit pension plan covering its general agents hired prior to January 1, 2005. This plan provides benefits based on years of service and average compensation during the final five and ten years of service.

The measurement dates were December 31, 2018 and 2017.

d) Agents' Post-Retirement Benefits Plans

The Company sponsors a post-retirement health and group life plan. Only agents with contracts effective prior to January 1, 1998 who meet the retirement age and service requirements are eligible for these benefits. The health and group life plans are contributory, with retirees contributing approximately 50% of premium for coverage. As with all plan participants, the Company reserves the right to change the retiree premium contribution at renewal.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

e) Obligations and Funded Status

Information regarding the funded status of the pension plans as a whole and other benefit plans as a whole as of December 31 is as follows:

(Dollars in thousands)

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	127,704	133,089	6,764	7,918
Service cost		3,107	3,378	43	58
Interest cost		4,859	5,163	261	299
Actuarial loss (gain)		(17,650)	11,739	565	(1,146)
Benefits paid*		(23,689)	(25,665)	(1,327)	(365)
Projected benefit obligation at end of year	$	94,331	127,704	6,306	6,764
Accumulated benefit obligation	$	80,143	102,701		
Change in plan assets:					
Fair value of plan assets at beginning of year	$	66,945	60,476	—	—
Plan sponsor contribution		—	3,922	—	—
Actual return on plan assets		(5,687)	8,823	—	—
Benefits and expenses paid		(10,555)	(6,276)	—	—
Fair value of plan assets at end of year	$	50,703	66,945	—	—
Funded status**	$	(43,628)	(60,759)	(6,306)	(6,764)

* Benefits paid include amounts paid from both funded and unfunded benefit plans.

** Funded status is recorded in other liabilities in the consolidated balance sheets.

The following tables show the funded status of the pension plans as of December 31:

		Funded qualified pension plan	**Unfunded pension plan**	**Total**
2018				
Projected benefit obligation	$	64,093	30,238	94,331
Fair value of plan assets		50,703	—	50,703
Funded status	$	(13,390)	(30,238)	(43,628)
2017				
Projected benefit obligation	$	81,710	45,994	127,704
Fair value of plan assets		66,945	—	66,945
Funded status	$	(14,765)	(45,994)	(60,759)

(Dollars in thousands)

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts recognized in the balance sheet consist of:				
Other liabilities	$ (43,628)	(60,759)	(6,306)	(6,764)

Amounts recognized in other comprehensive income (loss) arising during the period consist of the following:

	Pension benefits			Other benefits		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
Net actuarial loss (gain)	$ (7,237)	7,290	11,176	565	(1,146)	1,396

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	$ 32,220	46,211	1,278	742
Prior service credit	—	—	(127)	(255)
Total	$ 32,220	46,211	1,151	487

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2019 are $2,722 and $0, respectively. The estimated net loss and prior service cost for the other post-retirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2019 are $116 and $(127), respectively. There are no plan assets that are expected to be returned to the Company during the next twelve months.

(Dollars in thousands)

	Pension benefits		
	2018	**2017**	**2016**
Components of net periodic benefit cost:			
Service cost	$ 3,107	3,378	3,384
Interest cost	4,859	5,163	5,607
Expected return on plan assets	(4,726)	(4,375)	(3,709)
Amortization of net loss/(gain)	4,158	4,097	4,124
Settlement	2,596	5,710	—
Net periodic benefit cost	$ 9,994	13,973	9,406

	Other benefits		
	2018	**2017**	**2016**
Components of net periodic benefit cost:			
Service cost	$ 43	58	75
Interest cost	261	299	378
Amortization of prior service cost	(128)	(128)	(128)
Amortization of net loss/(gain)	29	40	345
Net periodic benefit cost	$ 205	269	670

Information for defined benefit pension plans with an accumulated benefit obligation in excess of fair value of plan assets as of December 31:

	Pension benefits	
	2018	**2017**
Projected benefit obligation	$ 94,331	45,994
Accumulated benefit obligation	80,143	36,771
Fair value of plan assets	50,703	—

(Dollars in thousands)

f) Assumptions

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Weighted average assumptions used to determine net periodic benefit cost at January 1:				
Discount rate	4.03%	4.35%	4.04%	4.53%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	4.35%	4.61%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	7.80%	8.53%
Age 65 and older	—	—	0.70%	1.60%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	7.70%	7.73%
Age 65 and older	—	—	0.60%	0.80%
Year that the rate reaches the ultimate trend rate	—	—	2023	2020
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	4.81%	4.03%	4.74%	4.04%
Rate of compensation increase	3.83%	4.46%	3.50%	4.25%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage point increase	1 Percentage point decrease
Effect on total of 2018 service cost and interest cost	$ 25	(21)
Effect on 2018 other post-retirement benefit obligation	452	(392)

(Dollars in thousands)

g) Plan Assets

The following table presents the hierarchy of the Company's pension plan assets at fair value as of December 31:

		Level 1	Level 2	Level 3	Total
2018					
Bond funds	$	17,640	-	-	17,640
Equity funds		33,063	-	-	33,063
Total assets	$	50,703	-	-	50,703
2017					
Bond funds	$	18,496	-	-	18,496
Equity funds		48,449	-	-	48,449
Total assets	$	66,945	-	-	66,945

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy described in Note 6.

The Company's other post-retirement benefit plans were unfunded at December 31, 2018 and 2017.

The assets of the Company's defined benefit pension plan ("the Plan") are invested in group variable annuity contracts with ONLIC offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2018 and 2017, $29,430 and $41,198, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of equity securities, debt securities and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan's short-term liquidity needs and its long-term liabilities. The target allocations are currently 65% equity securities and 35% debt securities.

For diversification and risk control purposes, where applicable, each asset class is further divided into sub classes such as large cap, mid cap and small cap and growth, core and value for equity securities and U.S. domestic, global and high yield for debt securities. To the extent possible, each sub asset class utilizes multiple fund choices and no single fund contains more than 25% of Plan assets (exclusive of any short term increases in assets due to any Plan funding). The Plan performance is measured by a weighted benchmark consisting of equity and debt benchmarks in weights determined by the Plan committee.

The overall expected long term rate of return on assets is determined by a weighted average return of fixed income and equity indexes. Fixed income securities (including cash) make up 40% of the weighted average return and equity securities make up 60% of the weighted average return.

(Dollars in thousands)

The following table shows the weighted average asset allocation by class of the Company's qualified pension plan assets as of December 31:

	2018	**2017**
Equity securities	65%	72%
Debt securities	35	28
Total	100%	100%

h) Cash Flows

(i) Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2018 and 2017 was $0. The Plan Sponsor contributed $0 and $3,922 to the qualified pension plan for the years ended December 31, 2018 and 2017, respectively. No contribution to the qualified pension plan is expected for the 2019 plan year.

(ii) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

		Pension benefits	**Other benefits**
2019	$	5,778	507
2020		9,920	508
2021		8,127	515
2022		10,393	520
2023		10,244	524
2024 – 2028		53,011	2,263

i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2018, 2017 and 2016 was $7,281, $5,925 and $8,343, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,956, $2,900 and $3,282 in 2018, 2017 and 2016, respectively.

The Company has other deferred compensation and supplemental pension plans not included in the above tables. In 2018, a portion of the liability was released resulting in negative expense of $6,268 during the year. The expenses for these plans in 2017 and 2016 were $18,336 and $12,992, respectively.

(16) Closed Block

Effective August 1, 1998, ONLIC was reorganized with approval of the Board of Directors, the Company's policyholders, and the Ohio Department of Insurance under provisions of the Ohio Revised Code to become a stock company 100% owned by ONFS. This reorganization contained an arrangement, known as a closed block (the "Closed Block"), to provide for dividends on policies that were in force on the effective date and were within classes of individual policies for which the Company had a dividend scale in effect at the time of the reorganization. The Closed Block was designed to give reasonable assurance to owners of affected policies that assets will be available to support such policies, including maintaining dividend scales in effect at the time of the reorganization, if the experience underlying such dividend scales continues. The assets, including revenue therefrom, allocated to the Closed Block will accrue solely to the benefit of the owners of policies included in the Closed Block until the Closed Block is no longer in effect. The Company is not required to support the payment of dividends on the Closed Block policies from its general funds.

The financial information of the Closed Block is consolidated with all other operating activities, and is prepared in conformity with FASB ASC 944-805, *Financial Services-Insurance-Business Combinations.* This presentation reflects the contractual provisions and not the actual results of operations and financial position. Many expenses related to the Closed Block operations are charged to operations outside the Closed Block; accordingly, the contribution from the Closed Block does not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

(Dollars in thousands)

Summarized financial information of the Closed Block as of December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018 follows:

	2018	2017
Closed Block liabilities:		
Future policy benefits and claims	$ 581,984	599,014
Policyholders’ dividend accumulations	33,633	35,565
Other policyholder funds	9,946	24,391
Deferred federal income taxes	1,706	5,478
Other liabilities	1,329	1,485
Total Closed Block liabilities	$ 628,598	665,933
Closed Block assets:		
Fixed maturity securities available-for-sale, at fair value (amortized cost of $420,536 and $378,831 as of December 31, 2018 and 2017, respectively)	$ 428,660	404,917
Fixed maturity securities held-to-maturity, at amortized cost	—	38,299
Mortgage loans on real estate, net	38,641	47,805
Policy loans	82,788	86,076
Cash and short-term investments	6,071	12,696
Accrued investment income	4,249	4,160
Deferred policy acquisition costs	32,851	35,850
Reinsurance recoverable	895	1,004
Other assets	694	1,138
Total Closed Block assets	$ 594,849	631,945
Excess of reported Closed Block liabilities over Closed Block assets	$ 33,749	33,988
Tax reform adjustment	—	3,652
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains, net of tax	10,056	28,218
Allocated to policyholder dividend obligation, net of tax	(1,932)	(2,132)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$ 41,873	63,726

(Dollars in thousands)

	2018	2017	2016
Change in policyholder dividend obligation:			
Balance at beginning of year	$ 35,565	37,697	39,510
Net unrealized investment activity	(1,932)	(2,132)	(1,813)
Balance at end of year	$ 33,633	35,565	37,697
Closed Block revenues and expenses:			
Traditional life insurance premiums	$ 18,284	20,101	22,530
Net investment income	28,788	30,318	32,489
Net realized gains (losses) on investments	463	(275)	125
Benefits and claims	(31,104)	(33,082)	(34,262)
Provision for policyholders' dividends on participating policies	(7,201)	(8,211)	(9,782)
Amortization of deferred policy acquisition costs	(3,015)	(3,028)	(3,075)
Other operating costs and expenses	(1,660)	(1,927)	(2,111)
Income before federal income taxes	4,555	3,896	5,914
Income tax expense	1,382	506	2,308
Closed Block net income	$ 3,173	3,390	3,606

(17) Regulatory RBC and Dividend Restrictions

The Company is required to comply with statutory accounting practices prescribed or permitted by regulatory authorities. Annual Statements for the Company's domestic insurance subsidiaries ONLIC, ONLAC, NSLAC, MONT, KENW and CMGO, filed with their respective insurance departments, are prepared on a basis of accounting practices prescribed or permitted by such regulatory authority in their respective states of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not prescribed.

The Company's Ohio domiciled life insurance subsidiaries, ONLIC, ONLAC, and CMGO, do not have any permitted statutory accounting practices as of December 31, 2018 or 2017. NSLAC, a New York domiciled life insurance company, does not have any permitted statutory accounting practices as of December 31, 2018 or 2017.

The Company's Vermont domiciled life insurance subsidiary, MONT, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2014. The approval continues indefinitely. The Company was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a stop loss agreement. This stop loss agreement is from a third party unauthorized reinsurer and is used to fund the reinsurer's obligation to the Company. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

The Company's Vermont domiciled life insurance subsidiary, KENW, received approval from the Vermont Insurance Department regarding the use of a permitted practice in the statutory financial statements as of December 31, 2013. The approval continues indefinitely. The Company was given approval by the Vermont Commissioner of Insurance to recognize as an admitted asset the value of a letter of credit and a stop loss agreement. This stop loss agreement is from a third party unauthorized reinsurer and is used to fund the reinsurer's obligation to the Company. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

In 2015, the Company redomiciled SYRE to the Cayman Islands from the State of Delaware. The Company received approval from the Cayman Islands Monetary Authority ("CIMA") regarding the use of permitted practices to use GAAP as the basis of accounting and to recognize, as an admitted asset, a letter of credit. The approval continues indefinitely.

Statutory Surplus and Income

State insurance regulators and the NAIC have adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. As of December 31, 2018, ONLIC, ONLAC, NSLAC, MONT, KENW and CMGO exceeded the minimum RBC requirements.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2018, the Company's primary life insurance subsidiary ONLIC's total adjusted capital and company action level RBC was $1,102,124 and $237,915, respectively, providing an RBC ratio of 463%. Additionally, as of December 31, 2018, ONLIC's authorized control level RBC was $118,958.

The combined statutory basis net income of ONLIC, ONLAC, NSLAC, MONT, KENW and CMGO, after intercompany eliminations, was $(91,843), $48,308 and $(15,535) for the years ended December 31, 2018, 2017 and 2016, respectively.

The combined statutory basis capital and surplus of ONLIC, ONLAC, NSLAC, MONT, KENW and CMGO, after intercompany eliminations, was $1,019,073 and $1,101,550 as of December 31, 2018 and 2017, respectively.

The primary reasons for the difference between statutory and GAAP accounting for reporting purposes include the following provisions for GAAP:

- the costs related to successful efforts to acquire business, principally commissions and certain policy issue expenses, are amortized over the period benefited rather than charged to operations in the year incurred;
- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;
- investments in fixed maturity available-for-sale securities are carried at fair value rather than amortized cost;
- certain assets designated as non-admitted under statutory accounting are excluded from the balance sheet; under GAAP, these assets would be included in the consolidated balance sheets, net of any valuation allowance;
- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at estimated fair value as opposed to a component of separate account assets;
- the fixed maturity securities that are related to NSLAC's funds withheld reinsurance arrangement are classified as trading securities recorded at estimated fair value as opposed to amortized cost;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive (loss) income and comprehensive (loss) income;

- consolidation for GAAP is based on whether the Company has voting control, or for certain VIEs, has the power to direct the activities most significant to the VIE while for statutory, consolidation is not applicable; and
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus.

Additionally, state regulators and rating agencies do not always use the same methodologies for calculating RBC ratios. There is a risk that a rating agency will not give us credit for certain regulatory RBC rules or permitted practices, which could result in a reduced rating even though the Company's RBC ratio and those of our insurance subsidiaries remain high based upon state regulatory rules and practices.

Dividend Restrictions
The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLIC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $102,000 may be paid by ONLIC to ONFS in 2019 without prior approval. Dividends of $60,000, $70,000 and $75,000 were declared and paid by ONLIC to ONFS in 2018, 2017 and 2016, respectively.

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $36,000 may be paid by ONLAC to ONLIC in 2018 without prior approval. ONLAC declared and paid dividends to ONLIC of $27,000, $27,000 and $28,000 in 2018, 2017 and 2016, respectively.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter where CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2018, 2017 or 2016.

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $1,940 may be paid by NSLAC to ONLIC in 2019 without prior approval. No dividends were declared or paid by NSLAC in 2018 or 2017. NSLAC declared and paid dividends to ONLIC of $1,300 in 2016.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2018, 2017 or 2016. No dividends were declared or paid by KENW to ONLIC in 2018, 2017 or 2016.

SYRE is subject to limitations, imposed by CIMA, on the payment of dividends to its stockholder, ONFS. Dividends shall only be paid out of the SYRE's retained earnings and any paid-in capital in excess of par, provided that, after giving effect to each such dividend, the remaining capital is in excess of any capital requirements as prescribed by the CIMA. SYRE cannot pay any dividends without prior approval from CIMA. No dividends were declared or paid by SYRE in 2018, 2017 or 2016.

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans, bonds, common stocks and venture capital partnerships of $89,518 and $96,814 as of December 31, 2018 and 2017, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the consolidated financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Commitments and Contingencies

In 2018, the Company was named in two threatened class action lawsuits pertaining to the strategic announcements in September 2018. At this time, no classes have been certified. The Company plans to defend these allegations vigorously. At this time, a loss is not probable, nor estimable.

In 2013, the Company entered into a joint venture agreement with various individual parties to purchase a 50% equity method investment interest in a closely-held Brazilian life insurance company. Per the terms of the agreement, the Company was potentially liable for future annual payments through 2017 which were dependent upon future annual profitability of the Brazilian life insurance company and based upon the earn out calculation noted in the agreement. The Company released the remaining liability of $1,007 at December 31, 2016 as the earn out calculation of the final payment in 2017 resulted in no payment due.

Operating Leases

The Company primarily leases hardware, software and transportation equipment. Rent expense on operating leases for the years ended December 31, 2018, 2017 and 2016, was $5,842, $5,557 and $4,940, respectively. The future minimum lease payments under operating leases that have remaining noncancelable lease terms in excess of one year at December 31, 2018, are as follows:

(Dollars in thousands)

2019	$	4,162
2020		4,007
2021		3,201
2022		923
2023		849
Thereafter		2,477
Total minimum lease payments	$	15,619

Capital Leases

The Company currently has lease agreements for office equipment that have been classified as capital leases. The assets are being amortized on a straight-line basis over the assets' remaining lives. Total accumulated amortization related to these leased assets as of December 31, 2018 was $42. The future minimum lease payments under capital leases that have remaining noncancelable lease terms in excess of one year at December 31, 2018, are as follows:

2019	$	43
2020		43
2021		43
2022		33
2023		—
Thereafter		—
Total minimum lease payments		162
Less interest on capital leases		(19)
Liability for capitalized leases	$	143

The Company was not involved in sale-leaseback transactions during 2018, 2017 or 2016.

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidating Information - Balance Sheet

December 31, 2018

(Dollars in thousands)

Assets	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Investments:												
Securities available-for-sale at fair value:												
Fixed maturities	$ –	285,438	290,252	100,904	–	56,561	2,879,003	6,822,543	–	10,434,702	11,606,009	11,606,009
Fixed maturities - on loan	–	–	–	–	–	–	80,602	223,155	–	303,757	303,757	303,757
Investment in subs	–	–	–	–	–	–	–	709,407	(709,407)	–	–	–
Fixed maturities held-to-maturity, at amortized cost	–	–	–	–	–	–	–	75,000	(75,000)	–	–	–
Fixed maturities, trading securities	–	–	–	–	–	850	–	–	–	850	850	850
Equity securities, at fair value	62	–	–	–	–	–	4,035	19,540	–	23,637	68,361	68,361
Equity securities - on loan, at fair value	–	–	–	–	–	–	2	272	–	274	274	274
Mortgage loans on real estate, net	–	–	–	–	–	–	399,571	858,214	–	1,257,785	1,335,742	1,335,742
Real estate, net	–	–	–	–	–	–	–	26,407	–	26,407	48,904	48,904
Policy loans	–	–	–	–	–	–	122,111	638,903	–	761,014	766,701	766,701
Other long-term investments	–	20	–	–	–	–	8,152	144,414	–	152,586	264,261	264,261
Short-term investments securities lending collateral	–	–	–	–	–	–	83,187	230,305	–	313,492	313,492	313,492
Short-term investments	–	3,395	889	946	–	–	–	112,628	–	117,859	170,146	170,146
Total investments	62	288,853	291,141	101,850	–	57,411	3,576,663	9,860,788	(784,407)	13,392,363	14,878,497	14,878,497
Cash	18,017	5,675	8,109	10,700	250	–	22,469	83,370	–	148,589	246,515	247,261
Accrued investment income	–	2,834	2,507	807	–	427	29,251	64,392	(229)	99,989	100,630	100,630
Deferred policy acquisition costs	–	–	16,570	15,644	–	21,584	372,795	1,304,014	(10,715)	1,719,893	1,966,022	1,966,022
Reinsurance recoverable	–	16,818	17,782	11,962	–	7,184	1,766,491	2,758,901	(1,448,003)	3,131,135	2,111,698	2,111,698
Derivative funds withheld due from affiliate	–	–	–	–	–	–	–	2,707	–	2,707	–	–
Reinsurance funds withheld due from affiliate, net	–	–	–	–	–	–	–	–	–	–	–	–
Other assets	8,358	7	14	17	–	2,989	14,286	211,381	(14,633)	222,418	359,138	358,770
Assets held in separate accounts	–	–	–	–	–	372,245	233,459	18,883,485	–	19,489,189	19,489,189	19,489,189
Federal income tax recoverable	–	–	–	–	–	–	–	34,254	(3,646)	30,607	26,525	26,600
Deferred federal income taxes	156	–	–	–	–	–	19,172	–	(19,329)	–	–	–
Total assets	$ 26,593	314,187	336,123	140,980	250	461,840	6,034,586	33,203,292	(2,280,962)	38,236,890	39,178,214	39,178,667
Liabilities and Equity												
Future policy benefits and claims	$ –	145,986	231,009	105,694	–	34,199	5,080,978	9,921,109	(1,456,725)	14,062,251	15,140,939	15,140,939
Policyholders' dividend accumulations	–	–	–	–	–	–	–	34,266	–	34,266	34,266	34,266
Other policyholder funds	–	5,701	–	–	–	–	81,549	72,549	–	159,798	164,147	164,147
Short-term borrowings	–	–	–	–	–	–	–	–	–	–	91,586	91,586
Notes payable, net	–	75,000	–	–	–	–	–	307,022	(75,000)	307,022	853,504	853,504
Accrued Federal income taxes:												
Current	106	372	734	353	–	167	1,914	–	(3,646)	–	–	–
Deferred	–	30,319	60,907	7,239	–	2,438	–	186,219	(19,554)	267,567	106,315	106,315
Payable to afiiliate for derivative funds withheld program	–	–	–	–	–	–	–	127,849	–	127,849	–	–
Reinsurance funds withheld due to affiliate, net	–	–	–	–	–	–	–	470,621	–	470,621	–	–
Other liabilities	13,653	601	(121)	(5,542)	0	1,074	41,933	359,092	(14,862)	395,827	519,945	519,942
Payables for securities lending collateral	–	–	–	–	–	–	83,187	230,305	–	313,492	313,492	313,492
Liabilities related to separate accounts	–	–	–	–	–	372,245	233,459	18,883,485	–	19,489,189	19,489,189	19,489,189
Total liabilities	13,759	257,979	292,529	107,744	–	410,123	5,523,020	30,592,517	(1,569,787)	35,627,882	36,713,383	36,713,380
Equity:												
Common stock and additional paid-in-capital	10,830	34,250	5,000	25,250	250	33,345	97,577	298,076	(206,501)	298,076	9,592	–
Accumulated other comprehensive income	–	(1,027)	(938)	(1,886)	–	(621)	1,992	(12,334)	805	(14,007)	13,380	13,523
Retained earnings	2,004	22,985	39,532	9,872	–	18,993	411,997	2,325,033	(505,479)	2,324,939	2,441,859	2,451,764
Total equity excluding non-controlling interest	12,834	56,208	43,594	33,236	250	51,717	511,566	2,610,775	(711,175)	2,609,008	2,464,831	2,465,287
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Total equity	12,834	56,208	43,594	33,236	250	51,717	511,566	2,610,775	(711,175)	2,609,008	2,464,831	2,465,287
Total liabilities and equity	$ 26,593	314,187	336,123	140,980	250	461,840	6,034,586	33,203,292	(2,280,962)	38,236,890	39,178,214	39,178,667

See accompanying Independent Auditor's Report

OHIO NATIONAL MUTUAL HOLDINGS, INC. AND SUBSIDIARIES

Schedule 2

Consolidating Information - Statement of Income

Year to date December 31, 2018

(Dollars in thousands)

	ONLIC Non Insurance Subsidiaries	Montgomery Re, Inc.	Kenwood Re, Inc.	Camargo Re, Inc.	Sunrise Re, Inc.	National Security Life and Annuity Company	Ohio National Life Assurance Company	Ohio National Life Insurance Company	ONLIC Eliminations	ONLIC Consolidated	ONFS Consolidated	ONMH Consolidated
Revenues:												
Traditional life insurance premiums												
Direct	$ –	(6,003)	–	–	–	6	228,853	718,432	–	941,288	1,009,984	1,009,984
Reinsurance premiums	–	727	9,285	37,192	–	–	(261,448)	52,744	–	(161,499)	(162,488)	(162,488)
Traditional life insurance premiums	$ –	(5,276)	9,285	37,192	–	6	(32,595)	771,176	–	779,789	847,496	847,496
Accident and health insurance premiums	–	–	–	–	–	–	15,303	5,981	–	21,284	21,284	21,284
Annuity premiums and charges	–	–	–	–	–	7,127	8	328,018	–	335,153	571,784	571,784
Universal life policy charges	–	11,034	–	–	–	–	124,372	7,326	–	142,731	146,529	146,529
Group life and health insurance premiums	–	–	–	–	–	–	–	–	–	–	100,632	100,632
Change in value of trading fixed maturity securities	–	–	–	–	–	(45)	–	–	–	(45)	(45)	(45)
Change in value of equity securities	–	–	–	–	–	–	(338)	(3,607)	–	(3,945)	(7,208)	(7,208)
Change in value of reinsurance derivatives	–	–	–	–	–	–	–	–	–	–	–	–
Net investment income	74	6,226	10,534	3,140	–	2,146	158,046	351,550	(14,785)	516,931	553,272	553,278
Net realized (losses) gains on investments												
Investment gains (losses):												
Total other-than-temporary impairment losses on securities	–	–	(243)	(238)	–	–	821	1,973	–	2,312	2,312	2,312
Portion of impairment losses recognized in other comprehensive income	–	–	–	–	–	–	(1,014)	(3,525)	–	(4,539)	(4,539)	(4,539)
Net other-than-temporary impairment losses on securities recognized in earnings	–	–	(243)	(238)	–	–	(193)	(1,552)	–	(2,227)	(2,227)	(2,227)
Realized gains (losses), excluding other-than-temporary losses on securities	–	32	(499)	3	–	(12)	553	2,995	499	3,570	5,293	5,293
Investment (losses) gains	–	32	(742)	(235)	–	(12)	360	1,443	499	1,343	3,066	3,066
Derivative instruments	–	–	–	–	–	–	(339)	(10,304)	–	(10,643)	(6,000)	(6,000)
Gain (loss) on debt retirement	–	–	–	–	–	–	–	–	–	–	–	–
Investment management fees	51,450	–	–	–	–	–	–	–	–	51,450	51,452	51,452
Other income	123,052	–	–	–	–	1,194	(475)	76,575	(94,980)	105,366	106,448	106,448
	174,576	12,016	19,077	40,097	-	10,416	264,342	1,528,158	(109,266)	1,939,414	2,388,710	2,388,716
Benefits and expenses:												
Benefits and claims	–	20,005	11,744	32,039	–	1,211	165,336	895,262	705	1,126,302	1,491,281	1,491,281
Provision for policyholders' dividends on participating policies	–	–	–	–	–	–	–	108,640	–	108,640	108,640	108,640
Amortization of deferred policy acquisition costs	–	–	1,989	1,491	–	(383)	35,343	99,793	(262)	137,970	154,419	154,419
Impairment of goodwill and intangible assets	–	–	–	–	–	–	–	–	–	–	–	–
Commisions, Net	133,743	650	6,746	6,611	–	2,341	(15,212)	139,571	(94,326)	180,124	235,802	235,802
Other operating costs and expenses	39,251	350	350	390	–	1,072	61,406	198,980	–	301,799	331,586	331,953
	172,994	21,005	20,829	40,531	–	4,241	246,873	1,442,246	(93,883)	1,854,835	2,321,728	2,322,095
Income (loss) before income tax	1,582	(8,989)	(1,752)	(434)	–	6,175	17,469	85,912	(15,383)	84,579	66,982	66,621
Income taxes:												
Current expense (benefit)	(247)	345	(1,004)	(1,146)	–	636	3,150	(9,719)	–	(7,985)	(896)	(972)
Deferred expense (benefit)	431	(2,310)	622	1,052	–	568	(2,655)	2,025	68	(199)	(5,056)	(5,056)
	184	(1,965)	(382)	(94)	–	1,204	495	(7,694)	68	(8,184)	(5,952)	(6,028)
Net income (loss)	1,398	(7,024)	(1,370)	(340)	-	4,971	16,974	93,606	(15,451)	92,763	72,934	72,649
Less: net income attributable to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–
Net income (loss) attributable to ONMH	$ 1,398	(7,024)	(1,370)	(340)	-	4,971	16,974	93,606	(15,451)	92,763	72,934	72,649

See accompanying Independent Auditor's Report

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Financial Statements and Supplementary Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors
The Ohio National Life Insurance Company:

We have audited the accompanying financial statements of The Ohio National Life Insurance Company (a wholly owned subsidiary of Ohio National Financial Services, Inc.) (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Ohio Department of Insurance (the Department). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Department, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Department described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the schedules of supplemental insurance information, investment risk interrogatories, and summary of investments is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Columbus, Ohio
May 9, 2019

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2018 and 2017

(Dollars in thousands, except share amounts)

Admitted Assets		**2018**	**2017**
Investments:			
Bonds	$	7,018,143	5,924,261
Preferred stocks		18,292	20,292
Common stocks at fair value (cost $37,680 in 2018 and $37,473 in 2017)		38,406	40,629
Common stock of unconsolidated life insurance subsidiaries at statutory equity (cost $181,332 in 2018 and $176,082 in 2017)		352,946	339,235
Common stocks of nonlife insurance subsidiaries at statutory equity (cost $10,830 in 2018 and $9,730 in 2017)		8,498	11,206
Mortgage loans on real estate		859,830	804,802
Real estate, at cost less accumulated depreciation		26,407	24,851
Contract loans		638,824	542,701
Cash, cash equivalents and short-term investments		327,430	443,294
Receivables for securities		136	2,540
Derivatives		107,064	64,054
Other invested assets		76,570	75,000
Securities lending reinvested collateral assets		230,305	533
Total investments		9,702,851	8,293,398
Premiums and other considerations deferred and uncollected		85,262	73,537
Accrued investment income		64,367	56,378
Current federal income tax recoverable		34,254	29,532
Deferred tax asset, net		132,476	129,612
Other assets		181,741	198,298
Separate account assets		18,883,485	22,895,981
Total admitted assets	$	29,084,436	31,676,736
Liabilities and Capital and Surplus			
Reserves for future policy benefits:			
Life policies and contracts	$	7,129,776	6,533,014
Accident and health policies		28,833	28,750
Annuity and other deposit funds		666,396	650,464
Contract claims		18,007	13,676
Other policyholders’ funds:			
Policyholders’ dividend accumulations		34,266	36,110
Provision for policyholders’ dividends payable in following year		112,196	97,278
Other		1,144	1,226
Payable to parent, subsidiaries and affiliates		146,625	160,766
Interest maintenance reserve		28,906	33,283
Asset valuation reserve		2,422	5,842
Transfers to separate accounts due or accrued, net		(173,980)	(251,475)
Payable for securities		1,428	20,143
Payable for securities lending		230,305	533
Reinsurance funds withheld due to affiliate, net		484,274	—
Other liabilities		471,280	349,600
Separate account liabilities		18,883,485	22,895,976
Total liabilities		28,065,363	30,575,186
Capital and surplus:			
Class A common stock, $1 par value. Authorized, issued, and outstanding 10,000,000 shares		10,000	10,000
Surplus notes		309,698	309,622
Gross paid in and contributed surplus		283,297	283,297
Aggregate write-ins for special surplus funds		(4,409)	(11,532)
Unassigned surplus		420,487	510,163
Total capital and surplus		1,019,073	1,101,550
Total liabilities and capital and surplus	$	29,084,436	31,676,736

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Operations

Years ended December 31, 2018 and 2017

(Dollars in thousands)

		2018	2017
Premiums and other considerations:			
Life and annuity	$	2,222,765	2,572,585
Accident and health		5,981	6,354
Total premiums and other considerations:		2,228,746	2,578,939
Investment income:			
Interest on bonds		284,323	255,293
Dividends on stocks		3,380	3,505
Dividends from subsidiaries		31,924	35,124
Interest on mortgage loans		41,426	42,119
Real estate income		1,932	2,349
Interest on contract loans		27,261	22,615
Other income		15,702	15,768
Total investment income		405,948	376,773
Less investment expenses		33,856	32,829
Net investment income		372,092	343,944
Total income		2,600,838	2,922,883
Death and other benefits:			
Death benefits		98,072	88,362
Accident and health benefits		2,178	2,078
Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries		3,383,480	2,154,856
Total death and other benefits		3,483,730	2,245,296
Change in reserves for future policy benefits and other funds		669,329	660,765
Commissions		318,169	312,521
General insurance expenses		170,690	162,661
Insurance taxes, licenses, and fees		18,860	17,954
Net transfers from separate accounts		(2,139,023)	(668,908)
Total expenses		2,521,755	2,730,289
Income before dividends to policyholders, benefit for federal income taxes, and net realized capital losses		79,083	192,594
Dividends to policyholders		116,431	102,665
(Loss) income before benefit for federal income taxes and net realized capital losses		(37,348)	89,929
Benefit for federal income taxes		(9,704)	(22,489)
Loss (income) before net realized capital losses		(27,644)	112,418
Net realized capital losses, net of interest maintenance reserve and income taxes		(27,776)	(41,404)
Net (loss) income	$	(55,420)	71,014

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	Common stock	Surplus notes	Gross paid in and contributed surplus	Aggregate write-ins for special purpose funds	Unassigned surplus	Total capital and surplus
Balance at December 31, 2016	$ 10,000	309,546	283,297	(8,289)	487,536	1,082,090
Net income	—	—	—	—	71,014	71,014
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	8,976	8,976
Change in net unrealized foreign exchange capital gain	—	—	—	—	281	281
Change in net deferred income tax	—	—	—	—	(77,478)	(77,478)
Change in nonadmitted assets and related items	—	—	—	—	62,373	62,373
Change in asset valuation reserve	—	—	—	—	25,754	25,754
Correction of an error, net of tax	—	—	—	—	1,849	1,849
Benefit plan adjustment	—	—	—	—	(142)	(142)
Voluntary reserve	—	—	—	(3,243)	—	(3,243)
Dividends to stockholder	—	—	—	—	(70,000)	(70,000)
Balance at December 31, 2017	10,000	309,622	283,297	(11,532)	510,163	1,101,550
Net loss	—	—	—	—	(55,420)	(55,420)
Amortization of surplus note	—	76	—	—	—	76
Change in net unrealized capital gains	—	—	—	—	4,403	4,403
Change in net unrealized foreign exchange capital loss	—	—	—	—	(137)	(137)
Change in net deferred income tax	—	—	—	—	29,729	29,729
Change in nonadmitted assets and related items	—	—	—	—	(16,816)	(16,816)
Change in asset valuation reserve	—	—	—	—	3,420	3,420
Correction of an error, net of tax	—	—	—	—	(1,063)	(1,063)
Benefit plan adjustment	—	—	—	—	6,208	6,208
Voluntary reserve	—	—	—	7,123	—	7,123
Dividends to stockholder	—	—	—	—	(60,000)	(60,000)
Balance at December 31, 2018	$ 10,000	309,698	283,297	(4,409)	420,487	1,019,073

See accompanying notes to statutory financial statements.

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Statutory Statements of Cash Flow

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018	2017
Cash flow from operations:		
Premiums, other considerations, and fund deposits	$ 1,847,775	2,230,640
Investment income	372,370	341,714
	2,220,145	2,572,354
Less:		
Death and other benefits	2,614,046	1,922,099
Commissions, taxes, and other expenses	445,230	470,287
Dividends paid to policyholders	100,620	92,022
Net transfers from separate accounts	(2,216,518)	(701,733)
	943,378	1,782,675
Net cash provided by operations	1,276,767	789,679
Cash flow from investing activities:		
Proceeds from investments sold, matured, or repaid:		
Bonds	919,511	706,249
Stocks	4,851	9,038
Mortgage loans on real estate	124,424	134,516
Other	2,435	23,487
Total investment proceeds	1,051,221	873,290
Less cost of investments acquired:		
Bonds	2,016,210	1,175,703
Stocks	6,426	2,029
Mortgage loans on real estate	180,882	157,527
Real estate	2,546	12
Other	63,326	23,813
Total investments acquired	2,269,390	1,359,084
Less increase in contract loans	95,801	77,164
Net cash used in investing activities	(1,313,970)	(562,958)
Cash flow from financing and other miscellaneous sources:		
Deposits on deposit-type contracts and other liabilities	122,022	197,926
Withdrawals on deposit-type contracts and other liabilities	(131,929)	(244,860)
Dividends to stockholder	(60,000)	(70,000)
Other, net	(8,754)	(3,582)
Net cash used in financing	(78,661)	(120,516)
Net (decrease) increase in cash, cash equivalents and short-term investments	(115,864)	106,205
Cash, cash equivalents and short-term investments:		
Beginning of year	443,294	337,089
End of year	$ 327,430	443,294
Supplemental disclosures of cash flow information for non-cash transactions:		
Change in securities lending collateral	$ 229,772	$ (189,283)
Funds held under fixed indexed annuity reinsurance agreement, net	482,442	—

See accompanying notes to statutory financial statements.

(1) Organization and Business

Organization

The Ohio National Life Insurance Company ("ONLIC" or the "Company") is a stock life insurance company wholly owned by Ohio National Financial Services, Inc. ("ONFS"), a stock holding company. ONFS is 100% owned by Ohio National Mutual Holdings, Inc. ("ONMH"), a mutual holding company organized under Ohio insurance laws.

In 1998, ONLIC became a stock company under provisions of Sections 3913.25 to 3913.38 of the Ohio Revised Code relating to mutual insurance holding companies.

ONLIC owns 100% of Ohio National Life Assurance Corporation ("ONLAC"), a stock life insurance subsidiary, National Security Life and Annuity Company ("NSLAC"), a stock life insurance subsidiary, Montgomery Re, Inc. ("MONT"), a special purpose financial captive life insurance company, Kenwood Re, Inc. ("KENW"), a special purpose financial captive life insurance company, Camargo Re Captive, Inc. ("CMGO"), a special purpose financial captive life insurance company, Sunrise Captive Re, LLC ("SUNR"), a special purpose financial captive life insurance company, approved by the State of Ohio on January 9, 2019, Ohio National Investments, Inc. ("ONII"), an investment advisor, Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934, and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934.

Business

ONLIC is a life and health (disability) insurer licensed in 49 states, the District of Columbia and Puerto Rico. The Company offered a full range of life, disability, and annuity products through independent agents and other distribution channels and is subject to competition from other insurers throughout the United States. The Company announced on September 6, 2018, that it will exclusively focus on growing its life insurance and disability insurance product lines going forward. The decision follows a comprehensive strategic review of the Company's businesses, taking into account the continuously changing regulatory landscape, the sustained low interest rate environment, and the increasing cost of doing business, as well as growth opportunities and the Company's competitive strengths. Effective September 15, 2018, the Company no longer accepts applications for annuities or new retirement plans, however, will continue to service and support existing clients in both product lines.

In 2018, the Company offered certain variable annuity policyholders with the guaranteed minimum income benefit ("GMIB") rider the opportunity to exchange that policy and associated rider for a fixed indexed annuity policy with an enhanced guaranteed lifetime withdrawal benefit ("GLWB") rider. More than $500,000 in account value was exchanged under this program.

Additionally, in late 2018 and through March 15, 2019, the Company offered to buy-back certain variable annuity policies from policyholders with the GMIB rider. Through December 31, 2018, the Company paid more than $50,000 related to the buy-back, which is included in benefits and claims on the corresponding statements of income. See Note 3(p) for more information regarding the buy-back.

The Company is subject to regulation by the insurance departments of states in which it is licensed and undergoes periodic examinations by those departments.

(2) Basis of Presentation

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Ohio Department of Insurance (the "Department"), which is an other comprehensive basis of accounting that differs from U.S. generally accepted accounting principles ("GAAP"). The Department requires that insurance companies domiciled in the State of Ohio prepare their statutory basis financial statements in accordance with the Statement of Statutory Accounting Principles ("SSAP") that are described in the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* (the "Manual") subject to any deviations prescribed or permitted by the state insurance commissioner.

ONLIC does not have any permitted or prescribed statutory accounting practices as of December 31, 2018 and 2017. Certain of ONLIC's wholly-owned subsidiaries have permitted accounting practices as disclosed in Note 3(c). The statutory financial statements presented represent the accounts of the Company and do not include the accounts of any of its subsidiaries.

Statutory accounting practices are different in some respects from financial statements prepared in accordance with GAAP. The primary reasons for the differences between equity and net income on a GAAP basis versus capital and surplus and net income on a statutory basis are that, for GAAP reporting purposes:

- The costs related to acquiring business, principally commissions and certain policy issue expenses related to successful acquisition efforts, are amortized over the period benefited rather than charged to income in the year incurred;

- future policy benefit reserves are based on anticipated Company experience for lapses, mortality and investment yield, rather than statutory mortality and interest requirements, without consideration of withdrawals;

- investments in fixed maturity securities are carried at either amortized cost or fair value based on their classifications; fixed maturity securities designated at purchase as held-to-maturity based on the Company's intent and ability to hold to maturity are carried at amortized cost; investments in fixed maturity securities classified as available-for-sale are carried at estimated fair value with net unrealized holding gains and losses reported in other comprehensive income; fixed maturity securities designated as trading are carried at fair value with net unrealized holding gains and losses reported in income; under statutory accounting, investments in bonds are reported at the lower of amortized cost or fair value based on their NAIC rating and any adjustments to fair value are reported directly in surplus, see Note 3(c) for more information regarding bond valuation;

- only contracts that have significant mortality or morbidity risk are classified as insurance contracts; otherwise they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments; for statutory reporting, contracts that have any mortality or morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts;

- the asset valuation reserve and interest maintenance reserve are not recorded;
- separate account seed money is classified as a trading security recorded at fair value as opposed to a component of separate account assets;
- under GAAP, "nonadmitted" assets do not exist, while for statutory reporting nonadmitted assets are excluded from surplus; see Note 3(b) for more information regarding nonadmitted assets;
- changes in deferred taxes are recognized in operations;
- there is a presentation of other comprehensive income and comprehensive income;
- consolidation for GAAP is based on whether the Company has voting control, or for certain variable interest entities, is the primary beneficiary while for statutory, consolidation is not applicable;
- surplus notes are presented as part of notes payable within liabilities and are not presented as a component of capital and surplus;
- certain assets and liabilities are reported gross of ceded reinsurance balances;
- deposits to universal life contracts, investment contracts and limited payment contracts are not included in revenue;
- negative cash balances are reported as liabilities; and
- on a statutory basis only, the correction of immaterial prior period errors are recorded directly to surplus.

Equity in accordance with GAAP was $2,609,008 and $2,763,368 as of December 31, 2018 and 2017, respectively. Net income in accordance with GAAP was $92,763 and $245,722 for the years ended December 31, 2018 and 2017, respectively.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Company that materially affect financial reporting are summarized below.

(a) Use of Estimates

In preparing the statutory financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statutory financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most significant estimates and assumptions include those used in determining the liability for future policy benefits and claims, contingencies, provision for income taxes, deferred taxes, uncertain income tax positions and contingencies, and valuation of and impairment losses on investments. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the date of the statutory financial statements. Management believes the amounts provided are appropriate.

(b) Nonadmitted Assets

Certain assets designated as "nonadmitted assets" (principally furniture, equipment, certain deferred taxes, and certain receivables) have been excluded from total admitted assets by a direct charge to surplus.

(c) Investments

Investment Income
Interest and dividends on investments is recorded within investment income. Realized capital gains and losses are reported net of federal income tax and transfers to the interest maintenance reserve ("IMR"). Realized gains (losses) on the sale of investments are determined on the basis of specific security identification on the trade date. Unrealized gains and losses on investments are charged or credited to unassigned surplus in accordance with NAIC rules.

Dividends are recorded on the ex-dividend date and interest is accrued as earned using an effective yield method giving effect to amortization of premiums and accretion of discounts.

Bonds
Bonds are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC Investment Analysis Office. Bonds are rated as"1" (highest quality), "2" (high quality), "3" (medium quality), "4" (low quality), "5" (lowest quality, not in or near default) or "6" (lowest quality, in or near default). Bonds rated as categories 1 through 5 are reported in the financial statements at amortized cost using the modified scientific method. Bonds rated as category 6 are reported at the lower of amortized cost or fair value.

Mortgage-backed securities are generally stated at amortized cost and are amortized using anticipated prepayment assumptions based on a retrospective adjustment method that estimates prepayment activity by way of certain factors, including seasonality, current levels of interest rates, economic activity, and the term and age of the underlying collateral.

All securities defined as hybrid securities by the SVO are reported as bonds and are carried at amortized cost.

Preferred and Common Stocks
Preferred stocks rated by the SVO as categories 1-3 are reported at amortized cost. Those rated as categories 4-6 are reported at the lower of amortized cost or fair value.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO, and quoted market prices when information is not available from the SVO.

Investments in the Company's wholly owned insurance subsidiaries are carried at audited statutory equity with changes in net assets, other than dividends declared, recognized as net unrealized capital gains or losses through surplus. Investments in the Company's special purpose financial captive reinsurers are carried as follows: MONT and KENW are carried at zero due to the fact that the State of Vermont has granted a permitted practice to allow the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus was to fall below the level of all capital contributions then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. Investments in wholly owned noninsurance subsidiaries are carried at the value of their underlying audited GAAP basis equity, adjusted for nonadmitted assets, based on the significance of their operations beyond holding assets for the use of the Company. The Company does not record the investment in ONII, a noninsurance subsidiary, as it does not have audited GAAP financial statements for 2018 and 2017.

Management reviews its investments in subsidiary, controlled, and affiliated entities for impairment based upon if it is probable that the Company will be able to recover the carrying amount of the investment or if there is evidence indicating the inability of the investee to sustain earnings, which would justify the carrying amount of the investment.

Management regularly reviews its bond and stock portfolios in order to evaluate the necessity to record impairment losses for other-than-temporary declines in estimated fair value of investments. See Note 6 for management's description and analysis of the portfolio.

Mortgage Loans on Real Estate
Mortgage loans on real estate are recorded at the unpaid principal balance of the loan, net of valuation allowance and unamortized discount. Management periodically reviews the portfolio for impairment and obtains updated valuations of the underlying collateral as needed. Significant changes (increase or decrease) in the net value of the collateral are adjusted through the valuation allowance; however, the net carrying value amount of the loan shall not exceed the recorded investment in the loan.

Loans in foreclosure and loans considered impaired as of the statutory statement of admitted assets, liabilities, and capital and surplus date are placed on nonaccrual status and written down to the estimated fair value, net of estimated selling costs, of the underlying property to derive a new cost basis. Interest received on nonaccrual status mortgage loans on real estate is included in net investment income in the period received.

Commercial mortgages can be restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case by case basis to evaluate whether a TDR has occurred and will then establish a specific valuation allowance for the excess carrying value of the loan over the estimated fair value of the collateral.

Real Estate
Real estate, occupied by the Company and held for the production of income, is generally carried at depreciated cost, net of encumbrances. Accumulated depreciation was $4,103 and $2,542 as of December 31, 2018 and 2017, respectively.

The Company occupies less than 50% of buildings held for the production of income.

Contract Loans
Contract loans are stated at unpaid principal balances. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate. Generally, interest is capitalized on the policy's anniversary date.

Cash, Cash Equivalents and Short-term Investments
Short-term investments are carried at amortized cost and cash equivalents are carried at fair value. Cash equivalents are short-term and highly liquid investments with original maturities of three months or less and short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at time of purchase.

Derivatives
The Company enters into derivative transactions that do not meet the criteria for hedge accounting or have not been designated in hedging relationships by the Company. The Company purchases equity index put options, equity futures, currency futures, equity swaps and interest rate swaptions as hedges for certain riders that were sold with variable annuity products. The Company similarly purchases equity index call options as hedges for the fixed indexed annuity product. These transactions provide the Company with an economic hedge, which is used as part of its overall risk management strategies. These derivative instruments are carried at estimated fair value. The realized changes in fair value are recorded in net realized capital losses, net of interest maintenance reserve and income taxes. The unrealized changes in fair value are recorded in unassigned surplus.

The Company enters into derivative transactions that meet the criteria for hedge accounting. The Company purchased a foreign currency swap that meets the criteria for hedge accounting and is accounted for consistent with the underlying hedged asset. The swap instrument is carried at estimated fair value and changes in estimated fair value of the swaps are recorded as unrealized capital gains or losses in unassigned surplus.

Other Invested Assets
Other invested assets primarily consist of an inter-company surplus note, accounted for at amortized cost less any portion deemed to be nonadmitted.

Securities Lending Program
The Company participates in an indemnified securities lending program administered by an unaffiliated agent in which certain portfolio holdings are loaned to third parties. The borrower must deliver to the Company's agent collateral having a market value equal to at least 102% and 105%, respectively, of the market value of the domestic and foreign securities loaned. The collateral received by the Company's agent from the borrower to secure loans on behalf of the Company must be in the form of cash, securities issued or guaranteed by the U.S. government or its agencies, or a bank letter of credit or equivalent obligation as may be pre-approved by the Company. The Company monitors the estimated fair value of the loaned securities on a daily basis and additional collateral is obtained as necessary. Securities lending reinvested collateral assets and the corresponding liability, payables for securities lending, are recorded on the statutory statements of admitted assets, liabilities, and capital and surplus. Income and expenses associated with securities lending transactions are reported within net investment income.

(d) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities. The investment income and gains or losses of these accounts accrue directly to the contract holders. Separate account liabilities for individual annuities issued in 1992 and after represent contract holders' funds adjusted for possible future surrender charges in accordance with the Commissioner's Annuity Reserve Valuation Method ("CARVM"). The difference between full account value and CARVM is reflected in transfers to separate accounts due or accrued, net, as prescribed by the NAIC, on the statutory statements of admitted assets, liabilities and capital and surplus. The annual change in the difference between full account value and CARVM is reflected in the statutory statements of income as part of the net transfers from separate accounts. The Company's revenue reflects fees charged to the separate accounts including administrative services and risks assumed and for the activity related to guaranteed contracts, which are riders to existing variable annuity contracts that are guaranteed by the Company's general account assets.

Under accounting procedures prescribed by the NAIC, the Company records seed money contributed to or withdrawn from variable annuity separate accounts through a direct charge or credit to surplus. Seed money held in separate accounts represents the difference between separate account assets and liabilities. The change in separate account surplus, developed through seed money contributions, withdrawals, and unrealized gains and losses generated thereon, is also recorded directly to surplus, without providing for federal income tax, or income tax reductions. Dividend and capital gain distributions on seed money are recorded as other income in the statutory statements of income.

Premium income, benefits and expenses of the separate accounts are included in the statutory statements of income with the offset recorded in net transfers from separate accounts in the statutory statements of income. Investment income and realized capital gains (losses) on the assets of separate accounts, other than seed money, accrue to contract holders and are not recorded in the statutory statements of income. Unrealized capital gains (losses) on assets of separate accounts accrue to contract holders and, accordingly, are reflected in the separate account liability to the contract holder.

(e) Revenues and Expenses

Premiums are credited to revenue over the premium paying period of the policies. Individual accident and health (disability) premiums are earned ratably over the terms of the related contracts or policies. Universal life and annuity premiums are recognized as revenue when received. Amounts received related to deposit contracts with mortality or morbidity risk, such as traditional life products and certain annuities with life contingencies, are recorded as premiums. Amounts received as payment for deposit contracts that do not incorporate any mortality or morbidity risk, including those annuities without life contingencies and guaranteed investment contracts, are not reported as revenue, but are recorded directly to the appropriate policy reserve account.

Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred.

(f) Reserves for Future Policy Benefits

Life Policies and Contracts
Reserves for traditional life products are based on statutory mortality and interest requirements without consideration for withdrawals. The mortality table and interest assumptions currently being used for the majority of new policies issued are the 2001 Commissioners Standard Ordinary ("CSO") table with an interest rate of 3.5%. With respect to in force policies, the mortality tables and interest assumptions used are primarily the 1941 CSO table with interest rates of 2.25% to 2.5%, the 1958 CSO table with interest rates of 1.75% to 4.5%, the 1980 CSO table with interest rates of 3.0% to 6.0%, the 2001 CSO table with interest rates of 3.0% to 4.0%, and the 2017 CSO table with an interest rate of 3.5%.

The Company waives the deduction of deferred fractional premium at death and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Reserves are computed using continuous functions to reflect these practices.

The method used in valuation of substandard policies is to hold 50% of the annual substandard premium as the substandard reserve in addition to the reserve calculated using standard mortality.

The Company had $4,540,932 and $3,991,068 of individual life insurance in force as of December 31, 2018 and 2017, respectively, and $478,968 and $402,824 of related reserves as of December 31, 2018 and 2017, respectively, for which the gross premiums were less than the net premiums according to the standard valuation set by the Department.

Tabular interest, tabular less actual reserves released, and tabular cost for all life contracts are determined in accordance with NAIC Annual Statement instructions. Traditional life, permanent and term products use a formula that applies a weighted average interest rate determined from a seriatim valuation file to the mean average reserves.

Accident and Health (Disability) Policies
The aggregate reserves for individual accident and health (disability) policies consist of active life reserves, disabled life reserves and unearned premium reserves. The active life reserves are calculated on a two year preliminary term basis at interest rates of 3.0% to 6.0%, using either the 1964 Commissioner's

Disability Table (policies issued prior to 1990) or the 1985 Commissioner's Individual Disability Table A (policies issued after 1989). The disabled life reserves are calculated using either the 1985 Commissioner's Individual Disability Table C, at interest rates of 3.5% to 5.5% (claims incurred after 1989) or the 1964 Commissioner's Disability Table, at an interest rate of 3.5% (claims incurred prior to 1990).

Annuity and Other Deposit Funds
The Company issued traditional variable annuity contracts through its separate accounts, for which investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

The Company also issued nontraditional variable annuity contracts in which the Company provides various forms of guarantees/riders to benefit the related contract holders.

The Company has five main types of rider benefits offered with individual variable annuity contracts:

- guaranteed minimum death benefit ("GMDB");
- guaranteed minimum income benefit ("GMIB");
- guaranteed minimum accumulation benefit ("GMAB");
- guaranteed minimum withdrawal benefit ("GMWB"); and
- guaranteed lifetime withdrawal benefit ("GLWB").

The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Actuarial Guideline 43 ("AG43") interprets the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. AG43 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The guideline applies the principles of asset adequacy analysis directly to the risks associated with these products and guarantees. The AG43 liability is evaluated under both standard and stochastic scenarios net of currently held applicable hedge asset cash flows. The Company holds the reserve liability valuation at the higher of the standard or stochastic scenario values. These guarantee reserves are included in the general account reserves.

Actuarial Guideline 35 ("AG35") interprets the standards for the valuation of reserves for fixed indexed annuities. AG35 is a holistic reserve methodology, thus rider benefit reserves are not determined separately from the base reserve; rather the reserve is determined on the policy as a whole. The reserves for both the base policy and the rider guarantees and are included in general account liabilities.

The reserves and deposit liabilities for individual deferred annuity products have been established based on the participants' net contributions, policy term, interest rates and various contract provisions. The average interest rates credited on these annuity policies were 2.77% and 2.75% for the years ended

December 31, 2018 and 2017, respectively. The reserves for individual annuity policies issued after 1991 have been adjusted for possible future surrender charges in accordance with CARVM.

Reserves for ordinary (individual) immediate annuities are determined primarily using the 1937 Standard Annuity Table (interest rate of 11.25%), the 1971 Individual Annuity Mortality Table (interest rate of 11.25%), the 1983 Annuity Table (interest rates of 6.25% to 11.00%), the Annuity 2000 Table (interest rates of 4.00% to 7.00%), or the IAR2012 Mortality Table (interest rates of 2.25% to 4.00%). Group immediate annuity reserves are based primarily on the 1971 Group Annuity Mortality Table (interest rates of 11% to 11.25%), the 1983 Group Annuity Mortality Table (interest rates of 6.25% to 9.25%) or the 1994 Group Annuity Mortality Table (interest rates of 3.00% to 7.00%).

(g) Participating Business/Policyholders' Dividends

Participating business, which refers to policies that participate in profits through policyholders' dividends, represents 19.8% and 19.1% of the Company's ordinary life insurance in force at December 31, 2018 and 2017, respectively. The liability for policyholder dividends includes the estimated amount of annual dividends earned by policyholders and is recorded in other policyholders' funds in the statutory statements of admitted assets, liabilities and capital and surplus. The policyholder dividends incurred are recorded in dividends to policyholders in the statutory statements of income.

Policyholder dividends are approved annually by the Company's board of directors based upon the amount of distributable surplus. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity, and expense experience for the year, as well as management's judgment as to the appropriate level of statutory surplus to be retained by the Company.

(h) Asset Valuation Reserve/Interest Maintenance Reserve

In compliance with statutory requirements, the Company maintains an asset valuation reserve ("AVR") and an IMR as prescribed by the NAIC.

The AVR is a formula reserve, which addresses specific asset risk areas and consists of the default component and the equity component. The default component provides for future credit related losses on bonds including corporate debt securities, preferred stocks, derivative instruments, net of reinsurance, and mortgages. The equity component covers all types of equity investments. The two components are designed to address the default and equity risks of the Company's assets by calculating maximum reserve targets and controlling the flow of the reserve from and into surplus. The change in AVR is charged or credited directly to unassigned surplus.

The IMR minimizes the statutory statements of income impact of interest rates related realized capital gains and losses. Realized capital gains and losses for all types of bonds that result from changes in the overall level of interest rates are removed from the net realized capital gains (losses) amount and credited or charged to the liability for IMR. This liability is amortized into income over the remaining life of each bond based on a seriatim method.

Credit related other-than-temporary impairment losses are recorded through the AVR; interest related other-than-temporary impairment losses are recorded through the IMR.

(Dollars in thousands)

(i) Reinsurance

Reinsurance is an agreement by which a reporting entity transfers all or part of its risk under a contract to another reporting entity. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, including those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

Accounting for reinsurance requires the use of significant management estimates and assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the strength of counterparties to its reinsurance agreements. Reinsurance does not discharge the Company from its primary liability to policyholders and to the extent that a reinsurer should be unable to meet its obligations, the Company would be liable to policyholders.

Premium income, reserves for future policy benefits, and liabilities for contract claims are stated net of reinsurance. Premiums, benefits and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company records a receivable for reinsured benefits paid and reduces policyholders' reserves for the portion of insurance liabilities that are reinsured. Commissions and expense allowances on reinsurance ceded are recorded as revenue.

(j) Federal Home Loan Bank ("FHLB") Agreements

The Company is a member of the FHLB of Cincinnati. Through its membership, and by purchasing FHLB stock, the Company can enter into deposit contracts. The Company had outstanding deposit contracts of $350,000 as of December 31, 2018 and December 31, 2017 which are included in annuity and other deposit funds on the statutory statements of admitted assets, liabilities, and capital and surplus. The Company uses the deposits for the purpose of additional spread income.

FHLB capital stock purchased at December 31 is indicated in the table below and is only in the general account. FHLB capital stock is included in common stocks at fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

		2018	2017
Membership stock - Class B	$	25,000	25,000
Activity stock		11,552	11,552
Total	$	36,552	36,552
Actual or estimated borrowing capacity as determined by the insurer	$	577,615	577,615

(Dollars in thousands)

Membership stock eligible and not eligible for redemption at December 31, 2018 is as follows:

Membership stock		Current year total	Not eligible for redemption	Less than 6 months	6 months to less than 1	1 to less than 3 years	3 to 5 years
Class B	$	25,000	25,000	-	-	-	-

Total collateral pledged to FHLB as of December 31 is indicated in the table below and is only in the general account.

		2018	2017
Total collateral pledged:			
Fair value	$	399,899	392,253
Carrying value		401,075	387,415
Total borrowing		350,000	350,000

The maximum amount pledged as of December 31 is as follows:

		2018	2017
Maximum amount pledged:			
Fair value	$	404,638	407,872
Carrying value		408,075	396,268
Total borrowing		350,000	350,000

Borrowing from FHLB as of December 31 is indicated in the table below and is only in the general account.

2018		General account	Funding agreements reserves established
Funding agreements	$	350,000	350,000
2017			
Funding agreements	$	350,000	350,000

The maximum amount available during the reporting period ended December 31, 2018 is indicated in the table below and is only applicable to the general account.

		2018
Funding agreements	$	350,000

The Company has no prepayment obligations under debt, funding agreements or other agreements.

(k) Income Taxes

Total federal income taxes are based upon the Company's best estimate of its current and deferred tax liabilities. Current tax expense is reported on the statutory statements of income as provision for federal income tax expenses if resulting from operations, and within net realized capital gains (losses) if resulting from capital transactions. Changes in the balance of deferred taxes, which provided for book versus tax temporary differences, are subject to limitations and are reported on various lines within surplus. Limitations of deferred income taxes are recorded on the change in nonadmitted assets line, whereas, deferred taxes associated with net unrealized capital gains (losses) are shown within that caption on a net basis. Accordingly, the reporting of temporary differences, such as reserves and policy acquisition costs, and permanent differences, such as dividend received deduction and tax credits, results in effective tax rates that differ from the federal statutory tax rate.

The Company is included as part of the life/non-life consolidated federal income tax return of its ultimate parent, ONMH. The method of allocation of tax among the consolidated affiliates is subject to a written agreement and is based on the affiliates' separate company taxable income. Net operating losses and realized losses are settled when utilized. Intercompany settlements are made at least quarterly.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act. See Note 4 for a description of the new tax law.

(l) Litigation Contingencies

The Company is a party in various legal actions arising in the normal course of business. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. Legal costs are recognized as incurred and for the estimated amount to be incurred. On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's statutory financial statements.

(m) Employee Benefit Plans

The Company sponsors and/or administers various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. Measurement dates used for all of the defined benefit pension and other postretirement benefit plans correspond with the year end of the Company. The Company recognizes the funded status of the projected benefit obligation ("PBO") less plan assets for pension benefits and the accumulated benefit obligation ("ABO") for other postretirement benefits for each of its plans.

The obligations and expenses associated with these plans require the use of assumptions such as discount rate, expected long-term return on plan assets, rate of compensation increases, healthcare cost trend rates, as well as participant demographics such as rate and age of retirements, withdrawal rates and mortality.

Management determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data and mortality tables, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have an effect on the Company's statutory financial statements.

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsors a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions are based on the net earnings of the Company. Accordingly, the Company recognizes compensation cost for current contributions.

(n) Equity and Undistributed Income of Subsidiaries

Dividends received by the Company from its affiliates are recognized in investment income provided that the dividend is not in excess of undistributed accumulated earnings.

(o) New Accounting Standards

In November of 2018, the NAIC issued SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees, effective January 1, 2020. This guidance establishes statutory accounting principles to address certain, limited derivative transactions hedging variable annuity guarantees subject to fluctuations as a result of interest rate sensitivity. Eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with Valuation Manual 21: Requirements for Principal-Based Reserves for Variable Annuities. The Company has not yet evaluated the impact of this standard on its financial statements.

In November of 2017, the NAIC adopted modifications to SSAP No. 86 *Derivatives*. This guidance captures information on financing premium in derivative contracts in aggregate and requires disclosures in a narrative format. The adoption of this new guidance was immaterial.

In August of 2017, the NAIC adopted modifications to SSAP No. 26 *Bonds*. This guidance clarifies that recognized losses from other-than-temporary impairments shall be recorded entirely to the asset valuation reserve or the interest maintenance reserve in accordance with the Annual Statement instructions. The adoption of this guidance did not impact the Company's financial statements.

In June of 2017, the NAIC adopted modifications to SSAP No. 37 *Mortgage Loans*. This guidance clarifies the definition of a mortgage loan to include both "participant" and a "co-lender" within the definition of a mortgage loan. The adoption of this guidance did not have a material impact on the Company's financial statements.

The Company plans to adopt principles based reserving in 2020 and all applicable SSAP and Actuarial Guideline additions and updates.

(p) Subsequent Events

The Company has evaluated subsequent events through May 09, 2019, the date the statutory financial statements were available to be issued.

The buy-back program mentioned in Note 1 produced over $100,000 of expense for the year 2019 through May 09, 2019.

No other events have occurred subsequent to the statutory statements of admitted assets, liabilities, and capital and surplus date and before the date of evaluation that would require disclosure.

(4) Risks

The Company participates in an industry where there are risk factors that could have material adverse effects on the business and operating results. The following is a description of the various risk factors:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company's products, or additional unanticipated expenses in the pricing of its products.

On December 22, 2017, President Donald Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, *Income Taxes*, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the President signs a bill into law.

The Act reduces the corporate income tax rate to 21 percent (previously 35 percent), effective January 1, 2018, for all corporations. The effects of the new legislation are recognized by adjusting the Company's deferred tax assets and/or deferred tax liabilities as of December 31, 2017. The effects of changes in tax laws or rates on deferred tax assets or deferred tax liabilities are allocated to capital and surplus and are reflected in the tax rate reconciliation in Note 15.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations may be designed to protect or benefit policyholders and thus affect the Company's operating results.

Changes in the tax treatment for corporate owned life insurance ("COLI") and bank owned life insurance ("BOLI") could impact the Company's ability to sell those products in the future or existing policies may be surrendered or allowed to lapse.

Increased assessments from guaranty associations may occur if there is an increase of impaired, insolvent or failed insurers in the jurisdictions in which the Company operates.

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 13% of total individual annuity reserves as of December 31, 2018 and 2017. It is possible that a change in the Company's relationship with this distributor could result in the loss of existing business and a large outflow of the Company's general account assets along with the subsequent loss of the investment spread earned on those assets.

Mortality Risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation may occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company attempts to reduce this risk through geographical diversification and the purchase of reinsurance.

Reinsurance Risk is the risk that the reinsurance companies, where the Company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into reinsurance contracts to cede a portion of its life, annuity and health business. The Company attempts to mitigate this risk by monitoring the ratings of reinsurance companies it chooses to cede risk to, requiring collateral to support ceded reserves, and following up on any outstanding balances with reinsurance companies.

Ratings Risk is the risk that rating agencies change their outlook or rating of the Company. If such ratings were lowered significantly relative to our competitors, our ability to market products to new customers could be harmed as well as the potential loss of existing customers. The Company monitors its Risk-Based Capital ("RBC") and other ratios for adequacy and maintains regular communications with the rating agencies in its effort to minimize the adverse impact of this risk.

Information Technology Risk is the risk that the computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, or other events beyond the Company's control. The failure of the computer systems for any reason could disrupt operations, result in the loss of customer business, materially affect profitability as well as negatively impact the Company's reputation. The Company attempts to mitigate this risk through several layers of firewall and system access protocols as well as off-site data warehouse facilities.

Credit Risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivative counterparties, default on their contractual obligations or experience adverse changes that would affect the Company. The Company attempts to minimize the adverse impact of this risk by monitoring the portfolio diversification, the Company's exposure to impairment, collectability of the loans, and the credit quality of reinsurers and derivative counterparties, as well as, in many cases, requiring collateral, lines of credit or assets in trust to manage credit exposure.

Interest Rate Risk is the risk that interest rates will change and impact the valuation of the bond investments. A change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. To the extent that liabilities come due more quickly than assets mature, an insurer would have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Equity Market Risk is the risk of loss due to declines in the equity markets in which the Company participates. A decline in the stock market will affect the value of equity securities and the contract value of the Company's individual variable annuity contracts which offer guaranteed benefit riders as well as fixed indexed annuity contracts. Losses in the equity market could result in declines in separate account assets and assets under management thus affecting investment management fees revenue.

The Company attempts to minimize the adverse impact of equity market risk by monitoring the diversification of the Company's investment portfolio and through reinsurance arrangements with third-parties. The Company uses equity index put options, equity index call options, equity swaps and interest rate swaptions to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities.

Liquidity Risk is the risk that the Company may not have the ability to sell certain investments to meet obligations of the Company.

If the tax treatment of existing BOLI policies is changed, there is the potential that a portion of the issued policies may be surrendered or allowed to lapse in a short period of time creating a liquidity strain. The Company has applied risk mitigation through diversifying BOLI sales to community banks and credit unions. Credit unions are tax exempt entities, thus eliminating the surrender risk due to any pending tax law changes. In addition, the Company manages the BOLI growth to not exceed a specified percentage of general account assets to minimize the risk of liquidity strain.

Investment Risk – see Note 6 for additional risks specific to the investment portfolio.

(5) Fair Value Measurements

Included in various investment related line items in the statutory financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or for certain bonds and preferred stock when carried at the lower of cost or market.

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in circumstances.

The Company is required to categorize its assets and liabilities that are carried at estimated fair value on the statutory statements of admitted assets, liabilities, and capital and surplus into a three level hierarchy based on the priority of the inputs to the valuation technique in accordance with SSAP No. 100, *Fair Value Measurements*. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure estimated fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- **Level 1 –** Fair value is based on unadjusted quoted prices for identical assets and liabilities in an active market at the measurement date. The types of assets and liabilities utilizing Level 1 valuations generally include cash, cash equivalents and short-term investments, separate account assets and exchange traded derivatives.

- **Level 2** – Fair value is based on significant inputs, other than quoted prices included in Level 1 that are observable in active markets or that are derived principally from or corroborated by observable market data through correlation or other means for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include U.S. government agency securities, municipal bonds, foreign government debt, certain corporate debt, asset-backed, mortgage-backed, and private placement securities, derivatives, common stocks, securities lending reinvested collateral and cash equivalent securities.

- **Level 3** – Fair value is based on unobservable inputs for the asset or liability for which there is little or no market activity at the measurement date. Unobservable inputs used in the valuation reflect management's best estimate about the assumptions market participants would use to price the asset or liability. The types of assets and liabilities utilizing Level 3 valuations generally include certain corporate debt, asset-backed or mortgage-backed securities, and derivative securities.

(Dollars in thousands)

The following tables present the Company’s hierarchy for its financial assets and liabilities measured at estimated fair value on a recurring basis at December 31:

	Level 1	Level 2	Level 3	Total
2018				
Assets:				
Investments:				
Bonds	$ —	196	—	196
Common stocks	—	38,406	—	38,406
Cash, cash equivalents and short-term investments	327,430	—	—	327,430
Derivatives	6,906	100,158	—	107,064
Securities lending reinvested collateral assets	—	230,305	—	230,305
Other assets:				
Separate account assets	18,883,485	—	—	18,883,485
Total assets	$ 19,217,821	369,065	—	19,586,886
Liabilities:				
Other liabilities:				
Derivatives	$ 2,866	—	—	2,866
Total liabilities	$ 2,866	—	—	2,866

	Level 1	Level 2	Level 3	Total
2017				
Assets:				
Investments:				
Bonds	$ —	278	—	278
Common stocks	—	40,629	—	40,629
Cash, cash equivalents and short-term investments	375,324	67,970	—	443,294
Derivatives	2,632	61,422	—	64,054
Securities lending reinvested collateral assets	—	533	—	533
Other assets:				
Separate account assets	22,895,981	—	—	22,895,981
Total assets	$ 23,273,937	170,832	—	23,444,769
Liabilities:				
Other liabilities:				
Derivatives	$ 12,712	23,104	—	35,816
Total liabilities	$ 12,712	23,104	—	35,816

(Dollars in thousands)

The carrying amount and the NAIC estimated fair value of all financial instruments were as follows as of December 31. The valuation techniques used to estimate these fair values are described below.

2018	**Carrying amount**	**NAIC estimated fair value**	**Fair value hierarchy level** Level 1	Level 2	Level 3
Assets:					
Investments:					
Bonds	$ 7,018,143	7,046,661	10,512	6,998,851	37,298
Preferred stocks	18,292	17,954	—	17,954	—
Common stocks, other than investments in affiliates	38,406	38,406	—	38,406	—
Mortgage loans on real estate	859,830	854,877	—	—	854,877
Contract loans	638,824	677,219	—	—	677,219
Cash, cash equivalents and short-term investments	327,430	327,430	327,430	—	—
Derivatives	107,064	107,064	6,906	100,158	—
Other invested assets	76,570	90,065	—	90,065	—
Securities lending reinvested collateral assets	230,305	230,305	—	230,305	—
Other assets:					
Separate account assets	18,883,485	18,883,485	18,883,485	—	—
Liabilities:					
Guaranteed investment contracts	$ 541,154	514,763	—	514,763	—
Individual deferred annuities	1,681,087	1,663,862	—	1,663,862	—
Immediate and other annuity deposits	1,256,535	1,256,678	—	1,256,678	—
Other policyholder funds	146,462	146,462	146,462	—	—
Derivatives	2,866	2,866	2,866	—	—
Separate account liabilities	18,883,485	18,883,485	18,883,485	—	—

(Dollars in thousands)

2017	**Carrying amount**	**NAIC estimated fair value**	**Fair value hierarchy level** **Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
Bonds	$ 5,924,261	6,189,535	9,843	6,150,844	28,848
Preferred stocks	20,292	21,214	—	21,214	—
Common stocks, other than investments in affiliates	40,629	40,629	—	40,629	—
Mortgage loans on real estate	804,802	810,281	—	—	810,281
Contract loans	542,701	584,417	—	—	584,417
Cash, cash equivalents and short-term investments	443,294	443,294	375,324	67,970	—
Derivatives	64,054	64,054	2,632	61,422	—
Other invested assets	75,000	88,496	—	88,496	—
Securities lending reinvested collateral assets	533	533	—	533	—
Other assets:					
Separate account assets	22,895,981	22,895,981	22,895,981	—	—
Liabilities:					
Guaranteed investment contracts	$ 552,571	538,757	—	538,757	—
Individual deferred annuities	1,839,124	1,833,113	—	1,833,113	—
Immediate and other annuity deposits	930,796	916,536	—	916,536	—
Other policyholder funds	133,388	133,388	133,388	—	—
Derivatives	35,816	35,816	12,712	23,104	—
Separate account liabilities	22,895,976	22,895,976	22,895,976	—	—

Determination of Fair Values

The valuation methodologies used to determine the estimated fair values of assets and liabilities under the exit price notion of SSAP No. 100, *Fair Value Measurements*, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the estimated fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines estimated fair value based on future cash flows discounted at the appropriate current market rate. Estimated fair values include adjustments for credit-related and liquidity issues of the underlying issuer of the investment.

The Company has policies and guidelines that establish valuation methodologies and consistent application of such methodologies. These policies and guidelines provide controls around the valuation process. These controls include appropriate review and analysis of investment prices against market activity or price variances, review of price source changes, and review of methodology changes.

The following is a discussion of the methodologies used to determine estimated fair values for the financial instruments and policy reserves listed in the above tables:

Bonds – The estimated fair value of bonds is based on market prices published by the SVO, where available. Otherwise, the fair value of bonds is generally obtained from independent pricing services based on market quotations of reported trades for identical or similar securities. The Company classifies these bonds as Level 1 assets.

When there are no recent reported trades, the Company uses third party pricing services that use matrix or model processes to develop a security price using future cash flow expectations and collateral performance discounted at an estimated market rate. For the pricing of asset-backed and mortgage-backed securities, the models include estimates for future principal prepayments based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Since these securities have been priced using market observable inputs that are obtained by the independent pricing services, the Company has classified these bonds as Level 2 assets.

Bonds not priced by independent services are generally priced using an internal pricing matrix. The internal pricing matrix is developed by obtaining spreads for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular bond to be priced using the internal matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that bond. The estimated market yield is then used to estimate the fair value of the particular bond. Since the inputs used for the internal pricing matrix are based on observable market data, the Company has classified these fair values within Level 2.

In some instances, the independent pricing service will price securities using independent broker quotations from market makers and other broker/dealers recognized to be market participants, which utilize inputs that may be difficult to corroborate with observable market data. These bonds are classified as Level 3 assets.

Preferred stocks – The estimated fair values of preferred stocks are determined from market prices published by the SVO. The Company has classified these fair values as Level 2 as they are priced using market observable inputs.

Common stocks – The Company's primary common stock holding is FHLB stock which is carried at par, which approximates fair value. The FHLB stock is not traded on an active market and is classified as a Level 2 asset.

Common stocks of unaffiliated companies are carried at fair value based on information from the SVO or quoted market prices when fair market values are not available from the SVO. The Company has classified these other common stock fair values as Level 2 as they are priced using market observable inputs.

Cash, cash equivalents and short-term investments – Cash is considered a Level 1 asset as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations. Cash and cash equivalents are comprised of money market funds, bank deposits, and commercial paper.

Short-term investments are considered Level 2 since they are short-term, highly liquid investments that are not traded on an active market but are both a) readily convertible to known amounts of cash, and b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. These short-term investments are recorded at carrying value, which approximates fair value since they are so close to maturity.

Derivatives – The Company enters into long-term investments comprised of equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity and fixed indexed annuity products. The equity futures and currency futures are exchange traded derivatives and the fair value is based on an active market quotation. The Company has classified the fair values of the exchange traded derivatives as Level 1. The equity index put options, equity index call options, equity swaps and interest rate swaptions are valued using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. These derivative assets are classified as Level 2 assets.

Securities lending reinvested collateral assets – Securities lending reinvested collateral is considered Level 2 for the purposes of our fair value classification since they are short-term money market funds that are only available to securities lending customers and are not traded on an active market.

Separate account assets – Separate account assets are recorded at estimated fair value based primarily on market quotations of the underlying securities and reported as a summarized total on the statutory statement of admitted assets, liabilities, and capital and surplus. The underlying securities are mutual funds that are valued using the reported net asset value which is published daily. The Company has classified separate account assets as Level 1 assets.

Mortgage loans on real estate – The fair value of mortgage loans on real estate is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The Company has classified the fair value of mortgage loans using the discounted cash flow analysis as Level 3 since certain significant inputs such as credit rating are internal.

Contract loans – The fair value of policy loans is estimated using discounted cash flow calculations. The Company has classified these fair values as Level 3 since the expected life of the loan is based on internal assumptions.

Other invested assets – The Company's other invested assets include an affiliated surplus note. The fair value of the affiliated surplus note is determined by discounting the scheduled cash flows of the notes using a market rate applicable to the yield, credit quality and maturity of similar debt instruments. The Company has classified the fair value generally as Level 2 since the valuation inputs are based on market observable information.

(Dollars in thousands)

The carrying amount reported in the statutory financial statements of unaffiliated joint ventures or partnership interests that have underlying characteristics of common stocks approximates fair value. The Company has classified these fair values as Level 3 since the valuation inputs are not based on market observable information.

Deferred and immediate annuity and investment contracts – The fair value of the Company's liabilities under investment contracts is disclosed using one of two methods. For investment contracts without defined maturities, fair value is the estimated amount payable on demand, net of certain surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analyses. Interest rates used are similar to currently offered contracts with maturities consistent with those remaining for the contracts being valued. The Company has classified these fair values as Level 2 since the inputs are market observable.

Policyholders' dividend accumulations and other policyholder funds – The carrying amount reported in the statutory financial statements for these instruments approximates their estimated fair value. The Company has classified these amounts as Level 1 since these amounts can be converted to cash by the policyholder.

Asset Transfers Between Levels

The Company reviews its fair value hierarchy classifications annually. Changes in the observability of significant valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. Transfers into or out of Level 3 are primarily due to the availability of quoted market prices or changes in the market observability of valuation inputs that are significant to the fair value measurement.

The Company had no transfers between levels in 2018 or 2017.

Common Stock of Subsidiaries

Common stock of unconsolidated non-life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONEQ, and ONESCO. At December 31, 2018 and 2017, no non-life insurance subsidiary's common stock exceeded 10% of the Company's admitted assets.

Description of SCA Investment	12/31/2017 Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub 1 or Sub 2)	NAIC Response Received (Yes/No)	NAIC Valuation (Amount)	NAIC Disallowed Valuation Method (Yes/No)
ONEQ	$ 5,503	6/28/2018	Sub 2	Yes	$ 5,503	No
ONESCO	5,703	6/28/2018	Sub 2	Yes	5,703	No

Common stock of unconsolidated life insurance subsidiaries at statutory equity recorded in the statutory statement of admitted assets, liabilities, and capital and surplus consists of the statutory equity of ONLAC and NSLAC. Investments in the Company's special purpose financial captive reinsurers are carried differently. MONT and KENW are carried at zero due to the fact that the State of Vermont has allowed the recognition of an admitted asset related to recoverables from third party stop-loss reinsurance agreements. The investment in CMGO is carried at the amount of capital contributions made by the Company. If the value of CMGO's surplus were to fall below the level of all capital contributions, then a dollar for dollar reduction of the carrying value would occur until the investment value reached zero. The investment in SUNR is carried at the amount of capital contributions made by the Company at December 31, 2018 and is immaterial. At December 31, 2018 and 2017, none of the Company's unconsolidated life insurance subsidiaries' common stock exceeded 10% of the Company's admitted assets.

(6) Investments

Investment Risks and Uncertainties

Investments are exposed to various risks and uncertainties that affect the determination of estimated fair values, the ability to sell certain investments during strained market conditions, the recognition of impairments, and the recognition of income on certain investments. These risks and uncertainties include:

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- the risk that the Company obtains inaccurate information for the determination of the estimated fair value estimates and other than temporary impairments; and
- the risk that new information or changes in other facts and circumstances lead the Company to change its intent to hold the security to maturity or until it recovers in value.

Any of these situations are reasonably possible and could result in a charge to income in a future period.

The determination of impairments is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with each asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

The recognition of income on certain investments, including asset-backed and mortgage-backed securities, is dependent upon certain factors such as prepayments and defaults, and changes in factors could result in changes in amounts to be earned.

(Dollars in thousands)

Bonds and Stocks

Bonds and Stocks by Sector

The carrying value, gross unrealized gains and losses, and estimated fair values of investments in bonds and stocks at December 31 are as follows:

	2018			
	Carrying value*	Gross unrealized gains	Gross unrealized losses	NAIC estimated fair value
Bonds:				
U.S. government	$ 163,425	3,444	(3,852)	163,017
All other governments	16,940	—	(808)	16,132
States, territories and possessions	559,222	14,421	(3,660)	569,983
Political subdivisions of states	13,694	521	(2)	14,213
Special revenue and assessment	344,751	8,368	(4,698)	348,421
Industrial and miscellaneous	5,917,111	130,082	(115,309)	5,931,884
Hybrid securities	3,000	11	—	3,011
Total bonds	$ 7,018,143	156,847	(128,329)	7,046,661
Preferred stocks	$ 18,292	55	(393)	17,954
Common stocks	$ 37,680	1,291	(565)	38,406

* Represents cost for Common stocks

	2017			
	Carrying value*	Gross unrealized gains	Gross unrealized losses	NAIC estimated fair value
Bonds:				
U.S. government	$ 164,021	5,257	(2,511)	166,767
All other governments	4,986	222	—	5,208
States, territories and possessions	491,202	21,681	(1,266)	511,617
Political subdivisions of states	13,886	783	(19)	14,650
Special revenue and assessment	314,121	11,955	(3,323)	322,753
Industrial and miscellaneous	4,933,045	248,746	(16,499)	5,165,292
Hybrid securities	3,000	248	—	3,248
Total bonds	$ 5,924,261	288,892	(23,618)	6,189,535
Preferred stocks	$ 20,292	922	—	21,214
Common stocks	$ 37,473	3,467	(311)	40,629

* Represents cost for Common stocks

(Dollars in thousands)

Included in the above tables under the caption U.S. government are bonds that were issued by agencies not backed by the full faith and credit of the U.S. government such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investments with an amortized cost of $8,708 and $9,062 were on deposit with various regulatory agencies as required by law as of December 31, 2018 and 2017, respectively.

Maturities of Bonds

The carrying value and the NAIC estimated fair value of bonds at December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are classified based on the last payment date of the underlying mortgage loans with the longest contractual duration.

		Carrying value	NAIC estimated fair value
Due in one year or less	$	352,893	354,327
Due after one year through five years		2,198,333	2,207,266
Due after five years through ten years		3,052,005	3,064,407
Due after ten years		1,414,912	1,420,661
Total	$	7,018,143	7,046,661

Continuous Gross Unrealized Losses for Bonds and Stocks

The following tables present the NAIC estimated fair value and gross unrealized losses of the Company’s bonds (aggregated by sector) and preferred and common stocks in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position at December 31:

(Dollars in thousands)

		Less than 12 months		12 months or longer		Total	
		NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2018							
Bonds:							
U.S. government	$	30,443	(385)	68,156	(3,467)	98,599	(3,852)
All other governments		16,132	(808)	–	–	16,132	(808)
States, territories and possessions		90,116	(1,423)	83,849	(2,237)	173,965	(3,660)
Political subdivisions of states		–	–	2,643	(2)	2,643	(2)
Special revenue and assessment		34,552	(379)	121,602	(4,319)	156,154	(4,698)
Industrial and miscellaneous		2,149,404	(67,616)	944,634	(47,693)	3,094,038	(115,309)
Total bonds		2,320,647	(70,611)	1,220,884	(57,718)	3,541,531	(128,329)
Preferred and common stocks		7,961	(239)	1,204	(719)	9,165	(958)
Total	$	2,328,608	(70,850)	1,222,088	(58,437)	3,550,696	(129,287)

		Less than 12 months		12 months or longer		Total	
		NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses	NAIC estimated fair value	Unrealized losses
2017							
Bonds:							
U.S. government	$	21,222	(193)	61,761	(2,318)	82,983	(2,511)
States, territories and possessions		56,969	(597)	30,616	(669)	87,585	(1,266)
Political subdivisions of states		2,626	(19)	–	–	2,626	(19)
Special revenue and assessment		48,329	(405)	77,433	(2,918)	125,762	(3,323)
Industrial and miscellaneous		795,987	(7,379)	254,198	(9,120)	1,050,185	(16,499)
Total bonds		925,133	(8,593)	424,008	(15,025)	1,349,141	(23,618)
Preferred and common stocks		1,979	(51)	667	(260)	2,646	(311)
Total	$	927,112	(8,644)	424,675	(15,285)	1,351,787	(23,929)

(Dollars in thousands)

The tables below summarize the bonds by sector in an unrealized loss position for less than and greater than twelve months as of December 31:

		Less than 12 months	12 months or longer	Total
2018				
99.9%-80%:				
U.S. government	$	(385)	(3,467)	(3,852)
All other governments		(808)	—	(808)
States, territories and possessions		(1,423)	(2,237)	(3,660)
Political subdivisions of states		—	(2)	(2)
Special revenue and assessment		(379)	(4,319)	(4,698)
Industrial and miscellaneous		(66,369)	(43,673)	(110,042)
Below 80%:				
Industrial and miscellaneous		(1,247)	(4,020)	(5,267)
Total	$	(70,611)	(57,718)	(128,329)

		Less than 12 months	12 months or longer	Total
2017				
99.9%-80%:				
U.S. government	$	(193)	(2,318)	(2,511)
States, territories and possessions		(597)	(669)	(1,266)
Political subdivisions of states		(19)	—	(19)
Special revenue and assessment		(405)	(2,918)	(3,323)
Industrial and miscellaneous		(7,379)	(9,120)	(16,499)
Total	$	(8,593)	(15,025)	(23,618)

Evaluation of Other Than Temporarily Impaired Investments

Management regularly reviews its bond and stock portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in fair value of investments.

An analysis which focuses on the issuer's ability to service its debts and the length of time and extent the bond has been valued below cost. This review process includes an assessment of the credit quality or an assessment of the future cash flows of the identified investment in the portfolio.

For any securities identified in the review of the portfolio, the Company considers additional relevant facts and circumstances in evaluating whether the security is other than temporarily impaired (“OTTI”). Relevant facts and circumstances that may be considered include:

- comparison of current estimated fair value of the security as compared to cost;
- length of time the estimated fair value has been below cost;
- financial position of the issuer, including the current and future impact of any specific events, including changes in management;
- analysis of issuer’s key financial ratios based upon the issuer’s financial statements;
- any items specifically pledged to support the credit along with any other security interests or collateral;
- the Company’s intent to sell the security or if it is more likely than not that it will be required to sell the security before it can recover the amortized cost or, for equity investments, the forecasted recovery of estimated fair value in a reasonable period of time;
- overall business climate including litigation and government actions;
- rating agency downgrades;
- analysis of late payments, revenue forecasts and cash flow projections for use as indicators of credit issues; and
- other circumstances particular to an individual security.

In addition to the above, for certain securitized financial assets with contractual cash flows, including loan-backed and structured securities, the Company periodically evaluates the securities using the currently estimated cash flows, including new prepayment assumptions using the retrospective adjustment methodology. If the evaluation based on currently estimated cash flows results in discounted estimated future cash flows less than the book value, an OTTI is considered to have occurred. If the Company has the ability to hold and no intent to sell the security, the impairment amount recognized as a realized loss would be the difference between the amortized cost and the discounted cash flows.

For bonds that are OTTI and securities where the Company intends to sell or does not have the ability to hold the security, the realized loss would equal the difference between the amortized cost and its fair value at the statutory statements of admitted assets, liabilities, and capital and surplus date.

For industrial and miscellaneous securities, the Company evaluated the financial performance of the issuer based upon credit performance and investment ratings, and expects to recover the entire amortized cost of each security.

As of December 31, 2018, investments in loan-backed and structured securities for which an OTTI has not been recognized in earnings and which were in an unrealized loss position had a fair value of

(Dollars in thousands)

$1,019,835. Loan-backed and structured securities in an unrealized loss position for less than 12 months had a fair value of $493,250 and unrealized losses of $6,217. Loan-backed and structured securities in an unrealized loss position for greater than 12 months had a fair value of $526,585 and unrealized losses of $15,661. These loan-backed and structured securities were primarily categorized as industrial and miscellaneous.

Current Year Evaluation

The Company has concluded that securities in an unrealized loss position as of December 31, 2018 and 2017 reflect temporary fluctuations in economic factors that are not indicative of OTTI due to the Company's ability and intent to hold these investments until recovery of estimated fair value or amortized cost and for equity investments, anticipate a forecasted recovery in a reasonable period of time.

Total unrealized losses increased from December 31, 2017 to December 31, 2018 due to wider credit spreads and higher U.S. Treasury yields. Additionally, unrealized losses increased in certain industry sectors (i.e. energy, oil) due to overall sector declines in value and not issuer-specific credit deterioration. Accordingly, no write-downs were deemed necessary for the securities reflected in the tables above.

Mortgage Loans

Mortgage loans consist of commercial mortgage loans originated in the United States. Mortgage loans are collateralized by the underlying properties. Collateral on mortgage loans must meet or exceed 125% of the loan at the time the loan is made. The carrying amounts of the commercial mortgage loan portfolio as of December 31, 2018 and 2017 were $859,830 and $804,802, respectively.

The minimum and maximum gross lending rates for commercial mortgage loans for the years ended December 31 were:

	2018	2017
Minimum	3.9%	3.8%
Maximum	5.3%	5.3%

Concentration of Credit Risk

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. The Company's portfolio is collateralized by properties located in the United States. Total loans in any state did not exceed 17.3% as of December 31, 2018 or 2017.

The states that exceed 10% of the total loan portfolio were as follows as of December 31:

	2018	2017
Ohio	$ 148,611	104,186
Texas	104,983	101,094
California	100,155	85,229

(Dollars in thousands)

Portfolio Analysis

The Company performs an annual performance review of the commercial mortgage loan portfolio and assigns a rating based on the property's loan-to-value ("LTV"), age, mortgage debt service coverage ("DSC") and occupancy. This analysis helps identify loans that may experience difficulty. If a loan is not paying in accordance with contractual terms, it is placed on a watch list and monitored through inspections and contact with the property's local representative. In addition, as part of portfolio monitoring, the Company physically inspected nearly 100% of the properties in the portfolio. The LTV and DSC ratios are applied consistently across the entire commercial mortgage loan portfolio.

The following table summarizes our commercial mortgage loan portfolio, net of allowance, LTV ratios and DSC ratios using available data as of December 31. The ratios are updated as information becomes available.

		DSC						
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2018								
0% - 50%	$	154,291	54,500	105,266	92,760	31,660	7,776	446,253
50% - 60%		9,702	12,571	60,451	52,577	46,941	3,834	186,076
60% - 70%		—	23,636	23,164	44,808	29,797	7,936	129,341
70% - 80%		—	—	—	47,311	18,213	16,901	82,425
80% and greater		—	—	—	6,790	3,310	5,635	15,735
Total	$	163,993	90,707	188,881	244,246	129,921	42,082	859,830

		DSC						
LTV		**Greater than 2.0x**	**1.8x to 2.0x**	**1.5x to 1.8x**	**1.2x to 1.5x**	**1.0x to 1.2x**	**Less than 1.0x**	**Total**
2017								
0% - 50%	$	141,069	70,870	136,384	81,516	26,753	1,544	458,136
50% - 60%		—	22,169	50,888	35,203	28,595	923	137,778
60% - 70%		—	1,161	78,749	33,543	39,603	1,818	154,874
70% - 80%		—	—	—	9,653	24,575	7,626	41,854
80% and greater		—	—	—	3,401	—	8,759	12,160
Total	$	141,069	94,200	266,021	163,316	119,526	20,670	804,802

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property. It is preferred that the LTV be less than 100%. Our corporate policy directs that our LTV on new mortgages not exceed 75% for standard mortgages. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 75% in 2018 and 2017.

(Dollars in thousands)

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the debt service coverage ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher debt service coverage ratio could indicate a better quality loan.

Mortgage Loan Aging
The table below depicts the commercial mortgage loan portfolio exposure of the remaining balances (which equal the Company's recorded investment), by type, as of December 31:

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total	Recorded investment > 90 days and accruing
2018	$ 2,144	—	—	2,144	857,686	859,830	—
2017	$ 2,419	—	—	2,419	802,383	804,802	—

Performance, Impairment and Foreclosures
The Company had no mortgage loans in the process of foreclosure at December 31, 2018 and 2017. There were no mortgage loan write-downs in 2018 and 2017. The Company did not have an allowance for credit losses at December 31, 2018 or 2017.

Commercial mortgage loans in foreclosure and mortgage loans considered to be impaired as of the statutory statements of admitted assets, liabilities, and capital and surplus date are placed on a nonaccrual status if the payments are not current. Interest received on nonaccrual status mortgage loans is included in net investment income in the period received.

The Company had no mortgage loans on nonaccrual status as of December 31, 2018 and 2017.

The Company did not have any significant troubled debt restructurings of mortgage loans during 2018 or 2017.

(Dollars in thousands)

The Company had no recorded investments in and unpaid principal balance of impaired commercial loans at December 31, 2018 or 2017.

No mortgages were sold to ONFS in 2018 or 2017.

The Company has a mortgage loan receivable from ONFS of $23,257 and $24,002 as of December 31, 2018 and 2017, respectively.

The Company has other financing receivables with contractual maturities of one year or less such as reinsurance recoverables and premiums receivables. The Company does not record a valuation allowance for these items since the Company has not had any significant collection issues related to these types of receivables. The Company writes off the receivable if it is deemed to be uncollectible.

Securities Lending

As of December 31, 2018 and 2017, the Company received $230,305 and $533, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded in securities lending reinvested collateral assets in the statutory statements of admitted assets, liabilities, and capital and surplus with a corresponding liability of payable for securities lending to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2018 and 2017. The estimated fair value of loaned securities was $223,155 and $519 as of December 31, 2018 and 2017, respectively.

Insurer Self-Certified Securities

The following represents securities for which the Company does not have all the information required for the NAIC to provide an NAIC designation, but for which the Company is receiving timely payments of principal and interest. These securities are referred to as "5GI Securities."

	Number of 5GI Securities		Aggregate BACV		Aggregate Fair Value	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Bonds	$ 1	—	1,000	—	1,000	—

Net Realized Capital Gains (Losses) and Change in Unrealized Capital Gains (Losses)

The following is a summary of realized capital gains (losses) and the change in unrealized capital gains (losses), including realized losses for OTTI of investments, for the years ended December 31:

(Dollars in thousands)

	Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2018			
Bonds	$ 1,531	(2,778)	(1,247)
Common stocks	691	2,223	2,914
Derivative instruments	(27,485)	5,376	(22,109)
Other	(641)	(555)	(1,196)
Total	(25,904)	4,266	(21,638)
Less amount credited to interest maintenance reserve	1,218	—	1,218
Net losses before tax	(27,122)	4,266	(22,856)
Taxes on investment losses	(654)	(2,643)	(3,297)
Admitted deferred tax asset	—	2,643	2,643
Net (losses) gains after tax	$ (27,776)	4,266	(23,510)

	Realized gains (losses)	Change in unrealized gains (losses)	Total investment gains (losses)
2017			
Bonds	$ (14,350)	(1,722)	(16,072)
Common stocks	—	6,550	6,550
Mortgage loans on real estate	(459)	—	(459)
Derivative instruments	(18,543)	1,348	(17,195)
Other	(6,665)	3,081	(3,584)
Total	(40,017)	9,257	(30,760)
Less amount credited to interest maintenance reserve	747	—	747
Net losses before tax	(40,764)	9,257	(31,507)
Taxes on investment losses	(640)	(2,020)	(2,660)
Admitted deferred tax asset	—	2,020	2,020
Net (losses) gains after tax	$ (41,404)	9,257	(32,147)

(Dollars in thousands)

Realized capital gains and losses, net of tax, for all types of bonds that result from changes in the overall level of interest rates are credited or charged to the IMR, and these capital gains or losses are amortized into income over the remaining period of time based on the original maturity date of the bond sold.

Realized capital losses on investments, as shown in the tables above, include write-downs for OTTI of $1,552 and $15,828 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, securities with a carrying value of $61,810 which had a cumulative write-down of $17,703 due to OTTI, remained in the Company's investment portfolio.

Included in the write-downs for OTTI are write-downs for OTTI on loan-backed and structured securities of $1,552 and $0 for 2018 and 2017, respectively. The table below lists each security that recognized OTTI impairment in 2018 due to the fact that the present value of the cash flows expected to be collected was less than the amortized cost basis of the securities:

CUSIP		Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI in Current Period	Amortized Cost After OTTI	Fair Value	Date of Financial Statement When Reported
22540VZZ8	$	2,104	1,941	163	1,941	1,962	12/31/2018
00934@AA7		750	200	550	200	200	12/31/2018
694308HG5		1,999	1,470	529	1,470	1,470	12/31/2018
694308GJ0		1,085	948	137	948	948	12/31/2018
694308HL4		621	596	25	596	596	12/31/2018
22540VMK5		465	398	67	398	397	9/30/2018
12669GC82		1,030	949	81	950	994	6/30/2018
Total	$	8,054	6,502	1,552	6,503	6,567	

Sales of Bonds
Proceeds from sales of investments in bonds, excluding calls, during 2018 and 2017 were $662,441 and $487,589, respectively. Gross gains of $4,970 and $9,436, and gross losses of $2,564 and $7,376 were realized on those transactions in 2018 and 2017, respectively.

(7) Derivative Financial Instruments

The Company enters into derivative contracts to economically hedge guarantees on riders for certain insurance contracts. Although these contracts do not qualify for hedge accounting or have not been designated in hedging relationships by the Company, they provide the Company with an economic hedge, which is used as part of its overall risk management strategy. The Company enters into equity futures, currency futures, equity index put options, equity index call options, equity swaps and interest rate swaptions to economically hedge liabilities embedded in certain variable annuity products, such as the GMAB, GMWB, GMIB and GLWB, and in fixed indexed annuity products.

(Dollars in thousands)

The following tables summarize the carrying value and notional amounts of the Company's derivative financial instruments as of December 31:

		Assets		Liabilities	
		Carrying value*	**Notional amount**	**Carrying value****	**Notional amount**
2018					
Equity futures	$	5,679	244,536	—	—
Currency futures		1,227	30,689	2,866	265,613
Equity puts		57,604	870,360	—	—
Equity index call options		9,097	1,823,403	—	—
Equity swap		—	—	—	—
Currency swap		1,020	9,038	—	—
Swaption		32,437	2,600,000	—	—
Total	$	107,064	5,578,026	2,866	265,613
2017					
Equity futures	$	2,632	110,563	8,798	691,976
Currency futures		—	—	3,914	328,277
Equity puts		770	90,949	1,614	1,326,558
Equity index call options		12,911	550,919	—	—
Equity swap		—	—	21,490	509,883
Currency swap		642	9,038	—	—
Swaption		47,099	4,870,000	—	—
Total	$	64,054	5,631,469	35,816	2,856,694

* Included in derivatives
** Included in other liabilities

Credit Risk
The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments.

Because exchange traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments. The Company manages its credit risk related to over-the-counter derivatives by only entering into transactions with creditworthy counterparties with long-standing performance records.

(Dollars in thousands)

The Company manages its credit risk related to certain reinsurance contracts by monitoring the credit ratings of the reinsurer and requiring either a certain level of assets to be held in a trust for the benefit of the Company or a letter of credit to be held by the reinsurer and assigned to the Company. As of December 31, 2018 and 2017, a non-affiliated reinsurer held assets in trust with an estimated fair value of $891,834 and $843,495, respectively, and a letter of credit of $299,602 and $169,757, respectively. As of December 31, 2018 and 2017, SYRE held assets in trust with an estimated fair value of $7,406 and $7,289, respectively, and a letter of credit of $935,000 and $400,000, respectively.

For equity futures and currency futures, cash or an acceptable security is posted to the margin account whenever the Company has open derivatives positions to meet the initial margin maintenance requirement. Additional cash or securities are posted to the account if the margin balance is less than the maintenance margin requirement due to market movements. Conversely, the Company can request funds back if the Company has a margin surplus greater than the maintenance requirement.

(8) Deferred and Uncollected Life Insurance Premiums

Deferred and uncollected life insurance premiums are included in premiums and other considerations deferred and uncollected in the Company's statutory statements of admitted assets, liabilities, and capital and surplus. The table below summarizes these deferred and uncollected life insurance premiums, gross and net of loading for the years ended December 31:

		2018		2017	
		Gross	**Net of loading**	**Gross**	**Net of loading**
Ordinary new business	$	15,259	3,083	18,591	3,550
Ordinary renewal		108,154	82,179	92,061	69,987
Total	$	123,413	85,262	110,652	73,537

(9) Separate Accounts

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. For the current reporting year, the Company reported assets and liabilities from variable individual annuities and variable group annuities.

In accordance with the State of Ohio procedures on approving items within the separate account, the separate account classification of the product is supported by the Ohio Statute 3907.15.

(Dollars in thousands)

As of December 31, 2018 and 2017, the Company's separate account statement included legally insulated assets of $18,883,485 and $22,895,976, respectively. The assets legally insulated from the general account as of December 31, are attributed to the following:

	2018	2017
Variable individual annuities	$ 17,918,169	21,807,513
Variable group annuities	935,832	1,054,130
Variable immediate annuities	29,484	34,338
Total	$ 18,883,485	22,895,981

At December 31, 2018, there were no separate account securities lending arrangements.

In accordance with the products/transactions recorded within the separate account, some separate account liabilities are guaranteed by the general account. (In accordance with the guarantees provided, if the investment proceeds are insufficient to cover the rate of return guaranteed for the product, the policyholder proceeds will be remitted by the general account.)

As of December 31, 2018, the general account of the Company had a maximum guarantee for separate account liabilities of $657,440.

To compensate the general account for the risk taken, the separate account has paid risk charges as follows for the past five years:

	Risk charges
2018	$ 248,184
2017	244,227
2016	230,772
2015	213,087
2014	189,797

As of December 31, 2018, the general account of the Company had paid $68,604 towards separate account guarantees.

(Dollars in thousands)

The Company does not guarantee a return of the contract holders' separate account. Information regarding the nonguaranteed separate accounts of the Company is as follows as of and for the years ended December 31:

		2018	2017
Premiums, considerations or deposits at year end	$	712,604	996,538
Reserves at year end for accounts with assets at:			
Market value	$	18,544,703	22,483,194
Amortized cost		164,801	161,307
Total reserves	$	18,709,504	22,644,501
By withdrawal characteristics:			
Subject to discretionary withdrawal:			
With market value adjustment	$	—	—
At book value without market value adjustment and with current surrender charge of 5% or more		—	—
At market value		18,679,987	22,610,144
At book value without market value adjustment and with current surrender charge of less than 5%		—	—
Subtotal		18,679,987	22,610,144
Not subject to discretionary withdrawal		29,518	34,357
Total reserves	$	18,709,505	22,644,501

The following is a reconciliation of net transfers from separate accounts for the years ended December 31:

		2018	2017
Transfers as reported in the summary of operations of the Separate Accounts Statement:			
Transfers to separate accounts	$	713,299	996,586
Transfers from separate accounts		2,851,627	1,665,446
Net transfers from separate accounts before reconciling adjustments		(2,138,328)	(668,860)
Reconciling adjustments:			
Processing income		(695)	(48)
Other net		—	—
Net transfers from separate accounts	$	(2,139,023)	(668,908)

(10) Reserves for Future Policy Benefits

The reserves for future policy benefits are comprised of liabilities for life policies and contracts, accident and health (disability) policies, and annuity and other deposit funds including riders.

As discussed in Note 3, the Company has five main types of rider benefits offered with individual variable annuity contracts: GMDBs, GMIBs, GLWBs, GMABs and GMWBs. The Company also issued fixed indexed annuity contracts with an enhanced GLWB rider.

Variable Annuity Riders

GMDB Riders
Certain variable annuity contracts include GMDB riders with the base contract and offer additional death and income benefits through riders that can be added to the base contract. These GMDB riders typically provide that upon the death of the annuitant, the beneficiaries could receive an amount in excess of the contract value. The GMDB rider benefit could be equal to the premiums paid into the contract, the highest contract value as of a particular time, e.g., every contract anniversary, or the premiums paid into the contract times an annual interest factor. The Company assesses a charge for the GMDB riders and prices the base contracts to allow the Company to recover a charge for any built-in death benefits.

GMIB Riders
Certain variable annuity contracts include GMIB riders with the base contract. These riders allow the policyholder to annuitize the contract after ten years and to receive a guaranteed minimum monthly income for life. The amount of the payout is based upon a guaranteed income base that is typically equal to the greater of the premiums paid increased by 5% annually (6% for riders sold before May 2009) or the highest contract value on any contract anniversary. In some instances, based upon the age of the annuitant, the terms of this rider may be less favorable for the contract purchaser. The amount of the monthly income is tied to annuitization tables that are built into the GMIB rider. In the event that the policyholder could receive a higher monthly income by annuitization based upon the Company’s current annuitization rates, the annuitant will automatically receive the higher monthly income. This means that the contract value could be significantly less than the guaranteed income base, but it might not provide any benefit to the policyholder or any cost to the Company. In addition, some policyholders may not be willing to give up access to their contract value that occurs with annuitization under the rider. Effective May 1, 2010, the Company discontinued offering the GMIB rider.

The Company's GMIB and GMDB riders issued prior to April 1, 2008 are reinsured with a non-affiliated reinsurer up to a certain level of coverage. The Company has reinsurance agreements in place with an affiliate for reinsurance coverage on the amounts in excess of the underlying non-affiliated reinsurance which has a $135 million deductible that must be covered by the Company before coverage is provided by the affiliate. The Company established a voluntary reserve using the AG43 stochastic computation ("CTE98") for this deductible portion.

The voluntary reserve is the difference between the stochastic CTE98 reserve for the deductible less the implicit reserve for the deductible in the reported reserve prior to adding the CTE98 reserve for the deductible. As of December 31, 2018, the implicit reserve for the deductible was $0 using the standard scenario reserve prior to increasing the deductible reserve to $99,150 using CTE98. The voluntary reserve was initially set up at December 31, 2011 with a balance of $93,158, which was recorded as a direct reduction to unassigned surplus. During 2018, the reserve decreased $7,123 from its 2017 value of $106,273. Since the change in reserve amount cannot be determined for the next three years, no deferred tax benefit was admitted.

GLWB Riders
The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. Such guaranteed withdrawals may start any time after the annuitant reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant attains a higher age band before the owner starts taking withdrawals. In some versions of GLWB riders sold in 2013 and later, there is a guaranteed minimum percentage withdrawal amount for the first 15 years of the contract; if the policyholder’s account value goes to zero subsequent to the 15 year guarantee period, the percentage withdrawal amount is then calculated per a specified formula based on the 10 year treasury rate from the preceding 90 calendar days, with the calculated treasury linked rate subject to a specified cap and floor.

At policy inception, the GLWB base is set at the amount of the purchase payments and it is increased by the amount of future purchase payments. It increases (roll-up) by up to eight percent simple interest every year for the first ten years, as long as no withdrawal is made. If a withdrawal is made in any year during the first ten years, there is no roll-up at all for that year. If the contract value exceeds the GLWB base on any contract anniversary prior to the first contract anniversary after the annuitant reaches age 95, the GLWB base resets to the contract value and a new ten-year roll-up period begins.

The GLWB may also contain a step-up feature which preserves potential market gain by ratcheting up to the contract value, if higher, on each anniversary. If the contract has both a roll-up and step-up feature, the GLWB base will be the greater of: 1) the GLWB base on the previous anniversary plus any additional purchase payments; 2) the step-up base; or 3) the roll-up base.

In addition to the roll-up feature, some versions of the GLWB rider also provide for a top-off of the GLWB base at the end of the tenth contract year subject to attained age restrictions where applicable if the owner has not made any withdrawals in the first ten years. The top-off is equal to two hundred percent of the first-year purchase payments. Policyholders are eligible for only one top-off during the contractual term. A reset to the contract value does not start a new top-off period. A top-off will typically not occur if there is any reset in the first ten years.

The initial GLWB riders (issued May 1, 2010 through December 31, 2010) had a built-in death benefit. This death benefit is reduced dollar for dollar for withdrawals. It differs from most of the other death benefits that decline pro rata for withdrawals. Thus, when the contract value is less than the death benefit, withdrawals will reduce the death benefit under the GLWB rider by a smaller amount than the reduction for other death benefits.

The Company also offers single life and joint life versions of the GLWB rider. Under the joint life version, if the annuitant dies after the owner has started taking withdrawals the surviving spouse may elect a spousal continuation under the rider and continue to receive the same payment. Under the single life version, the guaranteed amount that may be withdrawn could decline either because 1) the contract value is less than the GLWB base and under the single life GLWB rider the contract value then becomes the new GLWB base and/or 2) the surviving spouse is in a different age band.

(Dollars in thousands)

The GLWB riders, issued beginning January 1, 2011, are offered by the Company in both single-life and joint-life versions. In conjunction with the second generation GLWB riders, the Company also began selling new death benefit riders in both single-life and joint-life versions.

GMAB Riders
Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

GMWB Riders
Certain variable annuity contracts include a GMWB rider, which is similar to the GMAB rider noted above except the policyholder is allowed to make periodic withdrawals instead of waiting for the benefit in a lump sum at the end of the tenth year. The Company discontinued the sale of its GMWB rider in 2009. The activity associated with GMWB riders is included with GMAB riders and labeled "GMAB."

The following tables summarize the net amount at risk, net of reinsurance, for variable annuity contracts with guarantees invested in both general and separate accounts as of December 31 (note that most contracts contain multiple guarantees):

		2018			
		Death benefits	Living benefits		
		GMDB	GMIB	GLWB	GMAB
Return of net deposit					
Net amount at risk [1]	$	56,298	-	-	865
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	188,893	-	-	98
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	28,118	-	-	-
Return of highest anniversary value					
Net amount at risk [1]	$	383,169	-	-	-
Total					
Net amount at risk [1]	$	656,478	-	-	963

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

		2017			
		Death benefits	**Living benefits**		
		GMDB	**GMIB**	**GLWB**	**GMAB**
Return of net deposit					
Net amount at risk [1]	$	7,582	-	-	24
Return of net deposits accrued at a stated rate					
Net amount at risk [1]	$	130,835	-	-	-
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value					
Net amount at risk [1]	$	8,578	-	-	-
Return of highest anniversary value					
Net amount at risk [1]	$	9,491	-	-	-
Total					
Net amount at risk [1]	$	156,486	-	-	24

[1] Death benefit net amount at risk and living benefit net amount at risk are not additive at the contract level.

For guarantees of benefits that are payable in the event of death (GMDB), the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable at annuitization (GMIB), the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For benefit guarantees that are payable upon withdrawal (GLWB), the net amount at risk is generally defined as the present value of the current maximum guaranteed withdrawal available to or taken by the contract holder, determined in accordance with the terms of the contract and best estimate assumptions, where applicable, in excess of the account balance as of the balance sheet date.

For accumulation guarantees (GMAB), the net amount at risk is generally defined as the guaranteed minimum accumulation balance in excess of the account balance as of the balance sheet date.

All separate account assets associated with these contracts are invested in shares of various mutual funds offered by the Company and its sub advisors. Some riders require that separate account funds be invested in asset allocation models, managed volatility models, and/or have other investment restrictions. Net amount at risk represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

(Dollars in thousands)

The Company did not transfer assets from the general account to the separate account for any of its variable annuity contracts during 2018 and 2017.

The following table summarizes account balances of variable annuity contracts with guarantees that were invested in separate accounts as of December 31:

		2018	2017
Mutual funds:			
Bond	$	5,050,601	6,034,599
Equity		12,063,381	14,851,379
Money market		804,191	921,540
Total	$	17,918,173	21,807,518

The reserves on guaranteed riders are held in the general accounts and there are no guaranteed separate accounts.

Fixed Indexed Annuity Riders

<u>*GLWB Riders*</u>
Certain fixed indexed annuity contracts include a GLWB rider. The GLWB rider allows the owner to take withdrawals from the contract at a guaranteed percentage of the GLWB base every year even if the contract value goes to zero. There are two versions of GLWB rider offered: a single life GLWB with the annuitant as the covered person, and a joint life GLWB with the annuitant and the annuitant's spouse as the covered persons.

The rider provides for a guaranteed payment of the maximum allowable withdrawal (MAW) each index year during the lifetime withdrawal period. Such guaranteed withdrawals may start any time after the annuitant/youngest covered spouse reaches age 59 1⁄2. The percentage withdrawal amount guaranteed increases if the annuitant/youngest covered spouse attains a higher age band before the guarantee is elected.

At the policy's initial sweep date, the GLWB base is set at the amount of the purchase payments. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base. On each anniversary of the initial sweep date, except under excess withdrawal, the step-up GLWB base is equal to the greater of the GLWB base on the prior day, and the then current contract value, after deducting any applicable charges for the contract and credited interest. The annual credit base is the GLWB base just prior to the index year processing, plus the annual credit calculation base just prior to index processing, multiplied by an index or bonus credit rate. Upon a step-up, the annual credit calculation base will reset to the contract value at the time of step-up.

(Dollars in thousands)

For the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California, the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to AV at the time of exchange. After the initial sweep date, the GLWB base will be the greatest of the step-up GLWB base and the annual credit GLWB base.

The total account value, net of reinsurance, of the fixed indexed annuities was over $500,000. The account value, net of reinsurance, specific to the GLWB riders was over $50,000 as of December 31, 2018.

(11) Annuity Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2018:

		General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:					
With market value adjustment	$	1,411,371	—	1,411,371	5.6%
At book value less surrender charge		121,071	—	121,071	0.5%
At fair value*		—	18,679,987	18,679,987	74.4%
Total with adjustment or at market value		1,532,442	18,679,987	20,212,429	80.5%
At book value without adjustment		1,772,458	—	1,772,458	7.1%
Not subject to discretionary withdrawal		3,087,758	29,518	3,117,276	12.4%
Total, gross		6,392,658	18,709,505	25,102,163	100.0%
Reinsurance ceded		2,974,861	—	2,974,861	
Total, net	$	3,417,797	18,709,505	22,127,302	

* Includes $18,679,987 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2018:

Life, accident and health Annual Statement:		
Annuities (excluding supplementary contracts with life contingencies), net	$	2,712,021
Supplementary contracts with life contingencies, net		5,114
Deposit-type contracts		700,662
Subtotal		3,417,797
Separate Accounts Annual Statement:		
Annuities, net		18,709,505
Total annuity reserves and deposit liabilities, net	$	22,127,302

Annuity reserves and deposit liabilities by withdrawal characteristics are shown below as of December 31, 2017:

		General account	Separate account non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:					
With market value adjustment	$	647,004	—	647,004	2.4%
At book value less surrender charge		169,725	—	169,725	0.6%
At fair value*		—	22,610,144	22,610,144	82.5%
Total with adjustment or at market value		816,729	22,610,144	23,426,873	85.5%
At book value without adjustment		1,942,321	—	1,942,321	7.1%
Not subject to discretionary withdrawal		2,010,287	34,357	2,044,644	7.4%
Total, gross		4,769,337	22,644,501	27,413,838	100.0%
Reinsurance ceded		1,512,493	—	1,512,493	
Total, net	$	3,256,844	22,644,501	25,901,345	

* Includes $22,610,144 of individual and group variable deferred annuity held in the separate accounts that were surrenderable at market value less a surrender charge.

(Dollars in thousands)

The following is the reconciliation of annuity reserves and deposit liabilities as of December 31, 2017:

Life, accident and health Annual Statement:		
Annuities (excluding supplementary contracts with life contingencies), net	$	2,565,481
Supplementary contracts with life contingencies, net		4,790
Deposit-type contracts		686,573
Subtotal		3,256,844
Separate Accounts Annual Statement:		
Annuities, net		22,644,501
Total annuity reserves and deposit liabilities, net	$	25,901,345

(12) Unpaid Claim Reserves

The Company establishes unpaid claim reserves which provide an estimated cost of paying claims made under individual disability accident and health policies. These reserves include estimates for claims that have been reported and those that have been incurred but not reported. The amounts recorded for unpaid claim reserves are based on appropriate actuarial guidelines and techniques that represent the Company's best estimate based on current known facts and the actuarial guidelines. Accordingly, actual claim payouts may vary from present estimates.

The following table summarizes the disabled life unpaid claims for the years ended December 31:

		2018	2017
Claim reserves, beginning of year	$	10,345	10,837
Less reinsurance recoverables		(635)	(631)
Net claim reserves, beginning of year		9,710	10,206
Claims paid related to:			
Current year		(30)	(5)
Prior years		(1,641)	(1,320)
Total claims paid		(1,671)	(1,325)
Incurred related to:			
Current year's incurred		945	736
Current year's interest		18	14
Prior years' incurred		170	(346)
Prior years' interest		401	425
Total incurred		1,534	829
Net claim reserves, end of year		9,573	9,710
Plus reinsurance recoverables		899	635
Claims reserves, end of year	$	10,472	10,345

The change in claim reserves and liabilities for claims incurred in prior years is the result of the general maturing process of claims, including the normal fluctuation resulting from the relatively small size of the block, and continuing claim analysis.

(13) Reinsurance

The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth. The Company routinely enters into reinsurance transactions with other insurance companies, third parties, affiliates and subsidiaries. This reinsurance involves either ceding certain risks to or assuming risks from other insurance companies. The Company's statutory financial statements reflect the effects of assumed and ceded reinsurance transactions.

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 30.9% and 27.1% of gross earned life and accident and health premiums during 2018 and 2017, respectively.

For the Company's individual variable annuity products, the Company reinsures the various living and death benefit riders, including GMDB, GMIB, and GLWB.

For the Company's fixed annuity products, the Company has coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements range from one-third to two-thirds of the business produced. The ceded reserves attributable to fixed annuity coinsurance agreements were $276,135 and $311,231 as of December 31, 2018 and 2017, respectively.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for the Company, the Company cedes variable annuity-related risks, living and death benefits to SYRE for the GMAB, GMIB, GMDB, and GLWB riders. Additionally, to consolidate the management of such living benefit risks, the Company assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above. Effective January 2018, ONLIC cedes 100% of the exchange program fixed indexed annuities and associated GLWB riders to SYRE. The Company assumes BOLI policies issued by ONLAC, but ceased reinsuring new policies in October 2016.

As noted above, the Company cedes to SYRE variable annuity-related risks, living and death benefits consisting of GMAB, GMIB, GMDB and GLWB riders, including those riders assumed from NSLAC and fixed indexed annuity exchange policies and associated GLWB riders. The base variable annuity contracts are retained by the Company. SYRE applies a permitted practice prescribed by CIMA that allows SYRE to carry the assumed reserves of $915,555 under the reinsurance arrangement utilizing a reserve methodology that is approved by CIMA. The approved reserve methodology is based upon U.S.

(Dollars in thousands)

generally accepted accounting principles. For all GMAB riders and some GLWB riders with net settlement provisions, the reserves are calculated using the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. Topic 815 is a fair value or mark-to-market calculation required if the liability is deemed to be an embedded derivative. For all GMIB and GMDB riders, and the remaining GLWB riders without net settlement provisions, the reserves are calculated in accordance with FASB ASC Topic 944, *Financial Services - Insurance*. Topic 944 provides guidance for calculating reserves for contracts that provide additional benefits in excess of the account values and is similar to other generally accepted accounting principles reserve accounting methodologies. Topic 944 is a stochastic method that determines the percentage of the future rider charges required to fund the projected benefits. This percentage is recalculated at each valuation period. Under both of these generally accepted accounting principles calculations, the reserve calculation is measuring the reserve liability associated with the rider cash flows.

The following table is a summary of the reserves by product, rider type and valuation standard as of December 31, 2018:

	2018	2017
FASB ASC Topic 944:		
GMIB	$ 246,846	204,018
GMDB	86,575	75,222
GLWB	49,302	32,620
GMIB payout	3,805	—
Subtotal	386,528	311,860
FASB ASC Topic 815:		
GLWB embedded derivatives	20,032	16,550
GMAB embedded derivatives	1,997	(28,589)
Fixed indexed annuities	506,998	—
Subtotal	529,027	(12,039)
Total reserves	$ 915,555	299,821

As of December 31, 2018, the Company recorded a reserve credit of $1,526,208 related to the rider benefits and fixed indexed annuities ceded to SYRE. As of December 31, 2017, the Company recorded a reserve credit of $229,955 related to the rider benefits ceded to SYRE. ONFS secured letters of credit totaling $935,000 for SYRE, with ONLIC as the beneficiary in order to recognize the reserve credit. The Company also established funds withheld accounts for the benefit of SYRE that have a total carrying value of $612,811 and are recorded in reinsurance funds withheld due to affiliate, net and other liabilities on the statutory statements of admitted assets, liabilities, and capital and surplus, and assets held in trust of $7,406. The following table presents additional information regarding the nature of the collateral held:

(Dollars in thousands)

Description		Carrying Value
Cash	$	65,373
Cash equivalents		7,406
Futures		4,942
Equity put options		57,534
Bonds and mortgages		484,962
Total	$	620,217

MONT, KENW and CMGO retrocede certain term life policies through yearly renewable term agreements to the Company on a quota share basis, which the Company then cedes to external reinsurers based on certain retention levels.

The Company assumes GMIB, GMAB, and GMWB riders issued by NSLAC. As of 2015, the Company no longer assumes new business from NSLAC.

Amounts in the accompanying statutory financial statements related to reinsurance agreements with ONLAC, NSLAC, MONT, and SYRE are as follows for the years ended as of December 31:

		2018	2017
Premiums assumed	$	96,857	91,770
Benefits incurred		90,661	75,784
Commission and expense allowance		4,426	4,375
Reserves for future policy benefits		965,524	945,385
Modified coinsurance reserves		—	—
Policy and contract claims payable		13,733	10,313

Variable Annuity Rider Reinsurance Agreements with SYRE
The details of the Company's annuity rider reinsurance agreements with SYRE are as follows:

GMIB and GMDB Riders Written After April 1, 2008

In December 2008, the Company entered into a reinsurance agreement with SYRE to reinsure Annual Reset Death Benefit Riders ("ARDBR") and GMIB riders associated with variable annuity products written between April, 2008 and August, 2012. The treaty was amended to include new products issued beginning April 1, 2009. Under the agreement for contracts issued between April 1, 2008 and March 31, 2009, the Company retained the first 15% and reinsured to SYRE on an excess of loss basis the remaining 85% of the risk under its GMIB rider and the related ARDBR rider. For the above contracts, the

Company reinsured to SYRE 100% of the risk for all riders listed above up to $5 million per annuitant. Furthermore, SYRE was to pay a single adjusted GMIB claim amount when a GMIB policy annuitized.

Effective July 31, 2010, a treaty addendum was executed which effectively resulted in the extinguishment of the treaty above and the establishment of a new amended treaty. The new treaty resulted in the removal of the adjusted GMIB claim calculation that contains the one-time net settlement payment and in its place, a GMIB claim amount that covers the monthly GMIB benefit during the annuity payout. SYRE now accepts 100% of the risk for all GMIB and ARDBR riders up to $5 million per annuitant.

GMIB and GMDB Riders Written Prior to April 1, 2008

Effective November 30, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the claims in excess of limits established in a non-affiliated reinsurance treaty ("cap coverage") related to the GMIB riders associated with variable annuity products written on or after April 1, 2002 through March 31, 2008. Under the agreement, the cap coverage will have a deductible of $100,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was October 31, 2011.

Effective December 31, 2011, the Company entered into a reinsurance agreement with SYRE to reinsure the cap coverage related to the GMDB riders associated with variable annuity products written on or after July 1, 2005 but prior to April 1, 2008. Under the agreement, the cap coverage will have a deductible of $35,000. The deductible will increase each year at the risk free rate defined by the 1-year swap curve. The valuation date for the calculation of the fair value for the initial consideration was November 30, 2011.

GLWB Riders

Effective May 1, 2010, the Company replaced its GMIB rider with a GLWB rider (see Note 10) in connection with its variable annuity products for all new business written from this date. The Company reinsures 100% of all GLWB riders with SYRE.

GMIB, GMDB, and GLWB Riders

During December 2011, amendments were made to the SYRE reinsurance treaties for pre April 1, 2008 GMIB riders, post April 1, 2008 GMIB riders, GLWB riders and pre April 1, 2008 GMDB riders. The amendments provided SYRE with the option to convert the reinsurance treaties into a funds withheld ("FWH") arrangement in which the Company would engage in a hedging program under SYRE's direction and for the benefit of SYRE. The hedging performed by the Company for SYRE's benefit would be done in segregated FWH accounts. At the end of each quarter, SYRE will reimburse the Company for any hedging losses and expenses for operating the hedging program and SYRE will receive credit for any gains realized under the hedging program. The FWH amendments also state the responsibilities of the Company and SYRE as it relates to the margin requirements on the open derivative positions held in the FWH accounts. SYRE is responsible for reimbursing the Company for any cash held in a margin account related to a derivative program operated for the benefit of SYRE. The derivatives held by the Company for the benefit of SYRE in each segregated FWH account as well as the cash held in a margin account related to the derivative program are considered the amounts withheld and are recorded as separate funds withheld liability (or asset if the derivative positions decrease) in other liabilities (assets) on the statutory statements of admitted assets, liabilities, and capital and surplus. The change in the value of the FWH related to the derivative positions were recorded within derivative instruments in the statutory statements of income. As of December 31, 2011, the FWH option was elected by SYRE for the post April 1, 2008 GMIB riders and GLWB riders reinsurance treaties. As part of the initial FWH election, open derivative futures were sold from SYRE to the Company using the December 29, 2011 closing value of these positions of $16,095.

(Dollars in thousands)

GLWB Riders

Effective May 1, 2013, the Company began selling a new 2013 Interest Sensitive GLWB rider (IS GLWB). An amendment was made to the SYRE GLWB reinsurance treaty to add these riders to the coverage. The Company cedes 30% of the benefit for this rider to SYRE.

GMAB Riders

Certain variable annuity contracts include a GMAB rider. On the eighth or tenth anniversary, depending on the version of the rider, the policyholder's account value will increase to the amount of the initial deposit if the account value at that anniversary is less than the initial deposit.

Amounts in the accompanying statutory financial statements related to ceded variable annuity business to SYRE were as follows for the years ended December 31:

		2018	2017
Statements of Income:			
Premiums and other considerations	$	162,386	166,296
Death and other benefits		8,040	6,475
Statements of Admitted Assets, Liabilities, and Capital and Surplus:			
Other admitted assets:			
Reinsurance recoverable	$	802	408
Receivable from affiliate		2	1
Reserves for future policy benefits		943,324	229,955
Other liabilities:			
Premiums payable		13,060	13,987
FWH under reinsurance:			
Margin account		122,906	26,271
Unrealized losses derivative instrument		4,942	2,503
Capital and surplus:			
Unassigned surplus:			
Unrealized losses derivative instrument		(59,770)	36,788

(Dollars in thousands)

Fixed Indexed Annuity Reinsurance Agreements with SYRE

Effective January 2018, the Company entered into a 100% coinsurance funds withheld reinsurance agreement with SYRE to reinsure the exchange program fixed indexed annuities and associated GLWB riders offered to certain policyholders of variable annuities with the GMIB rider. This exchange program was available for the period from January 2, 2018 through April 6, 2018, and for the period from June 4, 2018 through September 7, 2018 in the state of California.

Amounts in the accompanying statutory financial statements related to ceded fixed indexed annuity business to SYRE were as follows for the year ended December 31:

		2018
Statements of Income:		
Premiums and other considerations	$	526,276
Death and other benefits		703
Statements of Admitted Assets, Liabilities, and Capital and Surplus:		
Reserves for future policy benefits	$	582,884
Other liabilities:		
Reinsurance payable		684
FWH under reinsurance:		
Assets Payable to Affiliate		484,274
Capital and surplus:		
Unassigned surplus:		
Unrealized losses derivative instrument		10,552

(14) Bank Line of Credit

In April 2016, ONFS obtained a $525,000 senior unsecured, syndicated credit facility. The credit facility was established for the purpose of issuing letters of credit and loans for general corporate purposes and matured in April 2021. In March 2017, ONFS increased this credit facility by $50,000 to $575,000. In March, 2018, ONFS increased this credit facility by $325,000 to $900,000. The credit facility now matures in March 2023.

ONFS utilized $810,000 and $400,000 of this facility as of December 31, 2018 and 2017, respectively, to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $50,000, 364-Day letter of credit facility with a bank in order to finance and to support the reserve requirements of SYRE. The Company is the only beneficiary of the related letters of credit. ONFS utilized $50,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

In December 2018, ONFS entered into a $150,000, 364-Day letter of credit facility with two banks in order to finance and to support the reserve requirements of SYRE and the Company (related to NSLAC). The Company and NSLAC are the only beneficiaries of the related letters of credit. ONFS utilized $75,000 of this facility as of December 31, 2018 to secure a letter of credit for SYRE, with the Company as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

There was no interest or fees paid by the Company on these lines of credit in 2018 and 2017.

(15) Income Taxes

On December 22, 2017, President Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under SSAP 101, the effects of new legislation are recognized upon enactment, which (for federal legislation) is the date the President signs a bill into law. The Act reduced the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company recorded a decrease related to the gross deferred tax assets and net admitted deferred tax assets of $91,587 and $16,151, respectively, with a corresponding net adjustment to capital and surplus of $16,151 for the year ended December 31, 2017. These adjustments include deferred tax assets on unrealized gains and losses.

The Act revised the computation of life insurance tax reserves to be the greater of the net surrender value of a contract or 92.81% of statutory reserves, in general. The revised reserve computation is effective for taxable years beginning after December 31, 2017. A transition rule requires life insurers to spread the difference between the prior year end reserves computed on the old basis and those computed on the new basis over eight years as either income or a deduction. The Company recorded an estimated provision for this change by recognizing a net $26,990 increase in deferred tax assets for the year ended December 31, 2017, offset by a corresponding increase in deferred tax liabilities that will reverse over the eight year transition period. This provision has been refined to a net increase of $23,886 for the year ended December 31, 2018.

The Company provides for deferred tax assets in accordance with the NAIC issued guidance. The components of the net admitted deferred tax asset, including those certain deferred tax assets and deferred tax liabilities, recognized in the Company's statutory statements of admitted assets, liabilities, and capital and surplus as of December 31 are as follows:

(Dollars in thousands)

		Ordinary	Capital	Total
2018				
Gross deferred tax assets	$	252,086	6,275	258,361
Statutory valuation allowance adjustments		—	—	—
Adjusted gross deferred tax assets		252,086	6,275	258,361
Nonadmitted deferred tax assets		(63,375)	(6,122)	(69,497)
Admitted deferred tax assets		188,711	153	188,864
Deferred tax liabilities		(56,235)	(153)	(56,388)
Admitted deferred tax assets, net	$	132,476	—	132,476
2017				
Gross deferred tax assets	$	233,661	3,485	237,146
Statutory valuation allowance adjustments		—	—	—
Adjusted gross deferred tax assets		233,661	3,485	237,146
Nonadmitted deferred tax assets		(45,362)	—	(45,362)
Admitted deferred tax assets		188,299	3,485	191,784
Deferred tax liabilities		(61,401)	(771)	(62,172)
Admitted deferred tax assets, net	$	126,898	2,714	129,612
Change				
Gross deferred tax assets	$	18,425	2,790	21,215
Statutory valuation allowance adjustments		—	—	—
Adjusted gross deferred tax assets		18,425	2,790	21,215
Nonadmitted deferred tax assets		(18,013)	(6,122)	(24,135)
Admitted deferred tax assets		412	(3,332)	(2,920)
Deferred tax liabilities		5,166	618	5,784
Admitted deferred tax assets, net	$	5,578	(2,714)	2,864

(Dollars in thousands)

The amount of gross deferred tax assets admitted under each component and the resulting increased amount by tax character as of December 31 are as follows:

		Ordinary	Capital	Total
2018				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	133,939
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	132,476
Lesser of (1) or (2)		132,476	—	132,476
Deferred tax liabilities		56,235	153	56,388
Admitted deferred tax assets	$	188,711	153	188,864
2017				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	129,612
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	145,764
Lesser of (1) or (2)		126,127	3,485	129,612
Deferred tax liabilities		61,401	771	62,172
Admitted deferred tax assets	$	187,528	4,256	191,784
Change				
Federal income taxes paid in prior years recoverable through loss carrybacks	$	—	—	—
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations:				
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date		N/A	N/A	4,327
(2) Adjusted gross deferred tax assets allowed per limitation threshold		N/A	N/A	(13,288)
Lesser of (1) or (2)		6,349	(3,485)	2,864
Deferred tax liabilities		(5,166)	(618)	(5,784)
Admitted deferred tax assets	$	1,183	(4,103)	(2,920)

(Dollars in thousands)

The ratios used for threshold limitation (for SSAP 101 Paragraph 11b) as of December 31 are as follows:

		2018	2017	Change
Ratio percentage used to determine the recovery period and threshold limitation amount in above adjusted gross deferred tax assets		815.12%	947.99%	(132.87%)
Amount of adjusted capital and surplus used to determine the recovery period threshold limitation amount in above adjusted gross deferred tax assets	$	969,648	1,052,457	(82,809)

The impact of tax-planning strategies as a percentage of adjusted gross and net admitted deferred tax assets as of December 31 are as follows:

	Ordinary	Capital	Total
2018			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	0.08	0.08
2017			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	1.82	1.82
Change			
Adjusted gross deferred tax assets:			
(Percentage of total adjusted gross deferred tax assets)	—%	—%	—%
Net admitted gross deferred tax assets:			
(Percentage of total net admitted adjusted gross deferred tax assets)	—	(1.74)	(1.74)

(Dollars in thousands)

The Company's tax planning strategies do not include the use of reinsurance tax planning strategies.

There are no temporary differences for which deferred tax liabilities are not recognized.

The provisions for current tax expenses on earnings for years ended December 31 are as follows:

	2018	2017	Change
Current year federal tax expense - ordinary income	$ (9,704)	(22,489)	12,785
Current year foreign tax expense - ordinary income	—	—	—
Subtotal	(9,704)	(22,489)	12,785
Current year tax expense - net realized capital gains	910	902	8
Utilization of capital loss carry forwards	—	—	—
Other	—	—	—
Federal and foreign income taxes incurred	$ (8,794)	(21,587)	12,793

The tax effects of temporary differences that give rise to significant components of the net deferred tax assets as of December 31 are as follows:

Deferred tax assets:	2018	2017	Change
Ordinary:			
Policyholder reserves	$ 82,865	95,746	(12,881)
Investments	—	4,856	(4,856)
Deferred acquisition costs	58,980	50,637	8,343
Policyholder dividends accrued	23,561	20,428	3,133
Compensation and benefit accruals	13,881	15,158	(1,277)
Tax credit carry-forward	39,146	37,593	1,553
Section 807(f) reserves	13,419	—	13,419
Net operating loss carryforward	11,382	—	11,382
Nonadmitted asset	4,713	4,831	(118)
Other	4,139	4,412	(273)
Ordinary deferred tax assets	252,086	233,661	18,425
Statutory valuation allowance adjustment	—	—	—
Nonadmitted ordinary deferred tax assets	(63,375)	(45,362)	(18,013)
Admitted ordinary deferred tax assets	188,711	188,299	412

(Dollars in thousands)

Deferred tax assets (continued):	2018	2017	Change
Capital:			
Investments	6,275	3,485	2,790
Net capital loss carryforward	—	—	—
Capital deferred tax assets	6,275	3,485	2,790
Statutory valuation allowance adjustment	—	—	—
Nonadmitted capital deferred tax assets	(6,122)	—	(6,122)
Admitted capital deferred tax assets	153	3,485	(3,332)
Admitted deferred tax assets	188,864	191,784	(2,920)
Deferred tax liabilities:			
Ordinary:			
Investments	3,164	—	3,164
Section 807(f) reserves	13,024	17,277	(4,253)
Deferred and uncollected premium	17,881	15,416	2,465
Policyholder reserves - tax reform transition	20,901	26,990	(6,089)
Other	1,265	1,718	(453)
Ordinary deferred tax liabilities	56,235	61,401	(5,166)
Capital:			
Investments	153	771	(618)
Subtotal	153	771	(618)
Capital deferred tax liabilities	56,388	62,172	(5,784)
Admitted deferred tax assets, net	$ 132,476	129,612	2,864

There was no statutory valuation allowance adjustment to gross deferred tax assets and no net change in the total valuation allowance adjustments as of and for the periods ended December 31, 2018 and 2017.

The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for future operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of the remaining deferred tax assets.

(Dollars in thousands)

The change in the net deferred income taxes of December 31 is comprised of the following:

		2018	2017	Change
Total deferred tax assets	$	258,361	237,146	21,215
Total deferred tax liabilities		(56,388)	(62,172)	5,784
Net deferred tax assets		201,973	174,974	26,999
Statutory valuation allowance adjustment		—	—	—
Net deferred tax assets		201,973	174,974	26,999
Tax effect of unrealized losses		675	(2,055)	2,730
Statutory valuation allowance adjustment allocated to unrealized		—	—	—
Change in net deferred income taxes	$	202,648	172,919	29,729

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant tax effects causing this difference for the years ended December 31 are as follows:

		2018	2017
Income before taxes	$	(13,283)	17,469
Dividends received deduction		(11,298)	(36,591)
Interest maintenance reserve		(1,121)	(1,965)
Change in equity of subsidiaries		(6,704)	(12,293)
Prior period adjustments		—	1,563
Change in non-admitted deferred tax assets		6,760	(550)
Voluntary reserve		1,496	(1,135)
Transfer pricing		(3,923)	(2,556)
Tax credits		(10,687)	(4,969)
Tax rate change		—	90,217
Partnerships		—	5,376
Other		237	1,325
Total statutory taxes	$	(38,523)	55,891
Provision for federal income taxes	$	(9,704)	(22,489)
Tax on capital gains (losses)		910	902
Change in net deferred income tax		(29,729)	77,478
Total statutory taxes	$	(38,523)	55,891

The Company's policy for recording penalties associated with audits, claims, and adjustments is to record such amount as a component of income taxes.

Total federal income taxes received (including tax on capital gains) was $4,430 and $6,134 during the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Company has a net operating loss carryforward of $54,201. As of December 31, 2017, the Company had no net operating loss carryforward. As of December 31, 2018 and 2017, the company has no capital loss carryforwards or valuation allowances recorded. As of December 31, 2018, the Company established $2,242 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2017. As of December 31, 2018, the Company has tax credit carryforwards of $39,146 expiring in years 2023 through 2036. As of December 31, 2017, the Company established $2,153 of uncertain tax positions related to the SA DRD company share percentage(s) for tax return years 2012-2017. As of December 31, 2017, the Company has tax credit carryforwards of $37,593 expiring in years 2023 through 2036. In addition, the Company has alternative minimum tax credit carryforwards of $15,334, which were reclassed to the current tax receivable after the tax reform bill (H.R. 1) was signed on December 22, 2017 and made them refundable.

There are no federal income taxes incurred that are available for recoupment in the event of future net losses.

The Company has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of reporting.

There are no aggregate federal income tax deposits under Internal Revenue Code Section 6603 and none are recorded as admitted assets.

The Company's federal income tax return is consolidated with the other life insurance companies ONLAC, NSLAC, KENW, MONT, SYRE and CMGO and then with its common parent, ONMH.

The Company is not under current examination with the Internal Revenue Service. The statute of limitations remains open for tax years 2015, 2016 and 2017 for the consolidated tax group.

The allocation of taxes between members of the federal consolidated income tax return is subject to written agreement approved by the Board of Directors. Allocations are based on separate company calculations with current credit for losses. Intercompany balances are settled at least quarterly.

(16) Pensions and Other Post-Retirement Benefit Plans

(a) Home Office Pension Plan

The Company sponsors a funded qualified defined benefit pension plan covering all home office employees hired prior to January 1, 1998. This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company. Retirement benefits are based on years of service and the highest average earnings in five of the last ten years.

The measurement dates were December 31, 2018 and 2017.

(b) Home Office Post-Retirement Benefit Plan

The Company currently offers eligible retirees the opportunity to participate in a post-retirement health and group life plan. This plan was amended effective July 1, 2013, to provide participants younger than age 65 a fixed portion of the health insurance contract premium and for participants age 65 and older, a fixed dollar amount which the participant must use to independently purchase their own insurance. Previously, this plan provided all participants a fixed portion of the health insurance contract premium. The portion the Company pays is periodically increased and is a function of participant service. Only home office employees hired prior to January 1, 1998 may become eligible for these benefits provided that the employee meets the retirement age and years of service requirements.

This plan includes participants who are employees of the Company and devote substantially all of their time to service for the Company.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

(c) General Agents’ Pension Plan

The Company sponsors an unfunded, nonqualified defined benefit pension plan covering its general agents hired prior to January 1, 2005. This plan provides benefits based on years of service and average compensation during the final five and ten years of service.

The measurement dates were December 31, 2018 and 2017.

(d) Agents’ Post-Retirement Benefits Plan

The Company sponsors a post-retirement health and group life plan. Only agents with contracts effective prior to January 1, 1998 who meet the retirement age and service requirements are eligible for these benefits. The health and group life plan is contributory, with retirees contributing approximately 50% of premium for coverage. As with all plan participants, the Company reserves the right to change the retiree premium contribution at renewal.

The post-retirement health plan does not provide benefits which are actuarially equivalent to Medicare Part D benefits. Therefore, the Company does not receive the associated federal Medicare subsidy.

The measurement dates were December 31, 2018 and 2017.

(Dollars in thousands)

(e) Obligations and Funded Status

Information regarding the funded status of the pension plans as a whole and other benefit plans as a whole as of December 31 is as follows:

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Change in projected benefit obligation:					
Projected benefit obligation at beginning of year	$	99,168	89,781	6,764	7,918
Service cost		2,412	2,430	43	59
Interest cost		3,994	4,144	261	299
Actuarial (gain) loss		(13,714)	9,214	565	(1,146)
Benefits paid *		(13,793)	(6,401)	(1,327)	(366)
Projected benefit obligation at end of year	$	78,067	99,168	6,306	6,764

* Benefits paid include amounts paid from both funded and unfunded benefit plans.

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Change in plan assets:					
Fair value of plan assets at beginning of year	$	66,944	60,476	—	—
Plan sponsor contribution		—	3,922	—	—
Actual return on plan assets		(5,686)	8,823	—	—
Benefits and expenses paid		(10,555)	(6,277)	—	—
Fair value of plan assets at end of year	$	50,703	66,944	—	—
Funded status	$	(27,364)	(32,224)	(6,306)	(6,764)
Unrecognized net actuarial loss (gain)		29,015	35,589	1,364	856
Unrecognized prior service cost		41	195	(373)	(386)
Net prepaid (accrued) amount recognized	$	1,692	3,560	(5,315)	(6,294)

(Dollars in thousands)

		Pension benefits		Other benefits	
Funded Status:		**2018**	**2017**	**2018**	**2017**
Overfunded					
Assets (nonadmitted)					
Prepaid benefit costs	$	—	—	—	—
Overfunded plan assets		—	—	—	—
Total assets (nonadmitted)	$	—	—	—	—
Underfunded					
Liabilities recognized					
Net prepaid (accrued) amount recognized	$	1,692	3,560	(5,315)	(6,294)
Liabilities for benefits		(29,056)	(35,784)	(991)	(470)
Total liabilities recognized	$	(27,364)	(32,224)	(6,306)	(6,764)

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Amounts recognized in the statutory statements of admitted assets, liabilities, and capital and surplus consist of:					
Prepaid benefit costs	$	12,848	15,980	—	—
Overfunded plan asset		—	(15,980)	—	—
Accrued benefit costs		(11,159)	(12,420)	(5,315)	(6,294)
Surplus		(29,053)	(19,804)	(991)	(470)
Total liabilities recognized	$	(27,364)	(32,224)	(6,306)	(6,764)

(Dollars in thousands)

		Pension benefits	
		2018	**2017**
Components of net periodic benefit cost:			
Service cost	$	2,412	2,430
Interest cost		3,994	4,144
Expected return on plan assets		(4,726)	(4,375)
Amortization of prior service cost		153	260
Amortization of net loss		3,274	3,156
Net periodic benefit cost	$	5,107	5,615

		Other benefits	
		2018	**2017**
Components of net periodic benefit cost:			
Service cost	$	43	59
Interest cost		261	299
Amortization of prior service cost		(13)	(13)
Amortization of net gain		57	75
Net periodic benefit cost	$	348	420

The following is attributable to pension plans whose accumulated benefit obligation exceeds plan assets as of December 31:

		Pension benefits	
		2018	**2017**
Projected benefit obligation	$	78,067	17,458
Accumulated benefit obligation		67,132	13,812
Prepaid pension cost		—	—

(Dollars in thousands)

(f) Assumptions

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Weighted average assumptions used to determine net periodic cost at January 1:				
Discount rate	4.15%	4.70%	4.04%	4.53%
Expected long-term return on plan assets	7.50%	7.50%	—	—
Rate of compensation increase	4.12%	4.17%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	7.80%	8.53%
Age 65 and older	—	—	0.70%	1.60%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	7.70%	7.73%
Age 65 and older	—	—	0.70%	0.80%
Year that the rate reaches the ultimate trend rate	—	—	2023	2020
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	4.90%	4.15%	4.74%	4.04%
Rate of compensation increase	3.50%	4.16%	3.50%	4.25%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage point increase	1 Percentage point decrease
Effect on total of 2018 service cost and interest cost	$ 25	(21)
Effect on 2018 other post-retirement benefit obligation	452	(392)

(Dollars in thousands)

(g) Plan Assets

The following table presents the hierarchy of the Company's qualified pension plan assets at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2018				
Bond funds	$ 17,640	—	—	17,640
Stock funds	33,063	—	—	33,063
Total assets	$ 50,703	—	—	50,703
2017				
Bond funds	$ 18,496	—	—	18,496
Stock funds	48,448	—	—	48,448
Total assets	$ 66,944	—	—	66,944

The Company categorizes pension benefit plan assets consistent with the Fair Value Hierarchy as described in Note 5.

The assets of the Company's Home Office Pension Plan ("Plan") are invested in group variable annuity contracts issued by the Company offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2018 and 2017, $29,430 and $41,198, respectively, of the Plan assets are funds that are affiliated with the Company. The assets are invested in a mix of stocks, bonds and real estate securities in allocations as determined from time to time by the Pension Plan Committee. The target allocations are designed to balance the Plan's short-term liquidity needs and its long-term liabilities. The target allocations are currently 65% stocks and 35% bonds.

For diversification and risk control purposes, where applicable, each asset class is further divided into sub classes such as large cap, mid cap and small cap and growth, core and value for stocks and U.S. domestic, global and high yield for bonds. To the extent possible, each sub asset class utilizes multiple fund choices and no single fund contains more than 25% of the Plan assets (exclusive of any short-term increases in assets due to any Plan funding). The Plan performance is measured by a weighted benchmark consisting of stock and bond benchmarks in weights determined by the Pension Plan committee.

The overall expected long-term rate of return on assets is determined by a weighted average return of bond and stock indexes. Bond securities (including cash) make up 40% of the weighted average return and stocks make up 60% of the weighted average return.

(Dollars in thousands)

The following table shows the weighted average asset allocation by class of the Plan's assets as of December 31:

	2018	**2017**
Stocks	65%	72%
Bonds	35	28
Total	100%	100%

(h) Cash Flows

(i) Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2017 was $0. The Plan Sponsor contributed $0 and $3,922 to the qualified pension plan for the years ended December 31, 2018 and 2017, respectively. No contribution to the qualified pension plan is expected for the 2019 plan year.

(ii) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	**Other benefits**
2019	$ 5,778	507
2020	8,358	508
2021	6,687	515
2022	7,879	520
2023	7,752	524
2024-2028	37,061	2,263

(Dollars in thousands)

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) recognized in the next fiscal year as components of periodic benefit cost:					
Items not yet recognized as a component of net periodic cost - prior year	$	35,783	34,433	470	1,678
Net transition asset or obligation recognized		—	—	—	—
Net period service cost or credit arising during the period		—	—	—	—
Net prior service cost or credit recognized		(153)	(260)	13	13
Net gain and loss arising during the period		(3,301)	4,766	565	(1,146)
Net gain and loss recognized		(3,273)	(3,156)	(57)	(75)
Items not yet recognized as a component of net periodic cost - current year	$	29,056	35,783	991	470

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:					
Net transition asset or obligation	$	—	—	—	—
Net prior service cost or credit		41	153	(31)	(13)
Net recognized gains and losses		2,756	3,232	138	73

		Pension benefits		Other benefits	
		2018	**2017**	**2018**	**2017**
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:					
Net transition asset or obligation	$	—	—	—	—
Net prior service cost or credit		41	194	(373)	(386)
Net recognized gains and losses		29,015	35,589	1,364	856

(Dollars in thousands)

(i) Other Plan Expenses

The Company also maintains a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan are based on the net earnings of the Company and are payable at the sole discretion of management. The expense for contributions to the profit-sharing plan for 2018 and 2017 was $6,900 and $6,450, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,891 and $2,884 in 2018 and 2017, respectively.

(j) ONFS Employees

The Company's qualified pension and post-retirement benefit plans include participants who are employees of ONFS. Participating ONFS employees are vice presidents and other executive officers of ONFS and devote substantially all of their time to service for the Company. Most of ONFS's employees were employees of the Company prior to January 1, 2001 and were participants in the benefit plan at that time.

(17) Capital and Surplus, Dividend Restrictions and Regulatory RBC

Capital and Surplus
The Company has 10,000,000 shares ($1 par value) authorized, issued and outstanding of Class A common stock as of December 31, 2018 and 2017. The Company has no preferred stock issued or outstanding.

The Company did not receive a capital contribution from its parent, ONFS, during 2018 and 2017, respectively.

Surplus notes outstanding are as follows as of December 31:

	2018	2017
Surplus notes		
6.875% fixed rate due 2042	$ 250,000	$ 250,000
5.000% fixed rate due 2031	3,979	3,939
5.800% fixed rate due 2027	5,883	5,869
8.500% fixed rate due 2026	49,836	49,814
Total	$ 309,698	$ 309,622

In June 2012, ONLIC issued a $250,000, 6.875% fixed rate surplus note due June 15, 2042. Interest on this surplus note is payable semi-annually on June 15 and December 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In December 2011, ONLIC issued a $4,500, 5% fixed rate surplus note to Security Mutual Life Insurance Company of New York ("SML"), as payment for the purchase of the additional shares of NSLAC. This note matures on December 15, 2031. Interest on this surplus note is payable semi-annually on December 15 and June 15. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In April 2007, ONLIC issued a $6,000, 5.8% fixed rate surplus note to SML, as payment for the purchase of a portion of the shares of NSLAC. This note matures on April 1, 2027. Interest on this surplus note is payable semi-annually on April 1 and October 1. ONLIC may redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

In May 1996, ONLIC issued $50,000, 8.5% fixed rate surplus notes due May 15, 2026. Interest on this surplus note is payable semi-annually on May 15 and November 15. ONLIC may not redeem this surplus note at its option. This surplus note is unsecured and subordinated to all present and future indebtedness and policy claims of ONLIC.

Except as provided in Section 3901.72 of the Ohio Revised Code, the notes are not part of the legal liabilities of the Company and are not a liability or claim against the Company or any of its assets. Interest payments, scheduled semi-annually, must be approved for payment by the Department. The Company paid $22,011 in interest related to these notes in 2018 and 2017. Principal payments must also be approved by the Department. Interest expense for surplus notes is not recognized in the statutory statements of income until it has been approved by the Department.

Regulatory RBC

The NAIC has established RBC requirements to assist regulators in monitoring the financial strength and stability of life insurers and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The RBC requirements instruct every life insurer to calculate its total adjusted capital and RBC position. The formula includes components for asset risk, liability risk, interest rate exposure, and other factors. Under the NAIC requirements, each insurer must maintain its total adjusted capital and surplus above a calculated minimum threshold or take corrective measures to achieve that threshold. Based upon the December 31, 2018 and 2017 statutory financial statements, the Company exceeded all required RBC levels.

Dividend Restrictions

The payment of dividends by ONLIC to ONFS is limited by Ohio insurance laws. The maximum dividend that may be paid to ONFS without prior approval of the Director of Insurance is limited to the greater of ONLIC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of the Company, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $102,000 may be paid by ONLIC to ONFS in 2019 without prior approval. Dividends of $60,000 and $70,000 were declared and paid by ONLIC to ONFS in 2018 and 2017, respectively.

(Dollars in thousands)

Subsidiary Dividends
The following table details the dividends received from each of the subsidiaries and included in investment income for the years:

	2018	2017
ONLAC	$ 27,000	27,000
ONII	4,000	7,200
NSLAC	-	-
ONESCO	924	924
ONEQ	-	-
	$ 31,924	35,124

The payment of dividends by ONLAC to ONLIC is limited by Ohio insurance laws. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of ONLAC's statutory net income of the preceding calendar year or 10% of statutory surplus as of the preceding December 31. Any dividend that exceeds the earned surplus of ONLAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of $36,000 may be paid by ONLAC to ONLIC in 2019 without prior approval. ONLAC declared and paid dividends to ONLIC of $27,000 in both 2018 and 2017.

The payment of dividends by CMGO to ONLIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ONLIC, a dividend from unassigned surplus at the end of any calendar quarter where CMGO's unassigned surplus is equal to the amount required for CMGO to have company action level RBC of 200%, after adjusting its capital level and its RBC level for such dividend. No dividends were declared or paid by CMGO in 2018 or 2017.

The payment of dividends by NSLAC to ONLIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediate preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $2,000 may be paid by NSLAC to ONLIC in 2019 without prior approval. No dividends were declared or paid by NSLAC in 2018 or 2017.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ONLIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ONLIC in 2018 or 2017. No dividends were declared or paid by KENW to ONLIC in 2018 or 2017.

(Dollars in thousands)

(18) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans and bonds of $67,661 and $75,403 as of December 31, 2018 and 2017, respectively. These commitments involve, in varying degrees, elements of credit and market risk in excess of amounts recognized in the statutory financial statements. The credit risk of all financial instruments, whether on or off balance sheet, is controlled through credit approvals, limits, and monitoring procedures.

(19) Contingencies

The Company and all other solvent life insurance companies are periodically assessed by certain state guaranty funds to cover losses to policyholders of insolvent or rehabilitated companies. Some of these assessments are partially recoverable through a reduction in future premium taxes in some states. In addition, the Company is subject to legal and regulatory proceedings in the ordinary course of its business. These include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which the Company operates. The outcomes of these proceedings cannot be predicted due to their complexity, scope and uncertainties. The Company believes, however, that based on currently known information, the ultimate outcome of all pending legal and regulatory proceedings as well as state guaranty fund assessments are not likely to have a material adverse effect on the Company's financial condition or results of operations.

In 2018, the Company was named in two threatened class action lawsuits pertaining to the strategic announcements in September 2018. At this time, no classes have been certified. The Company plans to defend these allegations vigorously. At this time, a loss is not probable, nor estimable.

The Company leases office equipment under various noncancelable operating lease agreements that expire through June 2022. Rental expense under these leases was $342 and $318 for the years ended December 31, 2018 and 2017, respectively. The Company also leases its home office from ONFS under a noncancelable operating lease agreement that expires in September 2021. Rental expense under this lease was $2,793 for the years ended December 31, 2018 and 2017. The minimum aggregate rental commitments under these leases are as follows:

2019	$	3,147
2020		3,147
2021		2,395
2022		107
Total	$	8,796

(20) Related-Party Transactions

The Company made capital contributions of $5,000, $250, and $1,100 to CMGO, SUNR and ONEQ, respectively, during the year ended December 31, 2018.

The Company has a written agreement to provide services for personnel, data processing and supplies to ONLAC, which either party may terminate upon a thirty day notice. ONLIC primarily uses multiple bases (head counts, salaries, number of policies, field compensation, time, reserve account balances, transaction counts, etc.) and believes they are reasonable for determining the expense charges. This agreement was approved by the Department. Generally, the apportionment is based upon specifically identifying the expense to the incurring entity. Where this is not feasible, apportionment is based upon pertinent factors and ratios. The terms call for a cash settlement at least quarterly. There is no assurance that these costs would be similar if the Company had to obtain such services on its own. This agreement resulted in services charges totaling $59,927 and $50,434 in 2018 and 2017, respectively. These amounts include pension costs for the personnel furnished to the Company. At December 31, 2018 ONLIC owed ONLAC $6,999. At December 31, 2017 ONLIC owed ONLAC $272.

The Company paid $5,406 and $5,434 for rent and operating expenses on the home office to ONFS for the years ended December 31, 2018 and 2017, respectively.

ONFS provides services for executive management and data processing equipment placed in service after December 31, 2000, to ONLIC. For the years ended December 31, 2018 and 2017, ONLIC recorded expenses of $21,968 and $17,068, respectively, for these services.

The Company is a party to an agreement with ONMH and most of its direct and indirect subsidiaries whereby ONLIC maintains a common checking account. It is ONLIC’s duty to maintain sufficient funds to meet the reasonable needs of each party on demand. ONLIC must account for the balances of each party daily. Such funds are deemed to be held in escrow by ONLIC for the other parties. Settlement is made daily for each party’s needs from or to the common account. It is ONLIC’s duty to invest excess funds in an interest bearing account and/or short-term highly liquid investments. ONLIC will credit interest monthly at the average interest earned for positive cash balances during the period or charge interest on any negative balances. Interest credited for the years ended December 31, 2018 and 2017 was $20 and $290, respectively. The parties agree to indemnify one another for any losses of any nature relating to a party’s breach of its duties under the terms of the agreement. The Company held the following balances for the participating entities in payable to parent, subsidiaries and affiliates as of December 31:

(Dollars in thousands)

		2018	2017
ONMH		747	564
ONFS		19,294	18,421
ONLAC		30,067	11,197
MONT		5,684	4,453
KENW		8,126	7,018
CMGO		10,465	3,601
SYRE		41,270	86,271
ONII		7,384	7,419
ON Flight Inc.		569	503
ON Global Holdings Inc.		—	1
ONTech, LLC		6,139	1,491
ON Foreign Holdings, LLC		(19)	—
Fiduciary Capital Management, Inc.		1,436	1,646
Financial Way Realty, Inc.		552	542
Total	$	131,714	143,127

(21) Accounting Changes and Corrections of Errors

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of swap interest income. As of December 31, 2017, net investment income was overstated by $1,982. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	(1,982)
Benefit for federal income taxes		416
Correction of error, net of tax	$	(1,566)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of net investment income. As of December 31, 2017, net investment income was understated by $2,236. The events contributing to the adjustment impact surplus as follows:

Net investment income	$	2,236
Benefit for federal income taxes		(469)
Correction of error, net of tax	$	1,767

(Dollars in thousands)

The Company's December 31, 2018 financial statements reflect a prior period adjustment relating to the recording of assumed BOLI reserves. As of December 31, 2017, reserves were understated by $1,600. The events contributing to the adjustment impact surplus as follows:

Change in reserves for future policy benefits and other funds	$	(1,600)
Benefit for federal income taxes		336
Correction of error, net of tax	$	(1,264)

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of income taxes, including tax credits, primarily related to the tax credit utilization changes as a result of amended returns. The events contributing to the adjustment impact surplus as follows:

Benefit for federal income taxes	$	1,497
Correction of error, net of tax	$	1,497

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of BOLI reinsurance assumed premiums and expense allowances. As of December 31, 2016, premiums assumed and expense allowances were overstated by $215. The events contributing to the adjustment impact surplus as follows:

Annuity benefits, fund withdrawals, and other benefits to policyholders and beneficiaries	$	230
Commissions		(15)
Benefit for federal income taxes		(75)
Correction of error, net of tax	$	140

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording of intercompany operating expenses. As of December 31, 2016, operating expenses were understated by $1,074. The events contributing to the adjustment impact surplus as follows:

General insurance expenses	$	(1,075)
Benefit for federal income taxes		376
Correction of error, net of tax	$	(699)

The Company's December 31, 2017 financial statements reflect a prior period adjustment relating to the recording and valuation of the AVR. As of December 31, 2016, the AVR liability was overstated by $911. The events contributing to the adjustment impact surplus as follows:

Asset valuation reserve	$	(911)
Correction of error, net of tax	$	911

The cumulative prior period surplus impact of these errors is shown as a direct adjustment to surplus within the statutory statements of changes in capital and surplus. SSAP No. 3R, *Accounting Changes and Corrections of Errors*, prescribes that if a reporting entity becomes aware of a material accounting error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency, the entity shall file an amended financial statement unless otherwise directed by the domiciliary regulator. Correction of all immaterial accounting errors in previously issued financial statements, for which an amended financial statement was not filed, shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected.

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY

(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

The following is a summary of certain financial data.

Investment income earned:		
Government bonds	$	4,925
Other bonds (unaffiliated)		279,400
Bonds of affiliates		—
Preferred stocks (unaffiliated)		1,161
Preferred stocks of affiliates		—
Common stocks (unaffiliated)		2,218
Common stocks of affiliates		31,924
Mortgage loans		41,426
Real estate		1,932
Contract loans		27,261
Cash, cash equivalents and short-term investments		2,688
Other invested assets		5,156
Derivative instruments		185
Amortization of interest maintenance reserve		5,340
Aggregate write-ins for investment income		2,332
Total investment income earned	$	405,948
Real estate owned – book value less encumbrances	$	26,407
Mortgage loans – book value:		
Farm mortgages	$	—
Residential mortgages		—
Commercial mortgages		859,830
Total mortgage loans – book value	$	859,830
Mortgage loans by standing – book value:		
Good standing	$	859,830
Good standing with restructured terms		—
Interest overdue more than three months, not in foreclosure		—
Foreclosure in process		—
Other long-term assets – statement value	$	76,570
Bonds and stocks of parents, subsidiaries, and affiliates – book value:		
Bonds	$	—
Preferred stocks		—
Common stocks		361,444
Due within one year or less	$	352,893
Over 1 year through 5 years		2,198,333
Over 5 years through 10 years		3,052,005
Over 10 years through 20 years		995,622
Over 20 years		419,290
Total bonds and short-term investments by maturity - statement value	$	7,018,143

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

Bonds and short-term investments by class – statement value:		
Class 1	$	4,396,169
Class 2		2,460,039
Class 3		134,065
Class 4		22,977
Class 5		4,495
Class 6		398
Total bonds and short-term investments by class – statement value	$	7,018,143
Total bonds and short-term investments publicly traded	$	4,081,235
Total bonds and short-term investments privately placed	$	2,936,908
Preferred stocks – statement value	$	18,292
Common stocks – market value	$	399,850
Short-term investments – book value	$	—
Cash equivalents – book value	$	112,628
Financial options owned – statement value	$	—
Financial options written and in force – statement value	$	—
Financial futures contracts open – current price	$	—
Cash on deposit	$	214,802
Life insurance in force:		
Industrial	$	—
Ordinary		22,755,877
Credit life		—
Group life		5,527
Amount of accidental death insurance in force under ordinary policies	$	61,062
Life insurance policies with disability provisions in force:		
Industrial	$	—
Ordinary		26,834,072
Credit life		—
Group life		5,527
Supplementary contracts in force:		
Ordinary – not involving life contingencies:		
Amount on deposit	$	—
Income payable		6,238
Ordinary – involving life contingencies:		
Income payable		588
Group – not involving life contingencies:		
Amount on deposit		—
Income payable		—
Group – involving life contingencies:		
Income payable		—

(Continued)

Schedule 1

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Supplemental Insurance Information

December 31, 2018

(Dollars in thousands)

Annuities:		
Ordinary:		
Immediate – amount of income payable	$	52,065
Deferred – fully paid account balance		20,871,256
Deferred – not fully paid – account balance		—
Group:		
Amount of income payable	$	11,273
Fully paid account balance		1,031,644
Not fully paid – account balance		—
Accident and health insurance – premiums in force:		
Ordinary	$	12,122
Group		—
Credit		—
Deposit funds and dividend accumulations:		
Deposit funds – account balance	$	631,218
Dividend accumulations – account balance		34,266
Claim payments:		
Group accident and health:		
2018 (incurred)	$	—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
2014 (incurred)		—
Prior (incurred)		—
Other accident and health:		
2018 (incurred)	$	30
2017 (incurred)		180
2016 (incurred)		206
2015 (incurred)		201
2014 (incurred)		132
Prior (incurred)		659
Other coverages that use developmental methods to calculate claims reserves:		
2018 (incurred)	$	—
2017 (incurred)		—
2016 (incurred)		—
2015 (incurred)		—
2014 (incurred)		—
Prior (incurred)		—

See accompanying independent auditors’ report.

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2018

(Dollars in thousands)

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets excluding separate accounts as reported on page two of the Annual Statement: $10,200,951.

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of exposure		Amount	Percentage of total admitted assets
2.01	OHIO NATIONAL LIFE ASSURANCE	EQUITY	$	290,427	2.847%
2.02	MONTGOMERY RE SURPLUS NOTE	SURPLUS NOTE		75,000	0.735
2.03	NATIONAL SECURITY LIFE & ANNUITY CO	EQUITY		37,019	0.363
2.04	FEDERAL HOME LOAN BANK - CINTI	COMMON STOCK		36,552	0.358
2.05	JP MORGAN MORTGAGE TRUST	BOND		33,217	0.326
2.06	SEQUOIA MORTGAGE TRUST	BOND		31,497	0.309
2.07	FLAGSTAR MORTGAGE TRUST	BOND		27,338	0.268
2.08	CAMARGO RE INC	EQUITY		25,250	0.248
2.09	CITIGROUP INC	BOND		23,557	0.231
2.10	CMWLTH FING AUTH PA	BOND		22,243	0.218

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds				Preferred stock			
3.01	NAIC-1	$	4,396,167	43.096%	P/RP-1	$	—	—%
3.02	NAIC-2		2,460,039	24.116	P/RP-2		13,292	0.130
3.03	NAIC-3		134,065	1.314	P/RP-3		5,000	0.049
3.04	NAIC-4		22,978	0.225	P/RP-4		—	—
3.05	NAIC-5		4,495	0.044	P/RP-5		—	—
3.06	NAIC-6		398	0.004	P/RP-6		—	—

(Continued)

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Investment Risks Interrogatories

Year ended December 31, 2018

(Dollars in thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

4.02	Total admitted assets held in foreign investments	$	1,110,505	10.886%
4.03	Foreign-currency-denominated investments		8,019	0.079
4.04	Insurance liabilities denominated in that same foreign currency		—	—

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

			1	2
5.01	Countries rated NAIC – 1	$	1,008,803	9.889%
5.02	Countries rated NAIC – 2		93,284	0.914
5.03	Countries rated NAIC – 3 or below		8,418	0.083

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

			1	2
	Countries rated NAIC – 1:			
6.01	Country 1: CAYMAN ISLANDS	$	211,144	2.070%
6.02	Country 2: UNITED KINGDOM		184,603	1.810
	Countries rated NAIC – 2:			
6.03	Country 1: MEXICO		85,811	0.841
6.04	Country 2: PORTUGAL		7,473	0.073
	Countries rated NAIC – 3 or below:			
6.05	Country 1: BAHAMAS		6,230	0.061
6.06	Country 2: BARBADOS		1,396	0.014

7. Aggregate unhedged foreign currency exposure:

	1	2
$	—	—%

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(Dollars in thousands)

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

			1	2
8.01	Countries rated NAIC – 1	$	—	—%
8.02	Countries rated NAIC – 2		—	—
8.03	Countries rated NAIC – 3 or below		—	—

9. Largest unhedged foreign currency exposures by country, categorized by NAIC sovereign rating:

			1	2
	Countries rated NAIC – 1:			
9.01	Country:	$	—	—%
9.02	Country:		—	—
	Countries rated NAIC – 2:			
9.03	Country:		—	—
9.04	Country:		—	—
	Countries rated NAIC – 3 or below:			
9.05	Country:		—	—
9.06	Country:		—	—

10. Ten largest nonsovereign (i.e. nongovernmental) foreign issues:

	1 Issuer	2 NAIC rating		1	2
10.01	BROOKFIELD WA RAIL PTY LTD	2	$	17,500	0.172%
10.02	PETROLEOS MEXICANOS	2		17,002	0.167
10.03	AXA	2		16,466	0.161
10.04	VOYA CLO LTD	1		15,400	0.151
10.05	STANDARD CHARTERED BANKK	2		15,362	0.151
10.06	TRANSPOWER NEW ZEALAND LTD	1		14,712	0.144
10.07	UPLAND CLO LTD	1		14,500	0.142
10.08	BABSON CLO LTD	1		14,000	0.137
10.09	HOFER FINANCIAL SERVICES GMBH	1		14,000	0.137
10.10	SAUDI INTERNATIONAL BOND	1		13,859	0.136

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11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 11.01 above is yes, detail is not required for remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 12.01 above is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [ ]   No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02	OHIO NATIONAL LIFE ASSURANCE	$ 290,427	2.847%
13.03	NATIONAL SECURITY LIFE & ANNUITY CO	37,019	0.363
13.04	FEDERAL HOME LOAN BANK - CINTI	36,552	0.358
13.05	CAMARGO RE INC	25,250	0.248
13.06	THE ON EQUITY SALES CO	6,504	0.064
13.07	PUBLIC STORAGE PFD SERIES Y	5,196	0.051
13.08	MORGAN STANLEY SSERIES I PFD	5,000	0.049
13.09	M&T BANK CORPORATION PFD SER C 5%	4,000	0.039
13.10	BANK OF AMERICA CORP SERIES V PREFERRED	3,000	0.029
13.11	OHIO NATIONAL EQUITIES INC	1,994	0.020

(Continued)

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14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 **Type (residential, commercial, agricultural)**	**2**	**3**
16.02	COMMERCIAL	$ 23,636	0.232%
16.03	COMMERCIAL	23,257	0.228
16.04	COMMERCIAL	10,567	0.104
16.05	COMMERCIAL	10,377	0.102
16.06	COMMERCIAL	9,935	0.097
16.07	COMMERCIAL	8,532	0.084
16.08	COMMERCIAL	8,125	0.080
16.09	COMMERCIAL	7,246	0.071
16.10	COMMERCIAL	7,198	0.071
16.11	COMMERCIAL	7,060	0.069

(Continued)

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(Dollars in thousands)

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans		
16.12	Construction loans	$	—	—%
16.13	Mortgage loans over 90 days past due		—	—
16.14	Mortgage loans in the process of foreclosure		—	—
16.15	Mortgage loans foreclosed		—	—
16.16	Restructured mortgage loans		—	—

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-value	Residential			Commercial			Agricultural		
17.01	Above 95%	$	—	—%	$	766	0.008%	$	—	—%
17.02	91% to 95%		—	—		5,178	0.051		—	—
17.03	81% to 90%		—	—		9,791	0.096		—	—
17.04	71% to 80%		—	—		82,425	0.808		—	—
17.05	Below 70%		—	—		761,670	7.467		—	—

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?

Yes [X]   No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

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Year ended December 31, 2018

(Dollars in thousands)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At year-end		At end of each quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 233,155	2.188%	277,020	293,768	266,633
20.02 Repurchase agreements	—	—	—	—	—
20.03 Reverse repurchase agreements	—	—	—	—	—
20.04 Dollar repurchase agreements	—	—	—	—	—
20.05 Dollar reverse repurchase agreements	—	—	—	—	—

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	1	2	3	4
21.01 Hedging	$ —	—%	$ —	—%
21.02 Income generation	—	—	—	—
21.03 Other	—	—	—	—

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At year-end		At end of each quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
	1	2	3	4	5
22.01 Hedging	$ 110	0.001%	$ 117	114	112
22.02 Income generation	—	—	—	—	—
22.03 Replications	—	—	—	—	—
22.04 Other	—	—	736	780	830

(Continued)

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Investment Risks Interrogatories

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23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

		At year-end		At end of each quarter		
				1st Qtr.	**2nd Qtr.**	**3rd Qtr.**
		1	**2**	**3**	**4**	**5**
23.01	Hedging	$ —	—%	$ —	—	—
23.02	Income generation	—	—	—	—	—
23.03	Replications	—	—	—	—	—
23.04	Other	21,406	0.210%	40,932	37,678	29,014

See accompanying independent auditors' report.

Schedule 3

THE OHIO NATIONAL LIFE INSURANCE COMPANY
(A Wholly Owned Subsidiary of Ohio National Financial Services, Inc.)

Summary of Investments

December 31, 2018

(Dollars in thousands)

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage	Admitted assets as reported in Annual Statement Amount	Admitted assets as reported in Annual Statement Percentage
Bonds:				
U.S. Treasury securities	$ 9,872	0.10 %	$ 9,872	0.10 %
U.S. government agency and corporate obligations (excluding mortgage backed securities):				
Issued by U.S. government agencies	71,673	0.74	71,673	0.74
Issue by U.S. government-sponsored agencies	39,420	0.41	39,420	0.41
Foreign government (including Canada, excluding mortgage-backed securities)	30,799	0.32	30,799	0.32
Securities issued by states, territories, and possessions and political subdivisions general obligations:				
State, territory, and possession general obligations	572,645	5.90	572,645	5.90
Political subdivisions of states, territories, and possessions political subdivisions general obligations	15,279	0.16	15,279	0.16
Revenue and assessment obligations	19,149	0.20	19,149	0.20
Industrial development and similar obligations	1,993	0.02	1,993	0.02
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	86,614	0.89	86,614	0.89
Issued or guaranteed by FNMA and FHLMC	66,547	0.69	66,547	0.69
All other privately issued	33,894	0.35	33,894	0.35
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	218,032	2.25	218,032	2.25
Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies	9,641	0.10	9,641	0.10
All other privately issued	185,687	1.91	185,687	1.91
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	4,522,703	46.61	4,522,703	46.61
Unaffiliated foreign securities	1,131,603	11.66	1,131,603	11.66
Affiliated securities	2,592	0.03	2,592	0.03
Equity interests:				
Investments in mutual funds	—	—	—	—
Preferred stocks:				
Affiliated	—	—	—	—
Unaffiliated	18,292	0.19	18,292	0.19
Publicly traded equity securities (excluding preferred stocks):				
Affiliated	—	—	—	—
Unaffiliated	1,854	0.02	1,854	0.02
Other equity securities:				
Affiliated	361,444	3.73	361,444	3.73
Unaffiliated	36,552	0.38	36,552	0.38
Other equity interests including tangible personal property under lease:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Mortgage loans:				
Construction and land development	—	—	—	—
Agricultural	—	—	—	—
Single family residential properties	—	—	—	—
Multifamily residential properties	—	—	—	—
Commercial loans	859,830	8.86	859,830	8.86
Mezzanine real estate loans	—	—	—	—
Real estate investments:				
Property occupied by company	—	—	—	—
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	26,407	0.27	26,407	0.27
Property held for sale (includes $0 of property acquired in satisfaction of debt)	—	—	—	—
Contract loans	638,824	6.58	638,824	6.58
Derivatives	107,064	1.10	107,064	1.10
Receivables for securities	136	0.00	136	0.00
Securities lending	230,305	2.37	230,305	2.37
Cash and short-term investments	327,430	3.37	327,430	3.37
Write-in for invested assets	76,570	0.79	76,570	0.79
Total invested assets	$ 9,702,851	100.00 %	$ 9,702,851	100.00 %

* Gross investment holdings as valued in compliance with NAIC accounting practices and procedures.

See accompanying independent auditors' report.