CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors and Stockholder
Constellation Insurance, Inc.:

Opinion

We have audited the consolidated financial statements of Constellation Insurance, Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

/s/ KPMG LLP

Cincinnati, Ohio
March 28, 2024

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Balance Sheets

December 31, 2023 and 2022

(Dollars in thousands, except share amounts)

Assets		**2023**	**2022**
Investments:			
Securities available-for-sale, at fair value:			
Fixed maturity securities (allowances for credit losses of $2,675 in 2023)	$	9,389,878	9,411,135
Fixed maturity securities on loan (allowances for credit losses of $0 in 2023)		220,554	147,946
Equity securities, at fair value		94,231	83,570
Mortgage loans on real estate (net of allowances for credit losses of $6,810 in 2023)		1,783,490	1,677,152
Real estate, net		60,417	55,315
Policy loans		1,060,210	1,028,885
Other long-term investments (net of allowances for credit losses of $793 in 2023)		342,054	286,334
Short-term investments securities lending collateral		228,906	153,810
Short-term investments		272,565	158,468
Total investments		13,452,305	13,002,615
Cash and cash equivalents		844,600	299,993
Accrued investment income		93,802	94,729
Deferred acquisition costs and deferred sales inducements		1,849,613	1,890,844
Reinsurance recoverable (net of allowances for credit losses of $2,069 in 2023)		3,263,681	3,536,238
Reinsurance deposit asset		627,853	782,101
Other assets		358,365	341,468
Federal and foreign income tax recoverable		52,539	27,798
Deferred federal income taxes		253,132	326,531
Assets held in separate accounts		14,476,485	14,406,360
Total assets	$	35,272,375	34,708,677
Liabilities and Equity			
Future policy benefits and claims	$	17,392,753	17,001,119
Policyholders’ dividend accumulations		25,860	27,364
Other policyholder funds		60,694	68,536
Short-term borrowings		216	46
Long-term debt obligations (net of unamortized discount and debt issuance costs of $6,920 in 2023 and $7,948 in 2022)		950,280	977,551
Other liabilities		443,573	687,898
Payables for securities lending collateral		228,906	153,810
Liabilities related to separate accounts		14,476,485	14,406,360
Total liabilities		33,578,767	33,322,684
Equity:			
Class B common stock, $0.01 par value. Authorized 50,000,000 shares; issued and outstanding 10,000,000 shares		100	100
Additional paid-in capital		411,856	411,856
Accumulated other comprehensive loss		(967,648)	(1,129,544)
Retained earnings		2,249,300	2,103,581
Total stockholder’s equity		1,693,608	1,385,993
Total liabilities and equity	$	35,272,375	34,708,677

See accompanying notes to consolidated financial statements.

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Statements of Operations

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Revenues:		
Traditional life insurance premiums	$ 572,364	734,468
Annuity premiums and charges	365,508	397,536
Universal life policy charges	170,664	160,457
Group life and health insurance premiums	97,929	58,065
Accident and health insurance premiums	33,937	33,864
Investment management fees	58,871	53,336
Change in value of equity securities	6,967	(12,011)
Net investment income	514,444	546,722
Net realized gains (losses):		
Investment gains (losses):		
Total other-than-temporary impairment losses on securities	—	(7,364)
Portion of impairment losses recognized in other comprehensive income (loss)	—	358
Net other-than-temporary impairment losses on securities recognized in earnings	—	(7,006)
Realized losses, excluding other-than-temporary impairment losses on securities	(25,965)	(4,202)
Total investment losses	(25,965)	(11,208)
Derivative instruments	(110,575)	906
Other income	293,762	113,978
	1,977,906	2,076,113
Benefits and expenses:		
Benefits and claims	1,155,474	1,640,540
Provision for policyholders' dividends on participating policies	67,488	87,297
Amortization of deferred policy acquisition costs	118,165	105,791
Commissions, net	177,464	176,718
Other operating costs and expenses	277,543	323,114
	1,796,134	2,333,460
Income (loss) before income taxes	181,772	(257,347)
Income taxes:		
Current (benefit) expense	(56)	66,378
Deferred expense (benefit)	31,151	(122,688)
	31,095	(56,310)
Net income (loss)	$ 150,677	(201,037)

See accompanying notes to consolidated financial statements.

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	Before tax	Tax (expense) benefit	After tax
2023			
Net income	$		150,677
Other comprehensive income, net of taxes:			
Foreign currency translation adjustment	(4,658)	—	(4,658)
Unrecognized net periodic benefit cost	542	(113)	429
Unrealized gains (losses) on derivative instruments	(8)	2	(6)
Net unrealized gains (losses) on securities available-for-sale arising during the year:			
Securities available-for-sale	261,757	(51,182)	210,575
Deferred acquisition costs and deferred sales inducements	(108,876)	22,864	(86,012)
Future policy benefits and claims	28,715	(7,716)	20,999
Other policyholder funds	1,294	(272)	1,022
Less:			
Net gains (losses) on securities available-for-sale realized during the year	(24,319)	5,161	(19,158)
Amortization of pension and other post-retirement benefits	(493)	104	(389)
Total other comprehensive income	203,578	(41,682)	161,896
Total comprehensive income			$ 312,573
2022			
Net loss	$		(201,037)
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustment	(453)	—	(453)
Unrecognized net periodic benefit cost	7,133	(1,497)	5,636
Unrealized gains (losses) on derivative instruments	(161)	34	(127)
Net unrealized gains (losses) on securities available-for-sale arising during the year:			
Securities available-for-sale	(1,921,547)	401,074	(1,520,473)
Deferred acquisition costs and deferred sales inducements	315,887	(66,336)	249,551
Future policy benefits and claims	43,470	(9,767)	33,703
Other policyholder funds	(20,345)	4,273	(16,072)
Less:			
Net gains (losses) on securities available-for-sale realized during the year	(11,159)	2,414	(8,745)
Amortization of pension and other post-retirement benefits	(1,131)	238	(893)
Total other comprehensive loss	(1,563,726)	325,129	(1,238,597)
Total comprehensive loss			$ (1,439,634)

See accompanying notes to consolidated financial statements.

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Statements of Changes in Equity

Years ended December 31, 2023 and 2022

(Dollars in thousands)

		Class B common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholder's equity
Balance, December 31, 2021	$	100	10,492	109,053	2,326,618	2,446,263
Capital contribution from parent		—	401,364	—	—	401,364
Dividends to stockholder		—	—	—	(22,000)	(22,000)
Comprehensive loss:						
Net loss		—	—	—	(201,037)	(201,037)
Other comprehensive loss		—	—	(1,238,597)	—	(1,238,597)
Total comprehensive loss						(1,439,634)
Balance, December 31, 2022		100	411,856	(1,129,544)	2,103,581	1,385,993
Cumulative effect of adoption of new accounting standard *		—	—	—	(4,958)	(4,958)
Comprehensive income:						
Net income		—	—	—	150,677	150,677
Other comprehensive income		—	—	161,896	—	161,896
Total comprehensive income						312,573
Balance, December 31, 2023	$	100	411,856	(967,648)	2,249,300	1,693,608

*Adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments (CECL)

See accompanying notes to consolidated financial statements.

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Statements of Cash Flows

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 150,677	(201,037)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Interest credited to policyholder account values	311,562	303,283
Universal life and investment-type product policy fees	(387,018)	(395,573)
Capitalization of deferred acquisition costs	(101,678)	(59,514)
Amortization of deferred acquisition costs	118,165	105,791
Amortization of deferred sales inducements	(4,005)	767
Amortization and depreciation	21,217	29,878
Net realized losses on investments and derivative instruments	136,540	10,302
Change in value of equity securities	(6,967)	12,011
Deferred income tax expense (benefit)	31,151	(122,688)
Decrease (increase) in accrued investment income	927	(8,785)
Monetary correction	(88,631)	(158,545)
Change in accretion of reinsurance deposit asset	(24,912)	(26,791)
Decrease in reinsurance recoverable	273,313	75,121
(Increase) decrease in other assets	(45,365)	35,594
(Decrease) increase in policyholder liabilities	(558,868)	104,325
Decrease in policyholders’ dividend accumulations and other funds	(16,772)	(8,413)
Increase in federal and foreign income tax recoverable	(24,669)	(4,386)
(Decrease) increase in other liabilities	(224,103)	62,757
Other, net	(4,403)	(297)
Net cash used in operating activities	(443,839)	(246,200)
Cash flows from investing activities:		
Proceeds from maturity of fixed maturity available-for-sale securities	226,376	208,360
Proceeds from sales, calls, redemptions, prepayments, and paydowns of fixed maturity available-for-sale securities	1,015,961	899,259
Proceeds from sale of equity securities	20,435	25,515
Proceeds from repayment of mortgage loans on real estate	161,370	178,399
Proceeds from sale of real estate	19,586	3,603
Cost of fixed maturity available-for-sale securities acquired	(980,038)	(1,813,937)
Cost of equity securities acquired	(26,181)	(20,609)
Cost of mortgage loans on real estate acquired	(277,310)	(268,139)
Cost of real estate acquired	(8,548)	(9,867)
Cost of property, plant and equipment acquired	(7,402)	(14,200)
Derivative (payments) receipts, net	(51,257)	14,320
Change in payables for securities lending collateral, net	75,096	(220,501)
Net (increase) decrease in short-term investments	(113,345)	14,616
Change in policy loans, net	(31,434)	7,447
Change in payable for securities and mortgage loans on real estate	(8,769)	(1,229)
Company owned life insurance settlement proceeds	13	—
Change in other invested assets, net	(95,564)	(5,578)
Net cash used in investing activities	(81,011)	(1,002,541)

(Continued)

CONSTELLATION INSURANCE, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Constellation Insurance Holdings, Inc.)

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from financing activities:			
Universal life and investment product account deposits	$	1,494,088	754,844
Universal life and investment product account withdrawals		(501,759)	(418,706)
Change in reinsurance deposit asset		179,158	99,791
Capital contribution from parent		—	401,364
Dividends paid to parent		—	(22,000)
Change in short-term borrowings		181	(1,598)
Other financing activities		(1,796)	(3,233)
Repayment of notes payable		(26,509)	—
Net cash provided by financing activities		1,143,363	810,462
Foreign currency translation adjustment		1,190	3,045
Net increase (decrease) in cash and cash equivalents		619,703	(435,234)
Cash and cash equivalents, beginning of year		453,803	889,037
Cash and cash equivalents, end of year	$	1,073,506	453,803
Supplemental disclosures:			
Federal income tax paid	$	18,101	65,142
Interest paid		72,799	85,672
Reinsurance funds withheld embedded derivative liability change		(34)	1

See accompanying notes to consolidated financial statements.

(1) Organization and Business Description

Organization

Constellation Insurance Inc. ("CII"), formerly Ohio National Financial Services, Inc. ("ONFS') is a stock holding company wholly owned by Constellation Insurance Holdings, Inc. ("CIHI"), formerly Ohio National Holdings, Inc. ("ONHI") and Ohio National Mutual Holdings, Inc. ("ONMH"). CII owns 100% of AuguStar Life Insurance Company ("ALIC"), formerly The Ohio National Life Insurance Company ("ONLIC"), a life insurance subsidiary, and Sycamore Re, Ltd. ("SYRE"), a special purpose financial captive life insurance company. CII and its subsidiaries are collectively referred to as the "Company".

On March 22, 2021, the Board of Directors of ONMH unanimously approved an agreement with Constellation Insurance, LP ("Constellation'), whereby Constellation would acquire ONMH. On March 31, 2022, ONMH demutualized, converted to a stock company and changed its name to ONHI. ONHI is owned directly by ONLH Holdings LP ("ONLP"). ONLP is an insurance holding company under the control of Constellation. Constellation is ultimately backed by Caisse de dépôt et placement du Québec ("CDPQ") and Ontario Teachers' Pension Plan Board ("Ontario Teachers"), two of the world's largest, premier, long-term institutional investors. In November 2022, ONHI and ONFS changed their names to CIHI and CII, respectively. See Note 18 for additional details on the demutualization and changes in equity.

ALIC owns 100% of AuguStar Life Assurance Corporation ("ALAC"), formerly 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; and Sunrise Captive Re, LLC ("SUNR"), an Ohio authorized reinsurer.

ALIC also owns 100% of ON Foreign Holdings, SMLLC ("ONFH"), a Delaware holding company. ONFH owns 100% of ON Overseas Holdings B.V. ("ONOH"), a Dutch holding company and 100% of AuguStar Lending, LLC ("ALL"), a Delaware financial lending institution. ONOH owns 100% of ON Netherlands B.V. ("ONNH"), a Dutch holding company. ONNH owns Ohio National Seguros de Vida S.A. ("ONSP"), a Peruvian insurance company, ON Global Holdings, SMLLC ("ONGH"), a Delaware holding company; and O.N. International do Brasil Participacoes, Ltda. ("OHIO"), which was formed to hold the equity method investment made when ONFS entered into a 50% joint venture agreement with a Brazilian insurance company. ONGH owns 92% of Ohio National Sudamerica S.A. ("ONSA"), a Chilean holding company; and ONNH owns 8%. ONSA owns 100% of Ohio National Seguros de Vida S.A. ("ONSV"), a Chilean insurance company.

ALIC owned Ohio National Investments, Inc. ("ONII"), an investment advisor; AuguStar Distributors, Inc, ("ADI"), formerly Ohio National Equities, Inc. ("ONEQ"), a broker dealer registered under the Securities and Exchange Commission Act of 1934; and The O.N. Equity Sales Company ("ONESCO"), a broker dealer registered under the Securities and Exchange Commission Act of 1934. During 2023, ALIC transferred its ownership interests in ONII, ADI and ONESCO to its parent CII via a dividend.

All references to activity entered into while under the ONMH, ONFS, ONLIC and ONLAC names throughout the remainder of these footnotes have been updated to the new names of CIHI, CII, ALIC and ALAC, respectively.

Business
ALIC and ALAC are life, health (disability) and annuity insurers licensed in 49 states, the District of Columbia and Puerto Rico. ALIC and ALAC offer/service 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. Over the past several years the Company has ceased accepting applications for certain variable annuities, retirement plans and disability products following a comprehensive review of the Company's businesses, taking into account the continuously changing regulatory landscape and increasing cost of doing business. The Company continues to service and support existing clients for all product lines. With the demutualization discussed in Note 1, the primary focus of ALIC is to sell fixed indexed annuities, single premium immediate annuities and multi-year guarantee annuities, and the primary focus of ALAC is to sell term life, universal life and indexed universal life products.

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

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

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

SUNR reinsures variable annuity and variable annuity-related risks with affiliated companies. See Note 11 for details of agreements and additional disclosures.

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

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

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

(2) Basis of Presentation

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

(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, allowance for credit losses on reinsurance recoverables and fixed maturity securities; 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 on the Consolidated Statements of Operations. Gains and losses on sales of investments, changes in allowance for credit losses, and impairment losses are reported within Net realized gains (losses) on the Consolidated Statements of Operations.

Fixed Maturity and Equity Securities
Fixed maturity securities are classified as available-for-sale and are reported at their estimated fair value. Unrealized gains and losses, net of adjustments to deferred policy acquisition costs, future policy benefits

and claims, other policyholder funds and deferred federal income tax, are recorded as a separate component of Accumulated other comprehensive income in equity on the Consolidated Balance Sheets.

Effective January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 *Financial Instruments — Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments* as discussed further in Note 3(t). Management considers whether an impairment is due to credit or due to other factors. Factors considered include but are not limited to, the extent of fair value below cost, change in market value, credit rating, change in credit rating, yield on the security and delinquency. A credit loss is recognized in earnings within net realized gains (losses) when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security, or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the reduction of amortized cost and the loss recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as a credit loss. Credit losses and recoveries are recorded through an allowance for expected credit losses with the corresponding charge to net realized gains (losses). The allowance is calculated using a discounted cash flows analysis at the security level and is limited to the total unrealized loss on the security (i.e. the fair value floor). Prior to the guidance adoption, the Company evaluated its securities for other-than-temporary impairment ("OTTI"). OTTI was recorded when there was a decline in fair value below the amortized cost of the security and it was determined to be other-than-temporary. Factors considered in the other-than-temporary assessment included the credit quality of the security, severity of unrealized loss, the length of time a security was in an unrealized loss position, reasons for decline in fair value, expectations for the amount and timing of recovery, financial position of the issuer, rating agency downgrades, ability for the issuer to meet debt obligations, value of collateral securing the debt and the Company's intent to sell the security before the recovery of its amortized cost basis. OTTI on securities when the Company did not intend to sell the security were bifurcated, with the credit-related portion of OTTI recognized in the Consolidated Statement of Operations and the non-credit portion of OTTI recognized in the Consolidated Statements of Comprehensive Income (Loss).

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 on the Consolidated Statements of Operations. 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.

Equity securities are reported at fair value with changes charged to Change in value of equity securities on the Consolidated Statements of Operations.

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 for years prior to 2023. For December 31, 2023, the allowance is presented parenthetically on the Consolidated Balance Sheets.

For 2023, the Company's allowance for expected credit loss represents the portion of the amortized cost basis on mortgage loans that the Company does not expect to collect. In determining the Company's allowance for credit losses, management has elected to use the weighted average remaining maturity ("WARM") method and: (i) pools and evaluates mortgage loans with similar risk characteristics, (ii) considers expected lifetime credit losses adjusted for prepayments and extensions, and (iii) considers past events and current economic conditions.

Prior to 2023, 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.

Prior to 2023, mortgage loans could 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.

As of January 1, 2023, the Company adopted the accounting guidance in ASU 2022-02 *Financial Instruments — Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, that eliminates the recognition and measurement of TDRs. Upon adoption of this guidance, all loan modifications are evaluated according to the accounting guidance for loan refinancing and restructuring to determine whether the modification should be accounted for as a new loan or a continuation of the existing loan. The Company derecognizes the existing loan and accounts for the restructured loan as a new loan if the effective yield on the modified loan is at least equal to the effective yield for comparable loans with similar collection risks and the modifications to the original loan are more than minor. If a loan modification does not meet these conditions, the Company carries forward the existing loan's amortized cost basis and accounts for the restructured loan as a continuation of the existing loan. Substantially all of the Company's restructurings involving borrowers experiencing financial difficulty are accounted for as a continuation of the existing loan.

Changes associated with the initial adoption of the new allowance guidance were recorded directly to Retained earnings. Annual changes in the allowance are recorded in Net realized gains (losses) on the Consolidated Statements of Operations. 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 on the Consolidated Statements of Operations in the period received.

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

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

The cost basis of the real estate and building improvements was $74,402 and $67,193 at December 31, 2023 and 2022, respectively. Accumulated depreciation was $19,237 and $17,130 at December 31, 2023 and 2022, respectively. Related depreciation expense was $2,336 and $1,371 for the years ended December 31, 2023 and 2022, respectively, and is included in Net investment income on the Consolidated Statements of Operations. The cost basis of land was $5,252 at December 31, 2023 and 2022.

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, which are collateralized by the related insurance policy, are held at the outstanding principal balance and do not exceed the net cash surrender value. As such, no allowance for credit loss for policy loans is required. 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 842, *Leases* ("ASC 842"), which consist principally of building and land purchase and leasing arrangements, will continue to be accounted for as capital leases under FASB ASC Topic 840, *Leases* ("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.

Investments in limited partnerships and limited liability companies are included in Other long-term investments on the Consolidated Balance Sheets. These investments are carried at the underlying audited GAAP equity of the investee using the equity method of accounting. The financial statements of the investments are usually not received in time for the Company to apply the equity method at each reporting period. Therefore, the equity pick-up on these investments has been recorded on a three-month lag. Investment income from these investments is included in Net investment income on the Consolidated Statements of Operations. Management regularly reviews its limited partnerships to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value of investments, when indicators are present OTTI is recorded through net realized gains and losses.

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

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

(d) Derivatives

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

The Company enters into derivative transactions that meet the criteria for hedge accounting pursuant to ASC 815. The Company purchased a foreign currency swap that meets the criteria for hedge accounting as a cash flow hedge. The swap instrument is carried at estimated fair value in Other long-term investments or

Other liabilities. Changes in the estimated fair value of the swap are recorded in Accumulated other comprehensive income on the Consolidated Balance Sheets.

The Company has variable annuity, fixed indexed annuity and indexed universal life products, 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 in Future policy benefits and claims on the Consolidated Balance Sheets with the reinsurance embedded derivatives reported in Reinsurance recoverable on the Consolidated Balance Sheets. The change in the estimated fair value is reported in Benefits and claims on the Consolidated Statements of Operations.

(e) Cash and Cash Equivalents

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

(f) Segregated Special Surplus Fund

ALIC has established a segregated special surplus fund for the benefit of SUNR, a consolidated subsidiary, in accordance with the SUNR Plan of Operations approved by the State of Ohio. The assets, along with the capital within SUNR, are to be used to provide the protection to maintain SUNR's statutory total adjusted capital at a level of at least 300% of its authorized control level ("ACL") risk-based capital. The segregated special surplus fund is held in a custodial account. Dividends (including amounts classified as return of capital) paid by SUNR to ALIC during the years ended December 31, 2023 and December 31, 2022 were $88,000 and $200,000, respectively. Dividends (including amounts classified as return of capital) are placed in the segregated custodial account when paid. See additional details in Note 17 on dividends between SUNR and ALIC. As long as the surplus in SUNR plus the segregated special surplus fund is greater than 300% ACL, ALIC can withdraw excess capital from the segregated special surplus fund for it to use as unassigned surplus in the event at the end of the calendar quarter the segregated special surplus fund exceeds 100% ACL. At December 31, 2023 and 2022, the segregated special surplus fund was $58,826. The value of the custodial account was $56,134 and $51,071, respectively, which was invested in the following assets at December 31, 2023 and 2022:

(Dollars in thousands)

		2023	2022
Cash and cash equivalents	$	8,706	6,040
Securities available-for-sale, at fair value:			
Fixed maturity securities		47,428	45,031
Total custodial account value	$	56,134	51,071

(g) Deferred Policy Acquisition Costs and Deferred 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.

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.

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 actual and 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 8.5% and 7.3% as of December 31, 2023 and 2022, respectively, 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 on the Consolidated Statements of Operations.

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

(h) Reinsurance

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

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

Amounts recoverable under reinsurance agreements, which totaled \$3,265,750 and \$3,536,238 as of December 31, 2023 and 2022, respectively, include ceded reserves, paid and unpaid claims, and certain other amounts. The entity estimates expected credit losses of reinsurance recoverables based on the credit risk of the reinsurer and based on whether assets are held in a trust collateralizing the assets. Credit losses are charged to benefits and claims expense. The allowance for credit losses reduces the carrying amount of the reinsurance recoverable asset to the net amount expected to be collected from the reinsurer which was \$3,263,681 for 2023.

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

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

See Note 11 for additional reinsurance disclosures and information.

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

Equipment, which is included in Other assets, is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated life is generally 3 to 20 years for equipment. The cost basis of the equipment was \$73,269 and \$69,482 at December 31, 2023 and 2022, respectively. Accumulated depreciation of equipment was \$60,599 and \$57,738 at December 31, 2023 and 2022, respectively. Related depreciation expense was \$4,788 and \$7,183 for the years ended December 31, 2023 and 2022, 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 $138,654 and $136,786 at December 31, 2023 and 2022, respectively. Accumulated amortization of computer software and hardware was $100,879 and $92,269 at December 31, 2023 and 2022, respectively. Related amortization expense was $9,554 and $9,611 for the years ended December 31, 2023 and 2022, 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 $45,538 and $48,000 at December 31, 2023 and 2022, respectively. Accumulated depreciation of buildings and improvements was $23,531 and $25,161 at December 31, 2023 and 2022, respectively. Related depreciation expense was $1,709 and $1,677 for the years ended December 31, 2023 and 2022, 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 $3,973 and $9,796 of capital projects in process recorded in Other assets at December 31, 2023 and 2022, respectively.

(j) Separate Accounts

Separate account assets and liabilities represent contract holders' funds, which have been segregated into accounts with specific investment objectives. Separate account assets are recorded at estimated fair value 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 or Consolidated Statements of Cash Flows except for the fees the Company receives for administrative services and risks assumed and the activity related to guaranteed contracts, which are riders to existing variable annuity contracts. These are recorded in either Annuity premiums and charges or Benefits and claims on the Consolidated Statements of Operations. Separate account seed money is recorded as a trading security.

(k) Revenues and Benefits

<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, multi-year guaranteed 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 life of the contract. 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.

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, 2023.

(Dollars in thousands)

The following tables illustrate 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, 2023 and 2022:

		Registered investment and variable contracts	General securities	Fee based and other	Total
December 31, 2023					
Revenues from contracts with customers					
Other income	$	41,340	1,337	18,718	61,395
Net investment income		—	—	13	13
Investment management fees		—	—	58,871	58,871
Total revenue from contracts with customers	$	41,340	1,337	77,602	120,279
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	41,340	1,337	77,602	120,279
Total revenue from contracts with customers	$	41,340	1,337	77,602	120,279

		Registered investment and variable contracts	General securities	Fee based and other	Total
December 31, 2022					
Revenues from contracts with customers					
Other income	$	47,760	2,196	20,369	70,325
Net investment income		—	—	(4)	(4)
Investment management fees		—	—	53,336	53,336
Total revenue from contracts with customers	$	47,760	2,196	73,701	123,657
Timing of revenue recognition					
Satisfaction of performance obligation:					
Transferred at a point in time	$	47,760	2,196	73,701	123,657
Total revenue from contracts with customers	$	47,760	2,196	73,701	123,657

(m) Other Income

The Company earns sales load fees on the sale of ALAC variable universal life contracts by unrelated third-party brokers through various subsidiaries. The Company also earns sales load fees on ALIC 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.

In 2023, the Company entered into a new reinsurance agreement with a third-party (see Note 11 for additional details) in which the Company receives all revenue sharing fees, service fees and other amounts received by the third-party.

(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 and discounted maintenance expense 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, investment yields, and withdrawals. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policyholder benefits are payable based on the Company’s experience.

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

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

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

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

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

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

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 offers a fixed indexed annuity with an optional GLWB rider. In 2023, the Company began offering a premium bonus on certain fixed indexed annuity base products. The bonus specifies a bonus rate, applied to the premium deposited, of 5 or 10 percent for the first policy year only. The premium bonus vests over a number of years.

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. See Note 10 for additional information.

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. See Note 6 for additional details.

(o) Participating Business/Policyholder Dividends

Participating business, which refers to policies that participate in profits through policyholder dividends, represents 12.7% and 14.0% of the Company's ordinary life insurance in force as of December 31, 2023 and 2022, 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 ALIC'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 ALIC.

(p) Income Taxes

The Company files a life/non-life consolidated federal income tax return, which includes its U.S. domestic subsidiaries and its parent, CIHI. 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 join the consolidated tax return sooner if the provisions of the Treasury regulations are met. SUNR met those requirements and joined the consolidated tax return in 2019.

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

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

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

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

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

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

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

The Inflation Reduction Act created the corporate alternative minimum tax ("CAMT"), which imposes a 15% minimum tax on the adjusted financial statement income (AFSI) of large corporations for taxable years beginning after December 31, 2022. The Company is not subject to CAMT in 2023.

(q) Litigation Contingencies

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

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

(r) Foreign Currency

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

(s) Employee Benefit Plans

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

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

The Company sponsors a defined contribution plan for substantially all employees. The Company also sponsored a qualified contributory defined contribution profit-sharing plan for substantially all employees. Discretionary Company contributions were based on the net earnings of the Company. Accordingly, the Company recognized compensation cost for current contributions. During 2023, the profit-sharing plan was restructured, and the Company ceased contributions.

(t) Adoption and Future Adoption of New Accounting Pronouncements

Where the standard adoption timeframes differentiate between U.S. Securities and Exchange Commission ("SEC") filers and all other entities, the Company follows the adoption timelines for public business entities that are non-SEC filers as the Company does not meet the requirements of an SEC filer.

<u>*Adoption of New Accounting Pronouncements*</u>
Effective January 1 2023, the Company completed its adoption of ASU 2016-13 *Financial Instruments — Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet ("OBS") credit exposures. Results for reporting periods beginning after December 31, 2022 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of this guidance did not significantly impact the Company's consolidated financial statements.

Effective January 1, 2022, the Company adopted ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. The new guidance 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. The adoption of this guidance did not significantly impact the Company's consolidated financial statements or disclosures.

<u>*Future Adoption of New Accounting Pronouncements*</u>
In December 2023, the FASB issued ASU 2023-09 *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The new guidance is effective for annual periods beginning after December 15, 2025. The amendments require that all entities disclose on an annual basis, the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). There are various other disclosure requirements included in this new guidance that will be applicable to the Company.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, the new guidance effective date for each amendment will be two years after the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The amendments in this Update should be applied prospectively. For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity. This ASU incorporates certain SEC disclosure requirements into the Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. Management is in the process of assessing the impact that this guidance may have on the consolidated financial statements but does not expect it to be material as it is disclosure only.

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)* and in October 2020, the FASB issued ASU 2020-11, *Financial Services – Insurance (Topic 944)* and ASU 2022-05, *Financial Services – Insurance (Topic 944) Transition for Sold Contracts*. 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.

(u) Subsequent Events

The Company has evaluated subsequent events through March 28, 2024, the date that the consolidated financial statements were available to be issued.

In March 2024, CII contributed $125,000 in capital to ALIC in satisfaction of the second installment of the Transaction discussed in Note 1. See Note 18 for additional details.

(4) Business Risks and Uncertainties

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

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

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

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

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

Concentration Risk is the risk that arises from the Company's reliance upon certain key business relationships. Based on policyholder account balances, the Company's largest distributor of individual (fixed and variable) annuity products accounted for approximately 8.4% and 14% of total individual annuity reserves as of December 31, 2023 and 2022, 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-Security Risk is the potential for information and systems to be vulnerable to adverse events, such as breaches, thefts, compromised integrity, damage, fraud, or business disruption, caused by internal, external or third parties. The loss of confidentiality, integrity or availability for information and systems could disrupt operations, result in the loss of business, materially affect profitability and negatively impact the Company's reputation. The current working environment is unprecedented with wide-scale remote usage of the Company's networks and may expose the Company to increased cyber-security vulnerability. The Company utilizes a defense in depth approach to physically, administratively and technically mitigate cyber-security risk. Multiple layers of security controls provide redundancy in the event a security control fails, or a vulnerability is exploited. The Company continually monitors cyber-security risk and implements new processes, controls and technology to address risks as they are identified. Despite these efforts, there is still a risk a cyber-security incident could happen.

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

Banking risk is the risk associated with the Company's concentrations of credit risk of its cash deposits and checking account balances, and risk of institutional failure. The Company maintains its cash deposits and checking account balances in various bank accounts that, at times, may exceed federally insured limits. The Company's cash deposits and checking account balances have been placed with high credit quality financial institutions. The Company has not experienced, nor does it anticipate, any losses with respect to such accounts. In early 2023 there were three prominent bank failures in the United States that resulted in a seizure by government agencies. The Company had no direct exposure to these failures, but as a result of these failures the Company examined all of its bank relationships to ensure they are sufficiently protected from potential future failures. The Company will continue to monitor its banking relationships to ensure it is properly protected.

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 does not have any direct exposure within its investment portfolio to businesses in Russia, Ukraine, Israel or Palestine. However, the ongoing conflicts in these areas are impacting global economic and financial markets exacerbating ongoing economic challenges. The Company is actively monitoring the impact of these conflicts on its investment portfolio.

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.

Inflation Risk is the risk that inflation will undermine the performance of investments. Times of rising inflation will cause interest rates to increase and may impact the valuation of the Company's investments. The long-term nature of the Company's business allows for the Company to mature through periods of change. The Company has the ability to hold securities until maturity and has the ability to adjust product crediting rates allowing the Company to mitigate the potential of liabilities coming due more quickly than the assets mature. The Company is monitoring the responsive monetary policy actions taken or anticipated to be taken by central banks to curb inflation and the corresponding impact on market interest rates.

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

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

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

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

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

(Dollars in thousands)

(5) Changes in Accumulated Other Comprehensive Income (Loss)

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

				Adjustment to:				
		Pensions and other post-retirement benefits	Foreign currency translation adjustment	Future policy benefits and claims	Other policyholder funds	Deferred acquisition and sales inducements costs	Unrealized gains (losses) [1]	Total
December 31, 2021	$	(13,563)	(72,262)	(56,702)	9,065	(99,863)	342,378	109,053
Other comprehensive income (loss) before reclassifications		5,636	(453)	33,703	(16,072)	249,551	(1,520,600)	(1,248,235)
Amounts reclassified from accumulated other comprehensive income (loss)		893	—	—	—	—	8,745	9,638
Change		6,529	(453)	33,703	(16,072)	249,551	(1,511,855)	(1,238,597)
December 31, 2022	$	(7,034)	(72,715)	(22,999)	(7,007)	149,688	(1,169,477)	(1,129,544)
Other comprehensive income (loss) before reclassifications		429	(4,658)	20,999	1,022	(86,012)	210,569	142,349
Amounts reclassified from accumulated other comprehensive income (loss)		389	—	—	—	—	19,158	19,547
Change		818	(4,658)	20,999	1,022	(86,012)	229,727	161,896
December 31, 2023	$	(6,216)	(77,373)	(2,000)	(5,985)	63,676	(939,750)	(967,648)

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		2023	2022	Consolidated statements of income location
Amortization of pensions and other post-retirement benefits:				
Actuarial losses	$	(493)	(1,131)	Other operating costs and expenses
		(493)	(1,131)	Income (loss) before income taxes
		104	238	Income tax current (benefit) expense
		(389)	(893)	Net income (loss)
Unrealized gains/(losses) on securities available-for-sale:				
		(24,319)	(11,159)	Realized (losses) gains, excluding other-than-ter impairment losses on securities
		5,161	2,414	Income tax current (benefit) expense
		(19,158)	(8,745)	Net income (loss)
Total reclassification for the year	$	(19,547)	(9,638)	Net income (loss)

(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, other invested assets, 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, 2023:

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]	$ 62,522	16,743	2,805	82,070
Obligations of states and political subdivisions	—	1,116,052	—	1,116,052
Debt securities issued by foreign governments	—	13,476	—	13,476
Corporate	—	6,730,495	87,026	6,817,521
Asset-backed	—	1,027,918	30,460	1,058,378
Mortgage-backed	—	521,091	1,844	522,935
Equity securities	62,868	8,290	23,073	94,231
Other long-term investments:				
Derivative assets:				
Equity put options	—	19,313	—	19,313
Equity index call options	—	46,792	—	46,792
Cross currency swaps	—	1,805	—	1,805
Other invested assets	—	—	104,149	104,149
Short-term investments securities lending collateral	—	228,906	—	228,906
Short-term investments	224,811	47,754	—	272,565
Cash and cash equivalents	812,523	32,077	—	844,600
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	880,436	880,436
Other assets:				
GLWB embedded derivatives[2]	—	—	426	426
Assets held in separate accounts	14,476,485	—	—	14,476,485
Total assets	$ 15,639,209	9,810,712	1,130,219	26,580,140
Liabilities				
Future policy benefit and claims:				
GMAB/GMWB embedded derivatives	$ —	—	1,536	1,536
Fixed indexed annuity embedded derivatives[2]	—	—	215,990	215,990
Derivative liabilities:				
Equity futures	17,280	—	—	17,280
Total liabilities	$ 17,280	—	217,526	234,806

1 Level 3 is comprised of debt instruments issued 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, 2022:

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]	$ 14,549	15,153	3,047	32,749
Obligations of states and political subdivisions	—	1,182,706	—	1,182,706
Debt securities issued by foreign governments	—	12,679	—	12,679
Corporate	—	6,922,080	19,552	6,941,632
Asset-backed	—	991,651	45,217	1,036,868
Mortgage-backed	—	350,341	2,106	352,447
Equity securities	52,389	7,886	23,295	83,570
Other long-term investments:				
Derivative assets:				
Currency futures	8,138	—	—	8,138
Equity put options	—	59,620	—	59,620
Equity index call options	—	11,468	—	11,468
Cross currency swaps	—	3,425	—	3,425
Other invested assets	—	—	42,423	42,423
Short-term investments securities lending collateral	—	153,810	—	153,810
Short-term investments	154,160	4,308	—	158,468
Cash and cash equivalents	299,993	—	—	299,993
Reinsurance recoverable:				
GMIB reinsurance contracts	—	—	988,433	988,433
Assets held in separate accounts	14,406,360	—	—	14,406,360
Total assets	$ 14,935,589	9,715,127	1,124,073	25,774,789
Liabilities				
Future policy benefit and claims:				
GMAB/GMWB embedded derivatives	$ —	—	6,311	6,311
GLWB embedded derivatives	—	—	1,695	1,695
Fixed indexed annuity embedded derivatives[2]	—	—	167,106	167,106
Total liabilities	$ —	—	175,112	175,112

[1] Level 3 is comprised of debt instruments issued 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.

Determination of Fair Values

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

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

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

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

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

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

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

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, 2023, 81.7% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 16.4% from the Company's internal pricing matrices and 1.9% from other sources. At December 31, 2022, 81.9% of the estimated fair values of fixed maturity securities were obtained from independent pricing services, 16.6% from the Company's internal pricing matrices and 1.5% 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.

Other invested assets – Other invested assets include investments in limited partnerships. The carrying amount reported in the consolidated financial statements for the Company's investment in limited partnerships is based on quarterly GAAP financial statements provided by the partnership with annual adjustments to reconcile to the audited GAAP financial statements of the partnership. Limited partnership investments are classified as Level 3 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 and short-term investment securities with maturity periods of 90 days or less. The publicly traded money market accounts are considered to be Level 1 assets and the short-term investments are considered to be Level 2 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, income, and accumulation 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.

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 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.

(Dollars in thousands)

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:

	Investments					Reinsurance recoverable	Other long-term investments		
Assets	**U.S. treasury securities and obligations of U.S. government**	**Corporate**	**Asset - backed**	**Mortgage - backed**	**Equity Securities**	**GMIB reinsurance**	**Other invested assets**	**GLWB embedded derivatives**	**Total assets**
December 31, 2021	$ 3,667	22,674	93,564	2,992	13,224	1,077,122	13,861	—	1,227,104
Net investment gains/(losses):									
In earnings									
(realized and unrealized)[1]	—	(1,490)	(33)	(3)	—	(88,689)	(1,529)	—	(91,744)
Unrealized in OCI[2]	(421)	(1,433)	(2,769)	(335)	(3,291)	—	—	—	(8,249)
Purchases	—	8,061	31,569	—	13,362	—	33,411	—	86,403
Settlements	(199)	(8,260)	(39,796)	(548)	—	—	(3,320)	—	(52,123)
Transfers into Level 3	—	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	(37,318)	—	—	—	—	—	(37,318)
December 31, 2022	3,047	19,552	45,217	2,106	23,295	988,433	42,423	—	1,124,073
Net investment gains/(losses):									
In earnings									
(realized and unrealized)[1]	—	41	(649)	(2)	84	(107,997)	2,464	426	(105,633)
Unrealized in OCI[2]	(27)	106	745	6	32	—	—	—	862
Purchases	—	72,401	313	—	—	—	60,969	—	133,683
Settlements	(215)	(3,063)	(1,275)	(266)	(338)	—	(1,707)	—	(6,864)
Transfers into Level 3	—	—	911	—	—	—	—	—	911
Transfers out of Level 3	—	(2,011)	(14,802)	—	—	—	—	—	(16,813)
December 31, 2023	$ 2,805	87,026	30,460	1,844	23,073	880,436	104,149	426	1,130,219
Change in unrealized gains (losses):									
Still held at December 31:									
2022	$ —	—	(26)	(3)	—	(88,689)	—	—	(88,718)
2023	$ —	—	(15)	(2)	—	(107,997)	2,464	2,121	(103,429)

(Dollars in thousands)

		Future policy benefits and claims			
Liabilities		**GMAB/ GMWB embedded derivatives**	**GLWB embedded derivatives**	**Fixed indexed annuity embedded derivatives**	**Total liabilities**
December 31, 2021	$	(15,912)	(10,686)	(191,307)	(217,905)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		9,601	8,991	24,201	42,793
December 31, 2022		(6,311)	(1,695)	(167,106)	(175,112)
Net investment gains/(losses):					
In earnings (realized and unrealized)[1]		4,775	1,695	(48,884)	(42,414)
December 31, 2023	$	(1,536)	—	(215,990)	(217,526)
Change in unrealized gains/(losses):					
Still held at December 31:					
2022	$	9,601	8,991	24,201	42,793
2023	$	4,775	—	(48,884)	(44,109)

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.

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
2023							
Assets							
Securities available-for-sale:							
Fixed maturity securities:							
U.S. Treasury securities and obligations of U.S. government	$	2,805	Market pricing	Market prices	107 - 108%	108	Increase
Corporate		87,026	Market pricing	Market prices	99 - 109%	101	Increase
Asset-backed		30,460	Market pricing	Market prices	1 - 104%	88	Increase
Mortgage-backed		1,844	Market pricing	Market prices	87 - 96%	90	Increase
Equity securities		23,073	Market pricing	Market prices	1 - 24%	10	Increase
Other invested assets		104,149	Audited statements	Audited statements	N/A	N/A	N/A
Reinsurance recoverable:							
GMIB reinsurance contracts		880,436	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)	3.18% - 3.9%	*	Decrease
				Equity market volatility	10.68% - 23.66%	*	Increase
Other assets:							
GLWB embedded derivatives		426	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)	3.67% - 4.73%	*	Decrease
				Equity market volatility	10.68% - 23.66%	*	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
2023						
Liabilities						
GMAB/GMWB embedded derivatives[1]	$ 1,536	Stochastic actuarial model	Mortality rates			
			ages 0-59	0 - 0.5%	*	Decrease
			ages 60+	0.3% - 100%	*	Decrease
			Base Lapse Rates			
			duration 1-10	0.7% - 18.6%	*	Decrease
			duration 11+	6.2% - 11.0%	*	Decrease
			Non-Sys with rates (%AV)	1.0% - 1.5%	*	Decrease
			Sys with rates (%Rollup)	N/A	*	N/A
			Sys with utilization	0%	*	Decrease
			Non-performance risk (Credit Spread)	3.67% - 4.73%	*	Decrease
			Equity market volatility	10.68% - 23.66%	*	Increase
Fixed indexed annuity embedded derivatives	215,990	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%	*	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)	2.98% - 3.73%	*	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
2022							
Assets							
Securities available-for-sale:							
Fixed maturity securities:							
U.S. Treasury securities and obligations of U.S. government	$	3,047	Market pricing	Market prices	107 - 108%	108	Increase
Corporate		19,552	Market pricing	Market prices	58 - 107%	96	Increase
Asset-backed		45,217	Market pricing	Market prices	2 - 106%	88	Increase
Mortgage-backed		2,106	Market pricing	Market prices	88 - 95%	91	Increase
Equity securities		23,295	Market pricing	Market prices	0 - 23%	10	Increase
Other invested assets		42,423	Audited statements	Audited statements	N/A	N/A	N/A
Reinsurance recoverable:							
GMIB reinsurance contracts		988,433	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)	2.69% - 4.19%	*	Decrease
				Equity market volatility	17.08% - 27.29%	*	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
2022							
Liabilities							
GMAB/GMWB embedded derivatives[1]	$	6,311	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)	2.44% - 3.97%	*	Decrease
				Equity market volatility	17.08% - 27.29%	*	Increase
GLWB embedded derivatives		1,695	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)	2.44% - 3.97%	*	Decrease
				Equity market volatility	17.08% - 27.29%	*	Increase
Fixed indexed annuity embedded derivatives		167,106	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

* 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
2023			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
Corporate	$	—	2,011
Asset-backed		911	14,802
2022			
Assets			
Securities available-for-sale:			
Fixed maturity securities:			
Asset-backed	$	—	37,318

During the years ended December 31, 2023 and 2022, the Company transferred investments totaling $911 and $0, 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, 2023 and 2022, the Company transferred investments totaling $16,813 and $37,318, respectively, out of Level 3 into Level 2 as a result of the availability of observable pricing inputs for these securities. There were no transfers from Level 2 or Level 3 into Level 1 for the years ended December 31, 2023 or 2022.

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, 2023 and 2022.

(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
2023						
Assets:						
Mortgage loans on real estate	$	1,783,490	1,671,483	—	90,806	1,580,677
Policy loans		1,060,210	1,072,273	—	—	1,072,273
Liabilities:						
Investment contracts		6,343,972	3,193,932	—	3,193,932	—
Policyholders' dividend accumulations and other policyholder funds		86,554	86,554	86,554	—	—
Short-term borrowings		216	216	—	216	—
Long-term debt obligations		950,280	927,845	—	927,845	—
2022						
Assets:						
Mortgage loans on real estate	$	1,677,152	1,537,046	—	89,922	1,447,124
Policy loans		1,028,885	1,064,765	—	—	1,064,765
Liabilities:						
Investment contracts		3,750,951	2,533,176	—	2,533,176	—
Policyholders' dividend accumulations and other policyholder funds		95,900	95,900	95,900	—	—
Short-term borrowings		46	46	—	46	—
Long-term debt obligations		977,551	932,473	—	932,473	—

(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 long-term investments, and Other liabilities on the Consolidated Balance Sheets:

Financial assets identified in other long-term investments		Carrying amount 2023	Carrying amount 2022	
Derivative instruments	$	67,910	82,651	Carrying value approximates fair value
Receivable for securities		3,052	1,151	Carrying value approximates fair value
Joint venture		21,047	20,911	Carrying value approximates fair value
Other invested assets		104,149	42,423	Carrying value approximates fair value
Other[1]		145,896	139,198	
Total other long-term investments	$	342,054	286,334	

Financial assets identified in other assets		Carrying amount 2023	Carrying amount 2022	
Accounts receivable due from external parties	$	6,869	7,423	Carrying value approximates fair value
Other[1]		351,496	334,045	
Total other assets	$	358,365	341,468	

Financial liabilities identified in other liabilities		Carrying amount 2023	Carrying amount 2022	
Interest payable	$	16,286	16,783	Carrying value approximates fair value
Derivative liabilities		17,280	-	Carrying value approximates fair value
Collateral liabilities		47,360	58,860	Carrying value approximates fair value
Investments in transit and payable for securities		874	10,579	Carrying value approximates fair value
Other[1]		361,773	601,676	
Total other liabilities	$	443,573	687,898	

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 Federal Home Loan Bank ("FHLB") common stock, which is carried at amortized cost. Operating lease right-of-use assets and liabilities are carried at the present value of the remaining lease payments, discounted using the discount rate for the lease at the commencement date. 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 on the Consolidated Balance Sheets for these instruments approximates their estimated fair value. The amounts can be converted to cash by the policyholder; therefore, the Company classifies these amounts as Level 1.

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

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

(7) Investments

Investment Risks and Uncertainties

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

- the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook, including fluctuations in interest rates and inflationary pressures, will be worse than expected or have a greater impact on the issuer than anticipated;

(Dollars in thousands)

- 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. During 2022, rising inflation led to increases in interest rates resulting in larger unrealized losses on the Company's investment portfolio. During 2023, inflation began to stabilize and reduction in interest rates resulted in a decrease in the Company's unrealized losses in its investment portfolio.

The determination of impairments and credit losses 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 Securities by Sector

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

	2023				
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Allowance for credit losses**	**Estimated fair value**
Securities available-for-sale:					
Fixed maturity securities:					
U.S. Treasury securities and obligations of U.S. government	$ 78,760	4,585	(1,275)	—	82,070
Obligations of states and political subdivisions	1,353,820	2,464	(240,232)	—	1,116,052
Debt securities issued by foreign governments	15,975	—	(2,499)	—	13,476
Corporate	7,719,959	60,201	(960,825)	(1,814)	6,817,521
Asset-backed	1,138,852	3,302	(83,149)	(627)	1,058,378
Mortgage-backed	539,195	7,935	(23,961)	(234)	522,935
Total fixed maturity securities	$ 10,846,561	78,487	(1,311,941)	(2,675)	9,610,432

(Dollars in thousands)

	2022				
	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	$ 34,062	228	(1,541)	32,749	—
Obligations of states and political subdivisions	1,484,140	1,108	(302,542)	1,182,706	—
Debt securities issued by foreign governments	15,973	—	(3,294)	12,679	—
Corporate	8,024,083	67,673	(1,150,124)	6,941,632	—
Asset-backed	1,151,326	1,292	(115,750)	1,036,868	(2,090)
Mortgage-backed	379,398	1,145	(28,096)	352,447	(12,590)
Total fixed maturity securities	$ 11,088,982	71,446	(1,601,347)	9,559,081	(14,680)

As of January 1, 2023, the available-for-sale model has been modified and requires the recording of an Allowance for Credit Loss instead of a reduction of the amortized cost. Any improvements in expected future cash flows will be reflected as a reduction of the allowance for credit loss.

Prior to January 1, 2023, non-credit 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 96.6% of the Company's total available-for-sale and trading securities portfolio as of December 31, 2023 and 2022, respectively.

Investments with a fair value of $13,386 and $12,414 as of December 31, 2023 and 2022, respectively, were on deposit with various regulatory agencies as required by law and are included in securities available-for-sale.

(Dollars in thousands)

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, 2023, 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, 2023.

	Fixed maturity securities Available-for-sale	
	Amortized cost	**Estimated fair value**
Due in one year or less	$ 256,029	253,310
Due after one year through five years	1,636,054	1,586,991
Due after five years through ten years	2,353,931	2,206,950
Due after ten years	6,600,547	5,563,181
Total	$ 10,846,561	9,610,432

Continuous Gross Unrealized Losses for Fixed Maturity Securities

The following tables present the estimated fair value and gross unrealized losses of the Company's fixed maturity (aggregated by sector) in an unrealized loss position, aggregated by length of time the securities have been in a continuous unrealized loss position for which no allowance is recorded 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**
2023						
U.S. Treasury securities and obligations of U.S. government	$ —	—	17,985	(1,275)	17,985	(1,275)
Obligations of states and political subdivisions	31,954	(713)	993,355	(239,519)	1,025,309	(240,232)
Debt securities issued by foreign governments	—	—	13,476	(2,499)	13,476	(2,499)
Corporate	347,710	(16,395)	5,260,273	(932,197)	5,607,983	(948,592)
Asset-backed	62,118	(984)	803,287	(81,538)	865,405	(82,522)
Mortgage-backed	14,691	(297)	244,623	(23,429)	259,314	(23,726)
Total fixed maturity securities	$ 456,473	(18,389)	7,332,999	(1,280,457)	7,789,472	(1,298,846)

(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
2022 *						
U.S. Treasury securities and obligations of U.S. government	$ 26,028	(1,319)	1,248	(222)	27,276	(1,541)
Obligations of states and political subdivisions	1,022,186	(251,068)	113,266	(51,474)	1,135,452	(302,542)
Debt securities issued by foreign governments	12,679	(3,294)	—	—	12,679	(3,294)
Corporate	5,275,720	(980,675)	457,582	(169,449)	5,733,302	(1,150,124)
Asset-backed	824,983	(94,848)	123,235	(20,902)	948,218	(115,750)
Mortgage-backed	314,631	(25,027)	17,483	(3,069)	332,114	(28,096)
Total fixed maturity securities	$ 7,476,227	(1,356,231)	712,814	(245,116)	8,189,041	(1,601,347)

* Prior year following OTTI guidance so no allowances recorded for activity

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
2023				
99.9%-80%				
U.S. Treasury securities and obligations of U.S. government	$ —	(1,190)	(1,190)	18
Obligations of states and political subdivisions	(713)	(60,555)	(61,268)	325
Debt securities issued by foreign governments	—	(2,499)	(2,499)	6
Corporate	(11,549)	(302,348)	(313,897)	2,950
Asset-backed	(756)	(72,083)	(72,839)	561
Mortgage-backed	(297)	(19,180)	(19,477)	245
Below 80%				
U.S. Treasury securities and obligations of U.S. government	—	(85)	(85)	2
Obligations of states and political subdivisions	—	(178,964)	(178,964)	288
Corporate	(5,000)	(641,929)	(646,929)	1,184
Asset-backed	(228)	(10,082)	(10,310)	24
Mortgage-backed	(171)	(4,313)	(4,484)	13
Total	$ (18,714)	(1,293,228)	(1,311,942)	5,616

(Dollars in thousands)

Unrealized losses	Less than 12 months	12 months or longer	Total	Number of Securities
2022				
99.9%-80%				
U.S. Treasury securities and obligations of U.S. government	$ (1,319)	—	(1,319)	20
Obligations of states and political subdivisions	(48,510)	(906)	(49,416)	336
Debt securities issued by foreign governments	(988)	—	(988)	2
Corporate	(330,627)	(19,496)	(350,123)	2,851
Asset-backed	(76,423)	(11,479)	(87,902)	568
Mortgage-backed	(20,850)	(1,650)	(22,500)	290
Below 80%				
U.S. Treasury securities and obligations of U.S. government	—	(222)	(222)	4
Obligations of states and political subdivisions	(202,558)	(50,568)	(253,126)	355
Debt securities issued by foreign governments	(2,306)	—	(2,306)	4
Corporate	(650,048)	(149,953)	(800,001)	1,396
Asset-backed	(18,425)	(9,423)	(27,848)	55
Mortgage-backed	(4,177)	(1,419)	(5,596)	11
Total	$ (1,356,231)	(245,116)	(1,601,347)	5,892

Allowance for credit loss and Evaluation of OTTIs

Beginning in 2023 and under ASC 326, the Company considers allowance for credit loss using various indicators of credit deterioration to evaluate whether credit loss exists on a security-by-security basis. The assessment considers the severity of unrealized loss (change in market value), the issuer's credit rating compared to investment grade by using external or internal ratings, changes in the issuer's credit rating and delinquency. A security needs to satisfy the severity of unrealized loss and either the investment grade or credit change to be further evaluated for credit losses. If there is a substantial change in credit risk, a discounted cash flow analysis is used.

Allowance for credit losses on available-for-sale securities for the year ended December 31, 2023:

	Corporate	Asset-backed	Mortgage-backed	Total
Beginning balance	$ —	—	—	—
Allowance for credit losses at beginning of year	—	—	—	—
Net credit loss expense not previously recorded	2,391	627	234	3,252
Recoveries	(577)	—	—	(577)
Ending balance	$ 1,814	627	234	2,675

Prior to January 1, 2023 Management regularly reviewed 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 was prepared, which focused 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 included 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 would recover its amortized cost basis in a reasonable period of time.

For corporate securities, the Company evaluated 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 were 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 were then utilized, along with consideration for the issue's position in the overall structure, to determine cash flows associated with the security.

For each security deemed by management to meet the criteria for additional analysis, the Company prepared 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 was less than the amortized cost, an OTTI was recognized on the Consolidated Statements of Operations.

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

The following table summarizes the cumulative amounts related to the Company's credit loss portion of the OTTI 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:

		2022
Cumulative credit loss, beginning of year	$	10,183
New credit losses		6,915
Change in credit losses on securities included in the beginning balance		91
Subtotal		17,189
Less:		
Losses related to securities included in the current year beginning balance sold or paid down during the period		266
Cumulative credit loss, end of year	$	16,923

Current Year Evaluation
Total unrealized losses decreased from December 31, 2022 to December 31, 2023 due mainly to the decrease in intermediate term interest rates and lower credit spreads during the year. The Company has concluded that the majority of its securities in an unrealized loss position as of December 31, 2023 and 2022 reflect temporary fluctuations in economic factors that are not indicative of credit losses 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. The Company has recorded credit losses when necessary on securities that the Company has deemed as being indicative of a credit loss.

(Dollars in thousands)

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:

		2023	2022
Mortgage loans			
Commercial mortgage loans - domestic	$	1,699,115	1,589,974
Commercial mortgage loans - foreign		32,765	36,320
Residential mortgage loans - foreign		58,420	54,352
Total amortized cost		1,790,300	1,680,646
Valuation allowance		6,810	3,494
Net carrying value	$	1,783,490	1,677,152

The Company has elected to present the accrued interest receivable balance separately in its Consolidated Balance Sheets from the amortized cost of the finance receivables. Accrued interest receivable was $6,255 and $5,773 as of December 31, 2023 and 2022, respectively, relating to loans. The Company also elected not to measure an allowance for credit losses for accrued interest receivables. For mortgage loan investments, the accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due. Write-off of accrued interest receivables are recognized by reversing interest income. The Company wrote off $95 and $0 of loan accrued interest receivables for the years ended December 31, 2023 and 2022, respectively.

Unfunded Mortgage Loan Commitments
These commitments arise when the Company, based on review of a borrower's loan application, agrees to provide financing to a borrower. To estimate the loss, the Company manually forecasts the cash flows for these commitments, based on the committed loan terms, as they represent the contractual life that the Company will have credit exposure to the borrower. The forecasted cash flows have an estimate of expected credit loss calculated using the WARM method. The resulting estimate is reduced by incorporating an estimate of the probability of commitments not funding, and recorded as a liability on the Consolidated Balance Sheets.

Concentration of Credit Risk
The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. 94.9% of the Company's portfolio is collateralized by properties located in the United States, with the remaining 5.1% located in Chile. Total loans in any state did not exceed 13.4% of the total loan portfolio as of December 31, 2023 and 2022.

(Dollars in thousands)

As of December 31, 2023, loans in the states of Texas, California and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $218,033, $214,726 and $195,560, respectively. As of December 31, 2022, loans in the states of Texas, California and Ohio exceeded 10.0% of the total loan portfolio and had carrying values of $213,115, $184,501 and $178,394, respectively.

Furthermore, the Company manages risk by underwriting relatively nominal individual commercial loans. The average domestic loan, at origination, was approximately $3,159 and $3,004 in 2023 and 2022, respectively.

Commercial Mortgage Loans - Domestic
The Company performs an annual performance review of the domestic 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 amortized cost of the domestic commercial mortgage loan portfolio 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**
2023								
0% - 50%	$	398,277	118,945	187,680	184,920	82,334	10,687	982,843
50% - 60%		65,209	29,911	79,688	132,276	40,767	14,039	361,890
60% - 70%		934	—	42,156	95,192	31,141	6,901	176,324
70% - 80%		—	—	6,405	24,081	36,763	21,325	88,574
80% and greater		—	—	—	20,337	38,474	30,673	89,484
Total	$	464,420	148,856	315,929	456,806	229,479	83,625	1,699,115
2022*								
0% - 50%	$	372,078	124,146	212,194	149,936	29,689	12,834	900,877
50% - 60%		41,007	32,353	99,245	91,116	37,524	4,478	305,723
60% - 70%		1,217	7,989	34,396	79,127	42,824	13,585	179,138
70% - 80%		—	—	9,061	38,291	43,731	15,843	106,926
80% and greater		—	—	—	20,368	43,633	30,387	94,388
Total	$	414,302	164,488	354,896	378,838	197,401	77,127	1,587,052

* The balances at December 31, 2022 are net of allowance

(Dollars in thousands)

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan and are the Company’s primary quality indicators. 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.

Mortgage Loans - Foreign
The Company’s subsidiary ONSV maintains a mortgage loan portfolio consisting of both commercial and residential mortgage loans. These loans have similar characteristics and are evaluated similarly.

ONSV considers the delinquency status of mortgage loans to be its primary credit quality indicator. ONSV monitors delinquency trends as a measure of overall portfolio quality, collections effectiveness, and as an indicator of potential losses in future quarters. ONSV 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, ONSV 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 mortgages to determine their status. 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 amortized cost of the foreign mortgage loan portfolio performing and nonperforming positions which was last updated as of December 31:

		2023	2022
Mortgage loans - foreign			
Performing	$	88,945	86,960
Nonperforming		2,240	3,712
Total	$	91,185	90,672

(Dollars in thousands)

Commercial Mortgage Loans - Foreign

ONSV currently holds a commercial mortgage portfolio with a total amortized cost of $32,765 and $36,320 as of December 31, 2023 and December 31, 2022, respectively. These loans are originated to borrowers primarily in Santiago, Chile. The borrowers are all commercial borrowers, and the loans are secured by collateral.

Management reviews a variety of factors, including the borrower's Directorio de Información Comercial ("DICOM") report (i.e., credit report) prior to originating these loans. At inception, ONSV will only select those DICOM reports with a metric of 999 (i.e, 1-999). A credit score closer to 999 demonstrates responsible credit behavior in the past.

As part of monitoring, ONSV generates a monthly delinquency report showing all payments which are 30, 60, 90, and 120 days past due. This report is prepared by the Investment Accounting Department and is reviewed by the Mortgage and Real Estate Department. Management follows up with the correspondents (servicers) as necessary. If a loan is delinquent for two months consecutively a new DICOM is generated. While management may act sooner, generally loans are not written down and/or foreclosed upon until management has exhausted all other options to bring the loan current. The timing of the foreclosure and write-down are dependent on the facts and circumstances surrounding each loan.

The following table summarizes the amortized cost of the mortgage loan portfolio LTV ratios and credit score using available data as of December 31. The ratios are updated as information becomes available.

	DICOM Credit Score			
LTV	**1 to 100**	**101 to 500**	**501 to 999**	**Total**
2023				
0% - 50%	$ 432	—	2,830	3,262
50% - 60%	—	—	2,544	2,544
60% - 70%	1,420	—	10,858	12,278
70% - 80%	2,819	243	11,619	14,681
Total	$ 4,671	243	27,851	32,765
2022				
0% - 50%	$ 433	—	885	1,318
50% - 60%	—	—	2,039	2,039
60% - 70%	898	—	11,922	12,820
70% - 80%	3,831	245	16,067	20,143
Total	$ 5,162	245	30,913	36,320

ONSV uses LTV and credit scores ratios in commercial real estate to determine the quality of a mortgage loan and are the ONSV's primary quality indicators. 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%. ONSV's corporate policy directs that the LTV on new mortgages not exceed 80% for standard mortgages. The credit scores range from 1 to 999 and it is obtained from the borrower's credit report.

Residential Mortgage Loans - Foreign
ONSV currently holds a commercial mortgage portfolio with a total amortized cost of $58,420 and $54,352 as of December 31, 2023 and December 31, 2022, respectively. The loans are secured by residential property, primarily in Santiago, Chile. These loans are all fully amortizing over a period of generally 20 – 25 years. Underwriting requirements include that individuals have at least one to two years of job stability, a LTV of no more than 80% at origination. Additionally, a borrower's loan payment cannot be greater than 25% of their monthly income. Management reviews a variety of factors, including the borrower's DICOM report, prior to originating these loans.

Allowance for Loan Losses
Effective January 1, 2023, the Company adopted ASC 326. The Company's allowance for expected credit loss represents the portion of the amortized cost basis on mortgage loans that the Company does not expect to collect primarily based on current delinquency status.

Prior to January 1, 2023, 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 domestic commercial mortgage loan portfolio has experienced minimal historical losses throughout the years, including the last three years. The foreign mortgage loans are individually evaluated for impairment once a foreign mortgage goes past due. The Company did not have any TDRs in 2022. The adoption of ASC 326 eliminated the prior TDR guidance.

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 mortgage loan losses is as follows:

		Domestic	Foreign	Total
Balance, December 31, 2021	$	2,688	539	3,227
Provision		234	233	467
Recoveries		—	(261)	(261)
Effect of exchange rates		—	61	61
Balance, December 31, 2022		2,922	572	3,494
Cumulative effects from adoption of the CECL standard		3,118	(153)	2,965
Provision (reversal) for expected credit losses		59	281	340
Effect of exchange rates		—	11	11
Balance, December 31, 2023	$	6,099	711	6,810

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	Non-accruing loans	Non-accruing loans with no allowance	Interest income on non-accruing loans
2023											
Domestic	$	—	—	728	728	1,692,288	1,693,016	—	728	—	83
Foreign		6,347	2,264	2,479	11,090	79,384	90,474	44	—	—	—
Total	$	6,347	2,264	3,207	11,818	1,771,672	1,783,490	44	728	—	83
2022											
Domestic	$	—	—	726	726	1,586,326	1,587,052	—	n/a	n/a	n/a
Foreign		5,784	744	3,140	9,668	80,432	90,100	37	n/a	n/a	n/a
Total	$	5,784	744	3,866	10,394	1,666,758	1,677,152	37	—	—	—

(Dollars in thousands)

Performance, Impairment and Foreclosures

At December 31, 2023 the Company had one foreign mortgage loan in the process of foreclosure. At December 31, 2022 the Company had no mortgage loans in the process of foreclosure. There were no mortgage loan write-downs in 2023 or 2022. There were six foreclosures of foreign residential mortgage loans during 2023 and no foreclosures during 2022.

Domestic 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.

Foreign mortgage loans are placed on nonaccrual status once management believes the collection of accrued interest is doubtful. Once foreign mortgages are classified as nonaccrual loans, interest income is recognized under the cash basis. Interest income recognized related to nonaccrual loans was $0 for December 31, 2023 and December 31, 2022.

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

		2023	2022
Mortgage loans			
Foreign mortgage loans	$	2,240	3,712
Total	$	2,240	3,712

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
2023						
With an allowance recorded:						
Foreign mortgages	$	2,951	2,240	(711)	2,976	—
Total	$	2,951	2,240	(711)	2,976	—
2022						
With an allowance recorded:						
Foreign mortgages	$	4,856	4,284	(572)	3,182	—
Total	$	4,856	4,284	(572)	3,182	—

(Dollars in thousands)

Other Long-Term Investments

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

	2023	2022
Direct financing leases	$ 52,316	53,581
FHLB common stock	70,116	56,918
Derivative instruments	67,910	82,651
Receivable for securities	3,052	1,151
Joint venture	21,047	20,911
Chilean financing receivables	24,256	28,699
Other invested assets	104,150	42,423
	342,847	286,334
Allowance for credit losses	(793)	—
Total	$ 342,054	286,334

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

	2023	2022
Total minimum lease payments to be received	$ 70,684	74,431
Less unearned income	(19,161)	(20,850)
Net investment in direct financing leases	$ 51,523	53,581

The minimum lease payments did not include executory costs, allowance for uncollectibles, or unguaranteed residual values of leased property for 2023 and 2022. 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
2023	$ 2,103	—	—	2,103	49,420	51,523	—
2022	$ 1,126	—	—	1,126	52,455	53,581	—

Future undiscounted cash flows from direct financing leases as of December 31, 2023 are as follows:

2024	$ 6,793
2025	6,617
2026	4,952
2027	3,959
2028	3,560
Thereafter	45,596
Total undiscounted lease payments	71,477
Less imputed interest	(19,161)
Lease receivable subtotal	52,316
Less allowance for credit losses	(793)
Lease receivable total	$ 51,523

Securities Lending

As of December 31, 2023 and 2022, the Company received $228,906 and $153,810, respectively, of cash collateral on securities lending. The cash collateral is invested in short-term investments, which are recorded on the Consolidated Balance Sheets in Short-term investments securities lending collateral with a corresponding liability recorded in Payables for securities lending collateral to account for the Company's obligation to return the collateral. The Company had not received any non-cash collateral on securities lending as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, the Company had loaned securities with a fair value of $220,554 and $147,946, respectively, which are recognized on the Consolidated Balance Sheets in Securities available-for-sale and Equity securities.

Variable Interest Entities ("VIE")

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	
	2023	**2022**
Gross investment income:		
Securities available-for-sale:		
Fixed maturity securities	$ 461,698	508,298
Equity securities, at fair value	1,308	1,968
Mortgage loans on real estate	82,549	81,950
Real estate	7,942	6,477
Policy loans	45,424	46,775
Short-term investments	14,790	3,123
Other long-term investments	17,325	13,701
Total gross investment income	631,036	662,292
Interest expense	(68,532)	(66,086)
Other investment expenses	(48,060)	(49,484)
Net investment income	$ 514,444	546,722

(Dollars in thousands)

Net Realized Gains (Losses)

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

	Realized gains (losses) on investments	
	2023	**2022**
Securities available-for-sale:		
Fixed maturity securities	$ (24,319)	(11,159)
Equity securities, at fair value	51	99
Mortgage loans on real estate*	(77)	(85)
Real estate	(612)	—
Other long-term investments	63	171
Sale/transfer of subsidiary	(19)	—
Total realized (losses) gains on investments	(24,913)	(10,974)
Change in allowances for mortgage loans on real estate**	—	(234)
Change in allowance for credit loss	(1,052)	—
Net realized (losses) gains on investments	$ (25,965)	(11,208)

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

Realized gains (losses) on investments, as shown in the table above, include write-downs for OTTI of $7,006 for the year ended December 31, 2022. As of December 31, 2023, fixed maturity securities with a carrying value of $40,420, which had an allowance for credit loss of $2,675 remained in the Company's investment portfolio.

Sales of Fixed Maturity Securities, Available-for-Sale
The following table summarizes fixed maturity securities available-for-sale activity:

	2023	2022
Proceeds	$ 961,385	762,204
Gross realized gains	$ 11,303	17,886
Gross realized losses	$ (35,417)	(22,518)

The Company had no securities classified as held-to-maturity securities in 2023 or 2022.

(Dollars in thousands)

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:

		2023	2022
Securities available-for-sale:			
Fixed maturity securities	$	296,446	(1,994,314)
Change in net unrealized gains (losses)	$	296,446	(1,994,314)

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

		2023	2022
Net gains (losses) recognized during the period on equity securities	$	6,967	(10,231)
Less: Net gains (losses) recognized during the period on equity securities sold during the period		—	(1,780)
Unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$	6,967	(12,011)

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:

		2023	2022	Change
Securities available-for-sale	$	(1,233,455)	(1,529,901)	296,446
Unrealized losses related to closed block		38,979	49,349	(10,370)
Future policy benefits and claims		(2,601)	(31,316)	28,715
Deferred policy acquisition costs		80,601	189,477	(108,876)
Other policyholder funds		(7,577)	(8,871)	1,294
Deferred federal income tax provision (benefit)		237,018	278,485	(41,467)
Net unrealized gains (losses)	$	(887,035)	(1,052,777)	165,742

		2022	2021	Change
Securities available-for-sale	$	(1,529,901)	464,413	(1,994,314)
Unrealized losses related to closed block		49,349	(34,577)	83,926
Future policy benefits and claims		(31,316)	(74,786)	43,470
Deferred policy acquisition costs		189,477	(126,410)	315,887
Other policyholder funds		(8,871)	11,474	(20,345)
Deferred federal income tax provision (benefit)		278,485	(48,345)	326,830
Net unrealized gains (losses)	$	(1,052,777)	191,769	(1,244,546)

(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, cross currency swaps, 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.

As of December 31, 2022, ONSV has entered into eight cross currency swap agreements to convert the cash flows from U.S. and Euro denominated bonds into Unidad de Fomento ("UF") denominated cash flows, which do not qualify for hedge accounting as a cash flow hedge. The swap involves exchanging principal and fixed interest payments on a bond in one currency for principal and fixed interest payments on a similar loan in another currency. The parties to the swap exchange principal amounts at the beginning and the end of the swap. The two specified principal amounts are set to be approximately equal to one another given the exchange rate at the time the swap is initiated. 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 December 2018, the Company replaced the interest rate swaptions used in its interest rate hedging program. Each swaption consists of a five-year option to enter into an interest rate swap on the ten-year swap rate. Since this does not meet the definition of a hedge, it is treated as a derivative with no hedging designation under ASC 815, with the gain or loss on the derivative instrument recognized in earnings.

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

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

In November 2014, the Company entered into a cross currency swap agreement which qualified for hedge accounting as a cash flow hedge. The Company purchased a ten-year bond in the amount of €7 million with an annual foreign currency coupon of 1.93%. The Company concurrently entered into a matching cross currency swap effectively converting the cash flows of the Euro denominated bond into U.S. denominated cash flows. The investment receives a fixed rate of 3.78% on the converted U.S. investment of $9,038.

Interest on the bond is paid annually. During the years ended December 31, 2023 and 2022, the Company had foreign currency swap losses of $8 and $161, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the years ended December 31, 2023 or 2022. As of December 31, 2023, 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 on the Consolidated Balance Sheets:

		December 31			
Derivatives not designated as hedging instruments under ASC 815	**Balance sheet location**	**2023 Fair value**	**2023 Notional Amount**	**2022 Fair value**	**2022 Notional Amount**
Asset derivatives:					
Equity futures	Other long-term investments	$ —	—	8,138	299,643
Equity put options	Other long-term investments	19,313	376,824	59,620	568,957
Equity index call options	Other long-term investments	46,792	2,239,403	11,468	1,899,884
Cross currency swaps	Other long-term investments	1,805	19,038	3,425	26,038
GMIB reinsurance contracts	Reinsurance recoverable	880,436	n/a	988,433	n/a
GLWB embedded derivatives	Other assets	426	n/a	—	n/a
Total		$ 948,772	2,635,265	1,071,084	2,794,522
Liability derivatives:					
GLWB embedded derivatives (variable annuity)	Future policy benefits and claims	$ —	n/a	1,695	n/a
GMAB/GMWB embedded derivatives	Future policy benefits and claims	1,536	n/a	6,311	n/a
Fixed indexed annuity embedded derivatives[1]	Future policy benefits and claims	215,990	n/a	167,106	n/a
Equity futures	Other liabilities	17,280	503,280	—	—
Total		$ 234,806	503,280	175,112	—

1 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 2023	2022
Equity futures	Net realized gains (losses): derivative instruments	$ (78,031)	1
Currency futures	Net realized gains (losses): derivative instruments	—	13,038
Equity put options	Net realized gains (losses): derivative instruments	(49,729)	25,452
Equity index call options	Net realized gains (losses): derivative instruments	18,114	(34,244)
Equity swaps	Net realized gains (losses): derivative instruments	(895)	1,493
Swaptions	Net realized gains (losses): derivative instruments	—	(4,716)
External reinsurance embedded derivative	Net realized gains (losses): derivative instruments	(34)	(118)
GMIB reinsurance contracts	Benefits and claims	(107,997)	(88,689)
GMAB/GMWB embedded derivatives	Benefits and claims	4,775	9,601
GLWB embedded derivatives	Benefits and claims	2,121	8,991
Fixed indexed annuity embedded derivatives[1]	Benefits and claims	(48,884)	24,201
Total		$ (260,560)	(44,990)

[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, 2023 and 2022, a non-affiliated reinsurer held assets in trust with an estimated fair value of $732,755 and $708,031, respectively, and a letter of credit of $42,401 and $308,300, respectively.

(Dollars in thousands)

(9) Deferred Policy Acquisition Costs and Deferred Sales Inducements

The deferred policy acquisition costs and deferred sales inducements and changes thereto for the years ended December 31, 2023 and 2022 were as follows:

		Deferred policy acquisition costs	Deferred sales inducements	Total
Balance, December 31, 2021	$	1,539,941	82,059	1,622,000
Acquisition costs deferred		59,422	92	59,514
Amortization, net of unlocking and interest		(106,710)	(767)	(107,477)
Unrealized investment losses		315,888	—	315,888
Effect of foreign currency translation and other		919	—	919
Balance, December 31, 2022		1,809,460	81,384	1,890,844
Acquisition costs deferred		101,678	80,411	182,089
Amortization, net of unlocking and interest		(118,600)	4,005	(114,595)
Unrealized investment gains		(108,876)	—	(108,876)
Effect of foreign currency translation and other		151	—	151
Balance, December 31, 2023	$	1,683,813	165,800	1,849,613

(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.

Associated with the demutualization transaction discussed in Note 1, ALIC was obligated by Constellation to effectuate the increase in eligible member's policy account value as consideration for their membership interests. While the form of the consideration to extinguish membership interests was not a dividend, guidance indicates that these types of transactions should be considered an expense of the insurance company. As such, the Company recorded the increase in policyholder account value as an expense in the Consolidated Statements of Operations. Constellation was required to reimburse the Company for effectuating the increase in account value for eligible member policies through a capital contribution, as defined in the demutualization agreement (see Note 18).

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%. Reserves for the Company's life products 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.

The liability for future policy benefits for universal life policies and investment contracts represents approximately 67.0% and 65.5% of the total liability for future policy benefits as of December 31, 2023 and 2022, respectively. The liability has been established based on accumulated account values without reduction for surrender penalty provisions. The average interest rate credited on investment product policies was 4.1% and 4.5% for the years ended December 31, 2023 and 2022, respectively. Approximately 21.1% and 24.7% of the universal life policies and investment contracts were at their guaranteed minimum interest rate as of December 31, 2023 and 2022, respectively.

The Company has established a reserve for three universal life plans with lifetime secondary guarantees, which the Company discontinued. The reserve has been established based on projected interest rates and mortality assumptions. The Company holds an excess benefit liability based on the present value of actual historical and estimated future benefits and assessments. The resulting liability is reduced by any claims that meet the definition of excess benefits. 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. At December 31, 2023 and 2022, this reserve balance was $77,565 and $70,727, 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 0.03% and 3.30% for the years ended December 31, 2023 and 2022, 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, 2023 and 2022.

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. Determination of the expected benefit payments and assessments are based on a range of scenarios and assumptions, including those related to market rates of return and volatility, contract surrenders and mortality experience. The accounting for these guarantees impacts estimated gross profits used to calculate amortization of DAC and other similar balances. 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 excess 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. Determination of the expected benefit payments and assessments are based on a range of scenarios and assumptions, including those related to market rates of return and volatility, contract surrenders, mortality experience, annuitization rates and claim settlements. The accounting for these guarantees impacts estimated gross profits used to calculate amortization of DAC and other similar balances. 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, 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.

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. Determination of the expected benefit payments and assessments are based on a range of scenarios and assumptions, including those related to market rates of return and volatility, contract surrenders, mortality experience and claim settlements. The accounting for these guarantees impacts estimated gross profits used to calculate amortization of DAC and other similar balances. 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, 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.

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, 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. 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, including variable annuity contracts assumed on a modified coinsurance basis as discussed in Note 11 (note that most contracts contain multiple guarantees):

	2023			
	Death benefits	Living benefits		
	GMDB	GMIB	GLWB	GMAB
Return of net deposit				
Total account value	$ 14,855,659	—	—	224,222
Separate account value	$ 14,672,802	—	—	223,867
Net amount at risk [1]	$ 393,867	—	—	975
Weighted average attained age of contract holders	73	—	—	66
Return of net deposits accrued at a stated rate				
Total account value	$ 517,657	—	—	5,697
Separate account value	$ 510,176	—	—	4,998
Net amount at risk [1]	$ 130,782	—	—	18
Weighted average attained age of contract holders	75	—	—	76
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value				
Total account value	$ 1,860,861	5,202,599	16,601,387	—
Separate account value	$ 1,851,337	5,125,556	16,601,351	—
Net amount at risk [1]	$ 732,191	297,085	190,999	—
Weighted average attained age of contract holders	73	71	72	—
Return of highest anniversary value				
Total account value	$ 6,973,286	—	—	—
Separate account value	$ 6,849,236	—	—	—
Net amount at risk [1]	$ 140,817	—	—	—
Weighted average attained age of contract holders	70	—	—	—
Total				
Total account value	$ 24,207,463	5,202,599	16,601,387	229,919
Separate account value	$ 23,883,551	5,125,556	16,601,351	228,865
Net amount at risk [1]	$ 1,397,657	297,085	190,999	993
Weighted average attained age of contract holders	72	71	72	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)

	2022			
	Death benefits	Living benefits		
	GMDB	GMIB	GLWB	GMAB
Return of net deposit				
Total account value	$ 4,774,414	—	—	306,883
Separate account value	$ 4,538,626	—	—	306,216
Net amount at risk [1]	$ 140,880	—	—	6,596
Weighted average attained age of contract holders	72	—	—	64
Return of net deposits accrued at a stated rate				
Total account value	$ 1,814,661	—	—	6,376
Separate account value	$ 1,805,252	—	—	5,206
Net amount at risk [1]	$ 845,924	—	—	124
Weighted average attained age of contract holders	72	—	—	75
Highest of return of net deposits accrued at a stated rate and return of highest anniversary value				
Total account value	$ 1,814,661	5,036,882	6,558,459	—
Separate account value	$ 1,805,252	4,950,770	6,557,906	—
Net amount at risk [1]	$ 845,924	328,480	118,972	—
Weighted average attained age of contract holders	72	70	70	—
Return of highest anniversary value				
Total account value	$ 7,037,422	—	—	—
Separate account value	$ 6,877,999	—	—	—
Net amount at risk [1]	$ 631,074	—	—	—
Weighted average attained age of contract holders	70	—	—	—
Total				
Total account value	$ 15,441,158	5,036,882	6,558,459	313,259
Separate account value	$ 15,027,129	4,950,770	6,557,906	311,422
Net amount at risk [1]	$ 2,463,802	328,480	118,972	6,720
Weighted average attained age of contract holders	71	70	70	65

[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.

(Dollars in thousands)

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 2023 and 2022.

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

		2023	2022
Mutual funds:			
Bond	$	3,878,134	3,858,260
Equity		9,441,740	9,318,808
Money market		460,571	553,098
Total	$	13,780,445	13,730,166

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, 2021	$	165,591	(121,814)	166,709	15,912
Incurred Claims		31,867	9,017	1,325	—
Paid Claims		(31,867)	(9,017)	(1,325)	—
Other [1]		26,182	95,228	18,673	(9,601)
Balance at December 31, 2022		191,773	(26,586)	185,382	6,311
Incurred Claims		37,999	3,608	7,776	—
Paid Claims		(37,999)	(3,608)	(7,776)	—
Other [1]		(25,161)	10,575	111,368	(4,774)
Balance at December 31, 2023	$	166,612	(16,011)	296,750	1,537

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, market factors and new external reinsurance assumed (see Note 11) .

The reserve balances in the table above include reserves for direct, reinsurance assumed and reinsurance ceded balances. As of December 31, 2023, direct G reserves were $1,248,237, assumed G reserves were $122,583, ceded G reserves were $921,933 and net G reserves were $448,888. As of December 31, 2022, direct G reserves were $1,396,893, ceded G reserves were $1,040,013 and net G reserves were $356,880. The direct and assumed reserves were calculated in accordance with FASB ASC Topic 944, *Financial Services*, and the reinsurance ceded reserves were calculated in accordance with FASB ASC Topic 815, *Derivatives*. See Note 6 for a reconciliation of the change in the reinsurance ceded reserve.

Fixed Indexed Annuity Riders

GLWB Riders

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

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

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

In 2018 the Company offered an exchange program, which provided certain variable annuity policyholders with a GMIB rider the opportunity to exchange the policy and associated rider for a fixed indexed annuity policy with an enhanced GLWB rider. The notable difference of the enhanced GLWB rider is the calculation of the initial GLWB benefit base. At the policy's initial sweep date, the GLWB base is set to equal the contract value on the sweep date multiplied by the GLWB enhancement percentage, which is set based on the ratio of GMIB benefit base to account value at the time of exchange. After the initial sweep date, the GLWB base will be the greater of the step-up GLWB base and the annual credit GLWB base.

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

The base account reserve balances, net of reinsurance, for fixed indexed annuity contracts were $215,990 of embedded derivative and $1,403,802 of host and fixed account reserves as of December 31, 2023. The balances were $167,106 of embedded derivative and $875,960 of host and fixed account reserves as of

December 31, 2022. The G reserve balances, net of reinsurance, for fixed indexed annuity contracts with guarantees were $44,026 and $41,015 as of December 31, 2023 and 2022, 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 $1,634,000 and $1,088,000 as of December 31, 2023 and 2022, respectively. The account value specific to the GLWB riders was approximately $476,000 and $518,000 as of December 31, 2023 and 2022, respectively.

Direct and net G reserves were $44,026 and $41,015 as of December 31, 2023 and 2022, respectively. No G reserves were ceded to external parties during 2023 and 2022.

(11) Reinsurance

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

External Reinsurance
For the Company's life insurance products, the Company reinsures a percentage of the mortality or morbidity risk on a quota share basis or on an excess of retention basis. The Company also reinsures risk associated with their disability and health insurance policies. Ceded premiums approximated 17% of gross earned life and accident and health premiums during 2023 and 2022.

For the Company's individual variable annuity products, the Company reinsures various living and death benefit riders, including GMDB and GMIB.

For the Company's fixed annuity products, the Company had coinsurance agreements in place to reinsure fixed annuity products sold between 2001 and 2006. Ceded amounts under these coinsurance agreements ranged from one-third to two-thirds of the business produced. Effective September 30, 2023, the Company recaptured this ceded block of Single Premium Deferred Annuity ("SPDA") business from the external reinsurer as part of a mandatory termination. The recaptured contract included a block of BOLI business. The reinsurer held assets in trust to back the reserves associated with the SPDA block of business. At the time of recapture, the Company's SPDA reserves increased $51,050 and the Company recorded a receivable from the trust for the same amount. No assets were held in trust related to the BOLI block of business. At the time of recapture, the Company's BOLI reserves increased $236. The ceded reserves attributable to fixed annuity coinsurance agreements were $0 and $60,475 as of December 31, 2023 and 2022, 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. Effective March 31, 2022, the combined treaty was recaptured, resulting in a final settlement of $572. At the inception of each of these deposit accounting agreements, a risk charge liability was recorded in Other liabilities on the Consolidated Balance Sheets, with a corresponding risk charge expense recorded in Other operating costs and expenses on the Consolidated Statements of Operations. The risk charge expense related to these agreements was $572 for the year ended December 31, 2022. There was no liability at December 31, 2022 due to the treaty recapture and final settlement.

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 $341 and $364 as of December 31, 2023 and 2022, respectively.

Effective July 1, 2019, the Company entered into a reinsurance agreement to coinsure 100% of its retained in force BOLI and SPDA blocks of business with a third-party reinsurer licensed as an authorized reinsurer in the State of Ohio. The BOLI block of business met the requirements for reinsurance accounting; however, because the SPDA block qualifies as investment contracts, the SPDA portion of the agreement did not meet the criteria for reinsurance accounting and was accounted for under deposit accounting. Effective October 1, 2021, the contract was amended to include SPDA contracts reinsured under an older reinsurance agreement. The amended SPDA portion of the agreement is accounted for under deposit accounting. As a result of the initial treaty, a Reinsurance deposit asset of $935,792 was recorded on the Consolidated Balance Sheets at the inception of the treaty. With the contract amendment, an additional $98,814 was added to the existing deposit asset, effective October 1, 2021. The total asset is carried at a net amortized value of $627,853 and $782,101 on the Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively.

Effective December 31, 2021, the Company entered into a coinsurance funds withheld/yearly renewable term reinsurance agreement with a third-party reinsurer certified in the State of Ohio in which the Company ceded term insurance policies. The treaty contained a provision for statutory surplus relief of $4,500 as the initial ceding commission to offset the first year policy expenses. The initial ceding commission will be repaid, with interest, over a three year period. As of December 31, 2023 and 2022, the outstanding liability was $1,500 and $3,000, respectively. The risks transferred by the Company to the reinsurer under the agreement are not considered significant insurance risks and therefore do not qualify for reinsurance accounting. The Company has applied deposit accounting to this agreement. Accordingly, the Company reflected the liability in Other liabilities on the Consolidated Balance Sheets. The risk charge liabilities and expenses related to this agreement settle quarterly, beginning March 31, 2022.

Effective March 31, 2022, the Company entered into a funds withheld reinsurance agreement to coinsure 100% of all open block Whole Life, including all Whole Life riders, net of existing external reinsurance issued from approximately August 1998 through December 2021 with a third-party reinsurer licensed as an authorized reinsurer in the State of Ohio. The risks transferred by the Company to the reinsurer under the agreement are not considered significant insurance risks and therefore do not qualify for reinsurance accounting. The Company has applied deposit accounting to this agreement. Accordingly, the risk charge liabilities and expenses related to this agreement settle quarterly, beginning June 30, 2022. The risk charge expense related to this agreement was $6,905 and $5,480 as of December 31, 2023 and 2022, respectively.

Effective April 1, 2023, ALIC entered into a reinsurance transaction with an external insurer in which the Company assumed a block of variable annuity business with a GLWB rider, with separate account liabilities reinsured on a modified coinsurance basis and general account liabilities reinsured on a coinsurance basis. At inception of the agreement, the Company recorded a $32,526 cost of reinsurance asset. The separate account assets and liabilities are retained by the ceding company and not reported on the Company's Consolidated Balance Sheets.

Affiliate Reinsurance
As it relates to reinsurance among affiliates, to mitigate the volatility of statutory surplus for ALIC, ALIC ceded variable annuity-related risks, living and death benefits to SYRE for the GMIB, GMDB, and GLWB riders. Effective April 1, 2019, ALIC recaptured its direct business previously ceded to SYRE. ALIC 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. Effective July 1, 2021, the base contracts associated with the rider benefits were ceded to SUNR with the GMIB base contracts being ceded from SUNR to SYRE. Effective October 1, 2021, the portion of the GLWB benefit riders previously ceded to an external reinsurer were recaptured by ALIC and then ceded to SUNR.

Additionally, to consolidate the management of such living benefit risks, ALIC assumes GMIB and associated riders issued by NSLAC, which are correspondingly retroceded to SYRE as discussed above.

Effective April 1, 2023, ALIC entered into a transaction to retrocede a block of variable annuity business with a GLWB rider assumed from an external reinsurer to SYRE on a modified coinsurance basis.

Effective January 2018, ALIC ceded 100% of the fixed indexed annuities exchange program business and associated GLWB riders to SYRE. Effective March 31, 2022, ALIC and SYRE received regulatory approval and executed an amendment to the fixed indexed annuity reinsurance agreement to cede all retained, and any future, fixed indexed annuity policies and associated GLWB riders to SYRE.

ALIC assumes BOLI policies issued by ALAC, but ceased reinsuring new policies in October 2016.

ALAC 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 ALAC and improve capacity to write new business, the Company established two affiliated Vermont captive insurers, MONT and KENW, and an Ohio captive, CMGO. ALAC cedes certain term life policies and certain death benefit guarantee universal life policies to MONT. ALAC 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 ALIC, which ALIC cedes to external reinsurers.

ONSV entered into a proportional quota share agreement with ONSP whereby ONSV assumes 68% of the premiums and claims related to ONSP's participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to premiums and claims incurred between January 1, 2021 and December 31, 2022.

In April 2022, ONSV entered into an intercompany reinsurance contract with ONSP whereby ONSV assumes 100% of the unreported claims related to ONSP's SIS I through IV participation in the Peruvian survival, disability and burial group insurance program. This agreement applies to unreported claims incurred starting on March 1, 2022 and onward.

(Dollars in thousands)

In January 2023, ONSV entered into a proportional quota share reinsurance agreement with ONSP whereby ONSV assumes 40% of the premiums and claims related to ONSP's participation in the Peruvian survival disability and burial yearly renewable group life and health insurance program. This agreement applies to premiums and claims incurred between January 1, 2023 and December 31, 2023.

In December 2023, ONSV entered into a proportional quota share reinsurance agreement with ONSP whereby ONSV assumes 40% of the premiums and claims related to ONSP's participation in the Peruvian survival disability and burial yearly renewable group life and health insurance program. This agreement applies to premiums and claims incurred between January 1, 2024 and December 31, 2024.

All of the affiliated reinsurance transactions eliminate in consolidation at the CII level.

The reconciliations of total premiums and charges to net premiums and charges and total benefits and claims to net benefits and claims for the years ended December 31, were as follows:

		2023	2022
Premiums and charges:			
Direct premiums and charges	$	1,387,224	1,627,204
Reinsurance assumed - external		(1,279)	570
Reinsurance ceded - external		(145,543)	(243,384)
Net premiums and charges	$	1,240,402	1,384,390
Benefits and claims:			
Direct benefits and claims	$	1,236,119	1,911,318
Reinsurance assumed - external		129,406	609
Reinsurance ceded - external		(210,051)	(271,387)
Net benefits and claims	$	1,155,474	1,640,540

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, 2023, assets held in trust and letters of credit between affiliates were $998,171 and $825,000, respectively. As of December 31, 2022, assets held in trust and letters of credit between affiliates were $890,447 and $825,000, respectively. See Note 13 for further information on the letters of credit.

(Dollars in thousands)

(12) Long-Term Debt Obligations

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

		2023	2022
Surplus notes			
6.875% fixed rate due 2042	$	247,949	247,838
5.000% fixed rate due 2031		4,179	4,139
5.800% fixed rate due 2027		5,954	5,939
8.500% fixed rate due 2026		47,925	49,891
Senior notes			
6.625% fixed rate due 2031		231,935	247,919
6.800% fixed rate due 2030		412,338	421,825
Total long-term debt obligations	$	950,280	977,551

Surplus Notes

In June 2012, ALIC 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. ALIC 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 ALIC.

In December 2011, ALIC 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. ALIC 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 ALIC.

In April 2007, ALIC 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. ALIC 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 ALIC.

In May 1996, ALIC 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. ALIC 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 ALIC. In December 2023, ALIC purchased $2,000 of the surplus note on the open market.

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, CII 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. In January 2021, the interest rate increased to 5.800% due to changes in CII's credit rating. In July 2022, the interest rate increased to 6.800% due to CII no longer receiving a credit rating from Standards and Poor's ("S&P"). CII may redeem this senior note at its option. In December 2023, ALIC purchased $10,000 of the senior note on the open market and will hold the note as an investment. The note value settlement and investment value held are eliminated on consolidation.

In April 2011, CII 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. CII may redeem this senior note at its option. In December 2023, ALIC purchased $16,300 of the senior note on the open market and will hold the note as an investment. The note value settlement and investment value held are eliminated on consolidation.

The senior notes are obligations of CII and are not subject to Department approval for payments of principal or interest. Claims of the policyholders of ALIC and ALAC 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 $68,495 and $66,174 during the years ended December 31, 2023 and 2022, respectively. Total interest expense is included in investment expenses as a component of net investment income.

(13) Bank Line of Credit

On May 7, 2021, the Company entered into a $1,500,000 senior unsecured, syndicated credit facility. The credit facility is established for the purpose of issuing letters of credit and loans for general corporate purposes and will mature in May 2026. Letters of credit can be issued up to the maximum credit facility, however loans under the credit facility are limited to $500,000 with total combined amounts not to exceed $1,500,000. During 2023 and 2022, the Company borrowed $150,000 and $100,000, respectively, at various times against the facility and repaid all outstanding balances within the same calendar year.

The Company utilized $750,000 and $725,000 of this facility as of December 31, 2023 and 2022, respectively, to secure a letter of credit for SYRE, with SUNR as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

The Company utilized $75,000 and $100,000 of this facility as of December 31, 2023 and 2022, respectively, to secure a letter of credit for SYRE, with ALIC as the beneficiary, in order to recognize reserve credit under statutory accounting principles.

Total interest and fees paid on these credit facilities were $23,735 and $23,199 in 2023 and 2022, respectively.

(Dollars in thousands)

(14) Income Taxes

The provision for income taxes is as follows:

		2023	2022
Current (benefit) expense	$	(56)	66,378
Deferred expense (benefit)		31,151	(122,688)
Provision (benefit) for income taxes	$	31,095	(56,310)

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:

		2023	2022
Pre-tax income times U.S. enacted tax rate	$	38,172	(54,043)
Tax-preferred investment income		(14,723)	(10,922)
Foreign subsidiaries statutory tax differential		(2,538)	(244)
Deemed income from foreign operations		4,743	3,314
Valuation allowance		4,940	3,112
Prior period adjustments		86	(1,378)
Non-deductible expenses		(1,304)	3,461
State taxes		1,407	(1,292)
Other, net		312	1,682
Provision (benefit) for income taxes	$	31,095	(56,310)
Effective tax rate		17.1%	21.9%

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 the 2023 tax return, the Company anticipates recognizing an income tax benefit of $6,846. For the 2022 tax return, the Company recognized an income tax benefit of $7,575.

The Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities through the 2019 tax year. As of December 31, 2020, the Company had $126 of uncertain tax positions related to the SA DRD company share percentages.

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.

(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:

		2023	2022
Deferred tax assets:			
Pension and benefit obligations	$	9,217	10,343
Future policy benefits		1,641,582	1,807,758
Derivatives		12,541	—
Investments		263,103	318,067
Net operating loss carryforwards		30,731	33,326
Tax credits		3,316	6,431
Fixed asset capitalization and depreciation		74,109	74,133
Section 481(a) adjustment		5,502	5,783
Other		12,222	41,511
Total gross deferred tax assets		2,052,323	2,297,352
Valuation allowance on deferred tax assets		(8,051)	(3,112)
Net deferred tax assets		2,044,272	2,294,240
Deferred tax liabilities:			
Deferred policy acquisition costs		252,686	271,697
Reinsurance recoverable		1,241,314	1,402,575
Reinsurance liability		291,788	285,419
Other		5,352	8,018
Total gross deferred tax liabilities		1,791,140	1,967,709
Net deferred tax asset	$	253,132	326,531

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. As discussed in Note 1, the Company had a change of ownership defined under Internal Revenue Code Section 382 on March 31, 2022. Code Section 382 limits utilization of carryforwards and other tax attributes. The Company believes it is more likely than not that it will not realize the benefits of some of these carryforwards. On the basis of this evaluation, as of December 31, 2023, a valuation allowance of $8,051 has been recorded. As of December 31, 2022, a valuation allowance of $3,112 was recorded.

As of December 31, 2023, the Company has non-life net operating loss carryforwards of $129,378 of which $106,907 is expiring in years 2036 through 2037 and $22,471 can be carried forward indefinitely. As of December 31, 2022, the Company has non-life net operating loss carryforwards of $108,688 of which $106,907 is expiring in years 2036 through 2037 and $1,781 can be carried forward indefinitely. As of December 31, 2023 and 2022, the Company has no remaining life net operating loss carryforward. As of

December 31, 2023, SYRE has a net operating loss of $16,958, which can be carried forward indefinitely and used only to offset future taxable income of SYRE. As of December 31, 2022, SYRE had $69,888 of net operating loss carry forwards.

As of December 31, 2023, the Company has a federal valuation allowance of $1,337 for tax credit carryforwards and $6,714 for non-life net operating loss carryforwards not expected to be utilized before they expire as a result of the aforementioned Code Section 382 limitation. As of December 31, 2022, the Company had a federal valuation allowance of $2,582 for tax credit carryforwards and $530 for non-life net operating loss carryforwards. As of December 31, 2023, the Company has a $12,676 net capital loss carryforward expiring in 2027-2028. As of December 31, 2022, the Company had a $3,744 net capital loss carryforward expiring in 2027. As of December 31, 2023, the Company has a $10 non-life charitable contribution carryforward. As of December 31, 2022, the Company had no non-life charitable contribution carryforward. As of December 31, 2023, the Company has tax credit carryforwards of $3,316 expiring in 2030-2033. As of December 31, 2022, the Company has tax credit carryforwards of $1,337 expiring in 2030-2032.

(15) Pensions and Other Post-Retirement Benefits

a) Home Office Pension Plan

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

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

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

The measurement dates were December 31, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022.

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 plan was terminated effective as of January 1, 2023. The impact of the curtailment is included below.

The measurement dates were December 31, 2023 and 2022.

(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	
	2023	**2022**	**2023**	**2022**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 49,621	77,937	6,229	9,075
Service cost	—	12	19	34
Interest cost	2,463	2,254	320	244
Actuarial (gain) loss	2,052	(20,147)	68	(1,980)
Benefits paid*	(6,332)	(12,394)	(735)	(628)
Settlement/curtailment	537	1,959	—	(516)
Projected benefit obligation at end of year	$ 48,341	49,621	5,901	6,229
Accumulated benefit obligation	$ 48,341	49,573		
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 58,369	76,050	—	—
Actual return on plan assets	6,708	(9,267)	—	—
Benefits and expenses paid	(4,388)	(8,414)	—	—
Fair value of plan assets at end of year	$ 60,689	58,369	—	—
Funded status**	$ 12,348	8,748	(5,901)	(6,229)

* 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
2023				
Projected benefit obligation	$	46,126	2,215	48,341
Fair value of plan assets		60,689	—	60,689
Funded status	$	14,563	(2,215)	12,348
2022				
Projected benefit obligation	$	46,044	3,577	49,621
Fair value of plan assets		58,369	—	58,369
Funded status	$	12,325	(3,577)	8,748

		Pension benefits		Other benefits	
		2023	2022	2023	2022
Amounts recognized in the balance sheet consist of:					
Other assets (liabilities)	$	12,348	8,748	(5,901)	(6,229)

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

		Pension benefits		Other benefits	
		2023	2022	2023	2022
Net actuarial (gain) loss	$	(304)	(3,872)	68	(1,980)

		Pension benefits		Other benefits	
		2023	2022	2023	2022
Amounts recognized in accumulated other comprehensive income:					
Net actuarial loss	$	5,804	7,197	2,031	1,673
Total	$	5,804	7,197	2,031	1,673

(Dollars in thousands)

	Pension benefits	
	2023	2022
Components of net periodic benefit cost:		
Service cost	$ —	12
Interest cost	2,463	2,254
Expected return on plan assets	(3,816)	(5,049)
Amortization of net loss/(gain)	211	633
Settlement	877	1,281
Net periodic benefit cost	$ (265)	(869)

	Other benefits	
	2023	2022
Components of net periodic benefit cost:		
Service cost	$ 19	34
Interest cost	320	244
Amortization of net loss/(gain)	282	498
Curtailment	—	(516)
Net periodic benefit cost	$ 621	260

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	
	2023	2022
Projected benefit obligation	$ 2,215	3,577
Accumulated benefit obligation	2,216	3,529

(Dollars in thousands)

f) Assumptions

	Pension benefits		Other benefits	
	2023	**2022**	**2023**	**2022**
Weighted average assumptions used to determine net periodic benefit cost at January 1:				
Discount rate	5.40%	3.06%	5.45%	2.99%
Expected long-term return on plan assets	7.00%	7.00%	—	—
Rate of compensation increase	3.50%	3.70%	4.25%	4.25%
Health care cost trend rate assumed for next year:				
Before 65	—	—	9.00%	8.80%
Age 65 and older	—	—	0.00%	0.40%
Rate to which the health cost trend rate is assumed to decline (the ultimate trend rate):				
Before 65	—	—	9.00%	8.70%
Age 65 and older	—	—	0.00%	0.30%
Year that the rate reaches the ultimate trend rate	—	—	2023	2025
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.05%	5.40%	5.05%	5.45%
Rate of compensation increase	3.50%	3.50%	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 2023 service cost and interest cost	$ 16	(15)
Effect on 2023 other post-retirement benefit obligation	263	(264)

(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
2023				
Bond funds	$ 18,259	—	—	18,259
Equity funds	42,430	—	—	42,430
Total assets	$ 60,689	—	—	60,689
2022				
Bond funds	$ 20,757	—	—	20,757
Equity funds	37,612	—	—	37,612
Total assets	$ 58,369	—	—	58,369

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, 2023 and 2022.

The assets of the Company's defined benefit pension plan ("the Plan") are invested in group variable annuity contracts with ALIC offering specific investment choices from various asset classes providing diverse and professionally managed options. As of December 31, 2023 and 2022, $25,800 and $43,095, 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 30% of the weighted average return and equity securities make up 70% 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:

	2023	2022
Equity securities	70%	64%
Debt securities	30	36
Total	100%	100%

h) Cash Flows

Contributions

The minimum funding requirement under The Employee Retirement Income Security Act of 1974 for 2023 and 2022 was $0. No contributions were made to the qualified pension plan for the years ended December 31, 2023 or 2022. There is no planned contribution to the qualified pension plan for the 2024 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
2024	$	5,823	708
2025		5,466	644
2026		4,318	612
2027		4,443	609
2028		4,939	577
2029 – 2033		13,908	2,281

i) Other Plan Expenses

The Company maintained a qualified contributory defined contribution profit-sharing plan covering substantially all employees. Company contributions to the profit-sharing plan were based on the net earnings of the Company and were payable at the sole discretion of management. During 2023, the profit-sharing plan was restructured, and the Company ceased contributions. The expense for contributions to the profit-sharing plan for 2023 and 2022 was $1,599 and $4,026, respectively.

Employees hired on or after January 1, 1998 are covered by a defined contribution pension plan. The expense reported for this plan was $2,650 and $2,906 in 2023 and 2022, 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 $122 and $98 in 2023 and 2022, respectively.

(16) Closed Block

Effective August 1, 1998, ALIC 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 CII. 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, 2023 and 2022 and for each of the years in the two-year period ended December 31, 2023 follows:

		2023	2022
Closed Block liabilities:			
Future policy benefits and claims	$	553,647	577,639
Policyholders' dividend accumulations		24,730	26,250
Other liabilities		1,149	1,151
Total Closed Block liabilities	$	579,526	605,040
Closed Block assets:			
Fixed maturity securities available-for-sale, at fair value (amortized cost of $421,472 and $452,118 as of December 31, 2023 and 2022, respectively)	$	382,493	402,769
Mortgage loans on real estate, net		45,237	32,111
Policy loans		70,530	71,986
Other policyholder funds		29,178	37,171
Cash and short-term investments		1,610	5,210
Accrued investment income		4,358	4,509
Deferred policy acquisition costs		16,285	19,891
Reinsurance recoverable		1,554	981
Deferred federal income taxes		8,186	10,363
Other assets		388	504
Total Closed Block assets	$	559,819	585,495
Excess of reported Closed Block liabilities over Closed Block assets	$	19,707	19,545
Amounts included in accumulated other comprehensive income:			
Unrealized investment losses, net of tax		(37,460)	(46,529)
Allocated to policyholder dividend obligation, net of tax		(1,519)	(2,820)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$	(19,272)	(29,804)

(Dollars in thousands)

		2023	2022
Change in policyholder dividend obligation:			
Balance at beginning of year	$	26,250	29,070
Net unrealized investment activity		(1,519)	(2,820)
Balance at end of year	$	24,731	26,250
Closed Block revenues and expenses:			
Traditional life insurance premiums	$	10,935	11,914
Net investment income		26,046	24,956
Net realized gains (losses) on investments		8	(17)
Benefits and claims		(23,554)	(83,367)
Provision for policyholders' dividends on participating policies		(3,395)	(3,777)
Amortization of deferred policy acquisition costs		(3,605)	(3,435)
Other operating costs and expenses		(1,839)	(1,694)
Income (loss) before federal income taxes		4,596	(55,420)
Income tax expense (benefit)		1,099	(11,641)
Closed Block net income (loss)	$	3,497	(43,779)

(17) Regulatory RBC and Dividend Restrictions

The Company's domestic insurance subsidiaries, ALIC, ALAC, 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, ALIC, ALAC, CMGO and SUNR, do not have any permitted statutory accounting practices as of December 31, 2023 or 2022. NSLAC, a New York domiciled life insurance company, does not have any permitted statutory accounting practices as of December 31, 2023 or 2022.

The Company's subsidiary, SUNR, applies a prescribed practice, which values assumed GMDB and GLWB risks on variable annuity contracts from ALIC 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 ALIC 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 effect is an increase of $255,626 and $319,035 as of December 31, 2023 and 2022, respectively. If the prescribed practices were not applied, ALIC'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 ALAC. 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 ALAC. There is no difference in net loss between NAIC statutory accounting practices and practices permitted by the Vermont Department.

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

Statutory Surplus and Income
State insurance regulators and the NAIC have adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. As of December 31, 2023, ALIC, ALAC, 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, 2023, the Company's primary life insurance subsidiary, ALIC, had total adjusted capital and company action level RBC of $2,103,575 and $236,337, respectively. Additionally, as of December 31, 2023, ALIC's authorized control level RBC was $118,169.

The combined statutory basis net income (loss) of ALIC, ALAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $219,751 and ($229,814) for the years ended December 31, 2023 and 2022, respectively.

The combined statutory basis capital and surplus of ALIC, ALAC, NSLAC, MONT, KENW, CMGO and SUNR, after intercompany eliminations, was $1,952,848 and $1,965,923 as of December 31, 2023 and 2022, respectively.

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

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

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

Dividend Restrictions

The payment of dividends by ALIC to CII is limited by Ohio insurance laws. The maximum dividend that may be paid to CII without prior approval of the Director of Insurance is limited to the greater of ALIC'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 ALIC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $195,000 may be paid by ALIC to CII in 2024 without prior approval. Dividends of $196,590 and $419,000 were declared and paid by ALIC to CII in 2023 and 2022, respectively.

The payment of dividends by ALAC to ALIC 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 ALAC'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 ALAC, even if it is within the above parameters, would be deemed extraordinary under Ohio law. Therefore, dividends of approximately $37,000 may be paid by ALAC to ALIC in 2024 without prior approval. ALAC declared and paid ordinary dividends to ALIC of $0 and $20,000 in 2023 and 2022, respectively. No extraordinary dividends were declared or paid during 2023 or 2022.

The payment of dividends by CMGO to ALIC is limited by Ohio insurance laws. CMGO may pay to their stockholder, ALIC, 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 2023 or 2022.

The payment of dividends by SUNR to ALIC is limited by the SUNR plan of operations, which was approved by the Ohio Department of Insurance. SUNR declared and paid extraordinary dividends to ALIC of $88,000 and $200,000 in 2023 and 2022, respectively. Due to dividend limitations for 2022, $30,027 was classified as a dividend and $169,973 was classified as a return of capital. SUNR declared an extraordinary dividend of $25,000 to ALIC as of December 31, 2022 that was paid in February 2023. No ordinary dividends were paid by SUNR to ALIC during 2023 or 2022.

The payment of dividends by NSLAC to ALIC is limited by New York insurance laws. The maximum ordinary dividend that may be paid without prior approval of the Superintendent of Financial Services is limited to the lesser of 10% of NSLAC's statutory surplus (defined by New York Insurance Law, Section 4207a as page 3, line 37 of the Annual Statement) as of the immediately preceding calendar year or NSLAC's net gain from operations for the immediately preceding calendar year, not including realized capital gains. Therefore, dividends of approximately $4,000 may be paid by NSLAC to ALIC in 2024 without prior approval. No dividends were declared or paid by NSLAC in 2023 or 2022.

MONT and KENW are subject to limitations, imposed by the State of Vermont, on the payment of dividends to their stockholder, ALIC. Generally, dividends during any year may not be paid, without prior regulatory approval. No dividends were declared or paid by MONT to ALIC in 2023 or 2022. No dividends were declared or paid by KENW to ALIC in 2023 or 2022.

SYRE is subject to limitations, imposed by CIMA, on the payment of dividends to its stockholder, CII. Dividends shall only be paid out of 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 CIMA. SYRE cannot pay any dividends without prior approval from CIMA. No dividends were declared or paid by SYRE during 2023 or 2022.

(18) Demutualization and Stockholders' Equity

As part of the demutualization transaction discussed in Note 1, Constellation was required to pay $500,000 in consideration distributed either in cash or by crediting policy benefits to eligible members to extinguish their ownership interest. Cash of approximately $98,000 was paid by Constellation directly to eligible members and was not recorded in the Company's financial statements. Additionally, on the transaction closing date, policy benefits of approximately $402,000 were provided to eligible members for extinguish their remaining ownership interest. ALIC was obligated by Constellation to effectuate this portion of the Transaction. Constellation provided a capital contribution to CIHI on March 31, 2022. The contribution was then immediately contributed to the Company and then onto ALIC.

As part of the acquisition, on each of the first four anniversaries after the closing, Constellation will pay or cause to be paid an infusion of capital to ALIC. In March 2023, CII contributed $125,000 of capital to ALIC in satisfaction of the first installment. Subsequent to the balance sheet date, CII contributed $125,000 of capital to ALIC in satisfaction of the second installment.

During June 2022, the Company paid a dividend of $22,000 to CIHI.

(19) Additional Financial Instruments Disclosure

Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business through management of its investment portfolio. The Company had outstanding commitments to fund mortgage loans, bonds, common stocks, limited partnerships and limited liability companies of $230,991 and $198,991 as of December 31, 2023 and 2022, 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.

(20) Commitments and Contingencies

Several subsidiaries of the Company are a party to two court cases stemming from the strategic changes announced in September 2018, specifically the termination of certain variable annuity selling agreements with broker dealers related to the annuity business. The core issue in both cases is a disputed interpretation of certain language in ALIC's contracts with the broker dealers who sold ALIC's annuities. One of the two cases purports to be on behalf of a class, and a motion for class certification has been filed, but no class has been certified. Thirteen previously pending court cases and nine previously pending Financial Industry Regulatory Authority ("FINRA") arbitrations have been resolved. 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 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.